professional-fee method should be encouraged, would incorporate encouragement to the States to move toward a cost-plus-a-flexible-professional-fee basis. A cost-plus-a-flexible-fee pricing method provides a fee, increasing with the cost of the product, for each of two or more defined ranges of drug cost—for example, a 50-cent fee for a drug which cost the pharmacy less than $1, a 75-cent fee for a drug which cost from $1 to $2, and so on.

The Department acknowledged that, under the flexible-fee pricing method, pharmacies would still have some incentive to stock and dispense higher cost products but expressed the view that such incentive would be less than that under a cost-plus-a-percentage-of-cost method. The Department also described certain considerations which it believed warranted the encouragement of a flexible-fee rather than a fixed-fee pricing method.

The Department stated further that, because of the need to establish certain related controls in consonance with the policy statement to be developed and because of the need to further define and explore certain questions concerning the proper composition of a professional fee, it believed that the development of any policy should be deferred for a reasonable period of time.

We believe that the Department's principal reason for proposing to encourage the use of a flexible-fee pricing method is the effect of the fixed fee on low-cost prescription items. However, we believe that, because the fixed-fee method will remove an incentive to dispense higher cost products, it will tend to reduce the overall cost of drugs to the program.

We therefore recommended in a report issued to the Congress on April 28, 1967, that the Secretary of Health, Education, and Welfare take action as early as practicable to establish a policy governing methods of pricing welfare prescription drugs under federally aided public assistance programs, which would be acceptable for the purposes of Federal financial participation. We recommended also that such a policy prohibit not only the use of methods of welfare prescription drug pricing based on cost plus a percentage of cost but also the use of any methods which provide an incentive to dispense higher cost products where suitable lower cost products meeting the prescription requirements are available. We recommended further that the policy urge the use of methods based on the cost of the product dispensed plus a fixed professional fee.

By letter dated August 16, 1967, the Assistant Secretary, Comptroller, Department of Health, Education, and Welfare furnished us with a copy of the Department's statement to the chairman of the House Committee on Government Operations pertaining to this matter. The Department expressed the view that sufficient information does not exist to determine the full effects of a cost-plus-fixed-fee method or a cost-plus-a-flexible-fee method and proposed the establishment of a policy which will allow the States the option to select either method. The policy would include a requirement for the Department to periodically evaluate and make adjustments as appropriate regardless of the method employed.