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Wallace
3/29/18

CS FOR SENATE BILL NO. 38(L&C)

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTIETH LEGISLATURE - SECOND SESSION

BY THE SENATE LABOR AND COMMERCE COMMITTEE

Offered:
Referred:

Sponsor(s): SENATORS GIESSEL BY REQUEST, Egan, Gardner

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to the registration and duties of pharmacy benefits managers; relating**
2 **to procedures, guidelines, and enforcement mechanisms for pharmacy audits; relating to**
3 **the cost of multi-source generic drugs and insurance reimbursement procedures;**
4 **relating to the duties of the director of the division of insurance; and providing for an**
5 **effective date."**

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

7 *** Section 1.** AS 21.27 is amended by adding new sections to read:

8 **Article 10. Pharmacy Benefits Managers.**

9 **Sec. 21.27.901. Registration of pharmacy benefits managers; scope of**
10 **business practice.** (a) A person may not conduct business in the state as a pharmacy
11 benefits manager unless the person is registered with the director as a third-party
12 administrator under AS 21.27.630.

13 (b) A pharmacy benefits manager registered under AS 21.27.630 may

1 (1) contract with an insurer to administer or manage pharmacy benefits
2 provided by an insurer for a covered person, including claims processing services for
3 and audits of payments for prescription drugs and medical devices and supplies;

4 (2) contract with network pharmacies;

5 (3) set the cost of multi-source generic drugs under AS 21.27.945; and

6 (4) adjudicate appeals related to multi-source generic drug
7 reimbursement.

8 **Sec. 21.27.905. Renewal of registration.** (a) A pharmacy benefits manager
9 shall biennially renew a registration with the director.

10 (b) To renew a registration under this section, a pharmacy benefits manager
11 shall pay a renewal fee established by the director. The director shall set the amount of
12 the renewal fee to allow the renewal and oversight activities of the division to be self-
13 supporting.

14 **Sec. 21.27.910. Pharmacy audit procedural requirements.** (a) When a
15 pharmacy benefits manager conducts an audit of the records of a pharmacy, the period
16 covered by the audit of a claim may not exceed two years from the date that the claim
17 was submitted to or adjudicated by the pharmacy benefits manager, whichever is
18 earlier. Except as required under AS 21.36.495, a claim submitted to or adjudicated by
19 a pharmacy benefits manager does not accrue interest during the audit period.

20 (b) A pharmacy benefits manager conducting an on-site audit shall give the
21 pharmacy written notice of at least 10 business days before conducting an initial audit.

22 (c) A pharmacy benefits manager may not conduct

23 (1) an audit during the first seven calendar days of any month unless
24 agreed to by the pharmacy;

25 (2) more than one on-site audit of a pharmacy within a 12-month
26 period; or

27 (3) on-site audits of more than 250 separate prescriptions at one
28 pharmacy within a 12-month period unless fraud by the pharmacy or an employee of
29 the pharmacy is alleged.

30 (d) If an audit involves clinical or professional judgment, the individual
31 conducting the audit must

1 (1) be a pharmacist who is licensed and in good standing under
2 AS 08.80; or

3 (2) conduct the audit in consultation with a pharmacist who is licensed
4 and in good standing under AS 08.80.

5 (e) A pharmacy, in responding to an audit, may use

6 (1) verifiable statements or records, including medication
7 administration records of a nursing home, assisted living facility, hospital, physician,
8 or other authorized practitioner, to validate the pharmacy record;

9 (2) a legal prescription to validate claims in connection with
10 prescriptions, refills, or changes in prescriptions, including medication administration
11 records, prescriptions transmitted by facsimile, electronic prescriptions, or
12 documented telephone calls from the prescriber or the prescriber's agent.

13 (f) A pharmacy benefits manager shall audit each pharmacy under the same
14 standards and parameters as other similarly situated pharmacies in a network
15 pharmacy contract in this state.

16 **Sec. 21.27.915. Overpayment or underpayment.** (a) When a pharmacy
17 benefits manager conducts an audit of a pharmacy, the pharmacy benefits manager
18 shall base a finding of overpayment or underpayment by the pharmacy on the actual
19 overpayment or underpayment and not on a projection based on the number of patients
20 served having a similar diagnosis or on the number of similar orders or refills for
21 similar drugs, except as provided in (b) of this section.

22 (b) A pharmacy benefits manager may resolve a finding of overpayment or
23 underpayment by entering into a settlement agreement with the pharmacy. The
24 settlement agreement

25 (1) must comply with the requirements of AS 21.36.125; and

26 (2) may be based on a statistically justifiable projection method.

27 (c) A pharmacy benefits manager may not include the dispensing fee amount
28 in a finding of an overpayment unless

29 (1) a prescription was not actually dispensed;

30 (2) the prescriber denied authorization;

31 (3) the prescription dispensed was a medication error by the pharmacy;

1 or

2 (4) the identified overpayment is solely based on an extra dispensing
3 fee.

4 **Sec. 21.27.920. Recoupment.** (a) When a pharmacy benefits manager
5 conducts an audit of a pharmacy, the pharmacy benefits manager shall base the
6 recoupment of overpayments on the actual overpayment of the claim, except as
7 provided in AS 21.27.915(b).

8 (b) A pharmacy benefits manager conducting an audit of a pharmacy may not

9 (1) use extrapolation in calculating recoupments or penalties for audits,
10 unless required by state or federal contracts;

11 (2) assess a charge-back, recoupment, or other penalty against a
12 pharmacy solely because a prescription is mailed or delivered at the request of a
13 patient; or

14 (3) receive payment

15 (A) based on a percentage of the amount recovered; or

16 (B) for errors that have no actual financial harm to the patient
17 or medical plan.

18 **Sec. 21.27.925. Pharmacy audit reports.** (a) A pharmacy benefits manager
19 shall deliver a preliminary audit report to the pharmacy audited within 60 days after
20 the conclusion of the audit.

21 (b) A pharmacy benefits manager shall allow the pharmacy at least 30 days
22 following receipt of the preliminary audit report to provide documentation to the
23 pharmacy benefits manager to address a discrepancy found in the audit. A pharmacy
24 benefits manager may grant a reasonable extension upon request by the pharmacy.

25 (c) A pharmacy benefits manager shall deliver a final audit report to the
26 pharmacy within 120 days after receipt of the preliminary audit report, settlement
27 agreement, or final appeal, whichever is latest.

28 **Sec. 21.27.930. Pharmacy audit appeal; future repayment.** (a) A pharmacy
29 benefits manager conducting an audit shall establish a written appeals process.

30 (b) Recoupment of disputed funds or repayment of funds to the pharmacy
31 benefits manager by the pharmacy, if permitted by contract, shall occur, to the extent

1 demonstrated or documented in the pharmacy audit findings, after final internal
2 disposition of the audit, including the appeals process. If the identified discrepancy for
3 an individual audit exceeds \$15,000, future payments to the pharmacy may be
4 withheld pending finalization of the audit.

5 (c) A pharmacy benefits manager may not assess against a pharmacy a charge-
6 back, recoupment, or other penalty until the pharmacy benefits manager's appeals
7 process has been exhausted and the final report or settlement agreement issued.

8 **Sec. 21.27.935. Fraudulent activity.** When a pharmacy benefits manager
9 conducts an audit of a pharmacy, the pharmacy benefits manager may not consider
10 unintentional clerical or record-keeping errors, including typographical errors, writer's
11 errors, or computer errors regarding a required document or record, to be fraudulent
12 activity. In this section, "fraudulent activity" means an intentional act of theft,
13 deception, misrepresentation, or concealment committed by the pharmacy.

14 **Sec. 21.27.940. Pharmacy audits; restrictions.** The requirements of
15 AS 21.27.901 - 21.27.955 do not apply to an audit

16 (1) in which suspected fraudulent activity or other intentional or wilful
17 misrepresentation is evidenced by a physical review, a review of claims data, a
18 statement, or another investigative method; or

19 (2) of claims paid for under the medical assistance program under
20 AS 47.07.

21 **Sec. 21.27.945. Drug pricing list; procedural requirements.** (a) A pharmacy
22 benefits manager shall

23 (1) make available to each network pharmacy at the beginning of the
24 term of the network pharmacy's contract, and upon renewal of the contract, the
25 methodology and sources used to determine the drug pricing list;

26 (2) provide a telephone number at which a network pharmacy may
27 contact an employee of a pharmacy benefits manager to discuss the pharmacy's
28 appeal;

29 (3) provide a process for a network pharmacy to have ready access to
30 the list specific to that pharmacy;

31 (4) review and update applicable list information at least once every

1 seven business days to reflect modification of list pricing;

2 (5) update list prices within one business day after a significant price
3 update or modification provided by the pharmacy benefits manager's national drug
4 database provider; and

5 (6) ensure that dispensing fees are not included in the calculation of the
6 list pricing.

7 (b) When establishing a list, the pharmacy benefits manager shall use

8 (1) the most up-to-date pricing data to calculate reimbursement to a
9 network pharmacy for drugs subject to list prices;

10 (2) multi-source generic drugs that are sold or marketed in the state
11 during the list period.

12 **Sec. 21.27.950. Multi-source generic drug appeal.** (a) A pharmacy benefits
13 manager shall establish a process by which a network pharmacy, or a network
14 pharmacy's contracting agent, may appeal the reimbursement for a multi-source
15 generic drug. A pharmacy benefits manager shall resolve an appeal from a network
16 pharmacy within 10 calendar days after the network pharmacy or the contracting agent
17 submits the appeal.

18 (b) A network pharmacy, or a network pharmacy's contracting agent, may
19 appeal a reimbursement from a pharmacy benefits manager for a multi-source generic
20 drug if the reimbursement for the drug is less than the amount that the network
21 pharmacy can purchase from two or more of its contracted suppliers.

22 (c) A pharmacy benefits manager may grant a network pharmacy's appeal if
23 an equivalent multi-source generic drug is not available at a price at or below the
24 pharmacy benefits manager's list price for purchase from national or regional
25 wholesalers who operate in the state. If an appeal is granted, the pharmacy benefits
26 manager shall adjust the reimbursement of the network pharmacy to equal the network
27 pharmacy acquisition cost for each paid claim included in the appeal.

28 (d) If the pharmacy benefits manager denies a network pharmacy's appeal, the
29 pharmacy benefits manager shall provide the network pharmacy with the

30 (1) reason for the denial;

31 (2) national drug code of an equivalent multi-source generic drug that

1 has been purchased by another network pharmacy located in the state at a price that is
2 equal to or less than the pharmacy benefits manager's list price within seven days after
3 the network pharmacy appeals the claim; and

4 (3) name of a pharmaceutical wholesaler who operates in the state in
5 which the drug may be acquired by the challenging network pharmacy.

6 (e) A network pharmacy may request a hearing under AS 21.06.170 -
7 21.06.240 for an adverse decision from a pharmacy benefits manager within 30
8 calendar days after receiving the decision. The parties may present all relevant
9 information to the director for the director's review.

10 (f) The director shall enter an order that

11 (1) grants the network pharmacy's appeal and directs the pharmacy
12 benefits manager to make an adjustment to the disputed claim;

13 (2) denies the network pharmacy's appeal; or

14 (3) directs other actions considered fair and equitable.

15 **Sec. 21.27.955. Definitions.** In AS 21.27.901 - 21.27.955,

16 (1) "audit" means an official examination and verification of accounts
17 and records;

18 (2) "claim" means a request from a pharmacy or pharmacist to be
19 reimbursed for the cost of filling or refilling a prescription for a drug or for providing
20 a medical supply or device;

21 (3) "extrapolation" means the practice of inferring a frequency or
22 dollar amount of overpayments, underpayments, invalid claims, or other errors on any
23 portion of claims submitted, based on the frequency or dollar amount of
24 overpayments, underpayments, invalid claims, or other errors actually measured in a
25 sample of claims;

26 (4) "list" means the list of multi-source generic drugs for which a
27 predetermined reimbursement amount has been established such as a maximum
28 allowable cost or maximum allowable cost list or any other list of prices used by a
29 pharmacy benefits manager;

30 (5) "multi-source generic drug" means any covered outpatient
31 prescription drug that the United States Food and Drug Administration has determined

1 is pharmaceutically equivalent or bioequivalent to the originator or name brand drug
2 and for which there are at least two drug products that are rated as therapeutically
3 equivalent under the United States Food and Drug Administration's most recent
4 publication of "Approved Drug Products with Therapeutic Equivalence Evaluations";

5 (6) "network pharmacy" means a pharmacy that provides covered
6 health care services or supplies to an insured or a member under a contract with a
7 network plan to act as a participating provider;

8 (7) "pharmacy" has the meaning given in AS 08.80.480;

9 (8) "pharmacy acquisition cost" means the amount that a
10 pharmaceutical wholesaler or distributor charges for a pharmaceutical product as listed
11 on the pharmacy's invoice;

12 (9) "pharmacy benefits manager" means a person that contracts with a
13 pharmacy on behalf of an insurer to process claims or pay pharmacies for prescription
14 drugs or medical devices and supplies or provide network management for
15 pharmacies;

16 (10) "recoupment" means the amount that a pharmacy must remit to a
17 pharmacy benefits manager when the pharmacy benefits manager has determined that
18 an overpayment to the pharmacy has occurred.

19 * **Sec. 2.** The uncodified law of the State of Alaska is amended by adding a new section to
20 read:

21 APPLICABILITY. (a) This Act applies to audits of pharmacies conducted by
22 pharmacy benefits managers and contracts with pharmacy benefits managers entered into on
23 or after the effective date of sec. 1 of this Act.

24 (b) In this section, "pharmacy" and "pharmacy benefits manager" have the meanings
25 given in AS 21.27.955, added by sec. 1 of this Act.

26 * **Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to
27 read:

28 TRANSITIONAL PROVISIONS: REGULATIONS. The division of insurance may
29 adopt regulations necessary to implement the changes made by this Act. The regulations take
30 effect under AS 44.62 (Administrative Procedure Act), but not before the effective date of the
31 law implemented by the regulation.

1 * **Sec. 4.** The uncodified law of the State of Alaska is amended by adding a new section to
2 read:

3 REVISOR'S INSTRUCTIONS. The revisor of statutes is requested to renumber
4 AS 21.27.900 as AS 21.27.990. The revisor of statutes is requested to change "AS 21.27.900"
5 to "AS 21.27.990" in AS 21.36.475(c)(2) and (4) and AS 21.97.900(27).

6 * **Sec. 5.** Section 3 of this Act takes effect immediately under AS 01.10.070(c).

7 * **Sec. 6.** Except as provided in sec. 5 of this Act, this Act takes effect July 1, 2019.