



March 27, 2017

Honorable Mia Costello,
Chair Senate Labor and Commerce Committee
State Capitol Room 510
Juneau AK, 99801
Senator.Mia.Costello@akleg.gov

Re: Opposition to SB 38.

Dear Senator Costello,

On behalf of Healthcare Cost Management Corporation of Alaska (HCCMCA), I am writing in opposition to SB 38, the Pharmacy Audit bill.

The membership of HCCMCA is comprised of over 40 member health benefit plans in Alaska and the Pacific Northwest. These funds consist of employer-sponsored health benefit plans, including Alaska State, Borough, Municipal and School District sponsored plans, as well as private employer and Taft Hartley health benefit plans. Our member funds represent over 100,000 Alaska employees and their dependents, comprising a substantial percentage of Alaska's Population. Most or all of these funds contract with pharmacy benefits managers (PBMs) as a means to help control their rising drug costs.

As you know, healthcare fraud, waste and abuse are a national epidemic. It is estimated to account for 10% of the United States' annual healthcare expenditure, representing at least \$225 billion every year, and these numbers have grown each year.

As you also know, Alaska's workers' compensation premium rates are among the highest in the United States. Several years ago, in an effort to hold down Alaska's rising workers' compensation costs, the Alaska legislature funded increases in the division's fraud detection unit. HCCMCA is concerned that this bill, SB 38, sends the opposite message, that Alaska is less concerned about Alaska's high and rising costs of health care, and not about detecting and eliminating fraud and abuse.

Indeed, regarding practices of independent pharmacies, a May, 2012, report by the Department of Health and Human Services Office of Inspector General suggests independent pharmacies need more oversight, not less. The inspector general's report said independent pharmacies were eight times more likely than other pharmacies to have questionable billing practices.

Against this backdrop, HCCMCA is concerned that SB 38 is not balanced, and it unduly protects the ability of pharmacists to shield their bad actors from scrutiny. For example, the

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bill requires payers to provide advance warning of an audit – even in cases when fraud is suspected – which would give suspects time to tamper with evidence and even avoid detection altogether. Moreover, when mistakes are found, SB 38 prohibits use of extrapolation as an accounting practice, and it further penalizes our plan sponsors by disallowing full reimbursement of our members' costs incurred, plus interest.

The independent drugstore industry, which generates over \$80 billion in annual sales from at least 22,000 stores nationwide, ranks among America's most profitable small business sectors. As such, we believe pharmacists have the independent capacity to structure their contracts with PBMs in such a manner as to adequately protect their interests, and the State of Alaska should not become entangled in a dispute between the National Community Pharmacists Association and the PBMs.

During this period when Alaskans regularly complain about the burden of governmental regulations, as well as the high cost of medical care, this is not the time to add more regulatory restrictions on Alaska's health benefit plans, and their ability to protect themselves against rising medical costs.

SB 38 is unnecessary, and HCCMCA opposes the legislation.

Feel free to contact me if you have any questions.

Sincerely,

Fred G. Brown

Fred G. Brown, Esq.
Executive Director