

**CS FOR SENATE BILL NO. 175(L&C)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - SECOND SESSION

BY THE SENATE LABOR AND COMMERCE COMMITTEE

Offered: 4/6/16

Referred: Finance

Sponsor(s): SENATOR GIESSEL BY REQUEST

**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 biannually 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 shall 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 from at least one of the network pharmacy's  
25 contracted wholesalers who operate in the state. If an appeal is granted, the pharmacy  
26 benefits manager shall adjust the reimbursement of the network pharmacy to equal the  
27 network 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) "board" means the Board of Pharmacy;

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

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

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

31 (6) "multi-source generic drug" means any covered outpatient

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

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

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

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

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

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

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

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

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

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

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

1 law implemented by the regulation.

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

4 REVISOR'S INSTRUCTIONS. The revisor of statutes is requested to renumber  
5 AS 21.27.900 as AS 21.27.990. The revisor of statutes is requested to change "AS 21.27.900"  
6 to "AS 21.27.990" in AS 21.36.475(c)(2) and (4) and AS 21.97.900(26).

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

8 \* **Sec. 6.** Except as provided in sec. 5 of this Act, this Act takes effect July 1, 2017.