

LEGISLATIVE FINANCE - HOUSE / SENATE FINANCE COMM. FILES 8879

HB 69, HB 70 442

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(11)

Date Referred: February 1, 1989

FURTHER REFERRALS:

Date of Committee Action: 2/10/89

The FINANCE Committee recommends that:

HOUSE BILL NO. 69 [PERMANENT FUND INVESTMENTS]
"An Act relating to purchase of international investments for the Alaska permanent fund."

[X] be replaced with CSHB 69 (SA) [] the same title
[X] a new title

[] have attached amendment(s)

- [X] do pass
- [] do not pass
- [] no recommendation
- [] individual recommendations
- [] additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):

- [] fiscal impact
- [] zero fiscal note
- [] zero with analysis

APPROVES PREVIOUS:

- [✓] fiscal note(s) published:
4/1/89 Perm. Fund Corp.
- [] zero fiscal notes(s) published:

SIGNING DO PASS:

[Signature] KOPONEN
[Signature] WALLIS
[Signature] ULMER
[Signature] LARSON
[Signature] HOFFMAN
[Signature] RIEGER
[Signature] SCHULTZ

SIGNING OTHER THAN DO PASS:

(Do Not Pass, No Recommendation, Amend)

[Signature] SWACKHAMMER
[Signature] BARNES
[Signature] PHILLIPS
[Signature] Do Not Pass

cc- [Signature]
 Chairman's signature
 cc- [Signature]

FISCAL NOTE

REQUEST:

Revision Date: _____
 Title: An Act relating to purchase of international investments by PFC
 Sponsor: Rules
 Requestor: Governor

Agency Affected: Revenue
 BRU: Permanent Fund Corporation
 Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	35.0	500.0	500.0	500.0	500.0	500.0
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LAND & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	35.0	500.0	500.0	500.0	500.0	500.0

CAPITAL	-	-	-	-	-	-
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REVENUE	-	-	-	-	-	-
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FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	35.0	500.0	500.0	500.0	500.0	500.0
TOTAL	35.0	500.0	500.0	500.0	500.0	500.0

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS : (Attach a separate page if necessary)

FY 89: Contractual services for manager search.
 FY 90 - FY 94: Management fees.

Prepared by: Alaska Permanent Fund Corporation
 Division: _____

Phone: 465-2047
 Date: December 14, 1988

Approved by Commissioner: David A. Rose, Executive Director
 Agency: Alaska Permanent Fund Corporation

Date: December 14, 1988

Distribution (by preparer):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Adopted

Original sponsor: Rules/Governor

1 IN THE HOUSE BY THE STATE AFFAIRS COMMITTEE
2 CS FOR HOUSE BILL NO. 69 (State Affairs)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to investments for the Alaska perma-
7 nent fund; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 37.13.120(g)(8) is amended to read:

10 (8) domestic corporate debt securities that are rated AA or
11 better by a nationally recognized rating service, or nondomestic
12 corporate debt securities of comparable quality;

13 * Sec. 2. AS 37.13.120(g)(9) is amended to read:

14 (9) short-term
15 (A) domestic corporate promissory notes of the highest
16 ratings assigned by a nationally recognized rating service, or
17 (B) nondomestic corporate promissory notes of compara-
18 ble quality, the interest on which may be payable in either
19 United States dollars or nondomestic currencies;

20 * Sec. 3. AS 37.13.120(g)(19) is amended to read:

21 (19) certificates of deposit, term deposits, or bankers'
22 acceptances, that are issued by a United States or nondomestic bank or
23 trust company located outside of the United States [IN A FOREIGN
24 COUNTRY] and are denominated in United States or nondomestic currency,
25 if either (A) they may be readily sold in a secondary market at prices
26 reflecting fair value, or (B) the issuing bank or trust company has
27 capital, [AND] surplus, and retained earnings at the date of issue
28 equaling at least \$500,000,000; investments made under this paragraph
29 are not subject to the collateral requirements for domestic

1 certificates under (m) of this section;

2 * Sec. 4. AS 37.13.120(g) is amended by adding new paragraphs to read:

3 (21) securities of non-domestic governments and non-domestic
4 government agencies, the principal of, or interest on, which is pay-
5 able in either United States dollars or non-domestic currencies;

6 (22) securities of non-domestic corporations, including
7 common and preferred stock, whose dividends, if any, may be payable in
8 either United States dollars or non-domestic currencies.

9 * Sec. 5. AS 37.13.120(h) is amended to read:

10 (h) The board may enter into future contracts for the sale of
11 investments purchased under (g) of this section, or for the sale of
12 nondomestic currencies, only for the purpose of hedging an existing
13 equivalent ownership position in these investments [SECURITIES].

14 * Sec. 6. AS 37.13.120(i) is amended to read:

15 (i) [AT THE TIME OF EACH INVESTMENT, THE AGGREGATE INVESTMENT OF
16 THE ALASKA PERMANENT FUND IN EACH STATED CATEGORY OF INVESTMENT MAY
17 NOT EXCEED THE FOLLOWING STATED PERCENTAGE OF THE TOTAL INVESTMENTS OF
18 THE FUND: MORTGAGES UNDER (g)(16) OF THIS SECTION, 15 PERCENT; REAL
19 ESTATE INVESTMENTS UNDER (g)(20) OF THIS SECTION, 15 PERCENT; FOREIGN
20 CERTIFICATES OF DEPOSIT OR THE EQUIVALENT UNDER (g)(19) OF THIS SEC-
21 TION, 20 PERCENT; CORPORATE STOCKS AND DEBT SECURITIES UNDER (g)(8),
22 (9), AND (18) OF THIS SECTION, 50 PERCENT.] The Alaska permanent fund
23 may at no time own more than five percent of the voting stock of a
24 corporation. Domestic stocks, except for bank and insurance company
25 stocks, must be listed at the date of purchase on an exchange regis-
26 tered with the Securities and Exchange Commission. At the time of
27 each investment, the aggregate investment of the fund in each stated
28 category of investment may not exceed the following stated percentage
29 of the total investments of the fund:

- 1 (1) mortgages under (g)(16) of this section - 15 percent;
2 (2) real estate investments under (g)(20) of this section -
3 15 percent;
4 (3) certificates of deposit, term deposits, or bankers'
5 acceptances under (g)(19) of this section - 20 percent;
6 (4) securities of nondomestic governments, nondomestic
7 government agencies, and nondomestic corporations under (g)(8), (21),
8 and (22) of this section, domestic corporate stocks and debt securi-
9 ties under (g)(8) and (18) of this section, and short-term nondomestic
10 corporate promissory notes under (g)(9)(B) of this section - 50 per-
11 cent.

12 * Sec. 7. This Act takes effect immediately under AS 01.10.070(c).

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

cc:
14869

January 9, 1989

The Honorable Sam Cotten
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

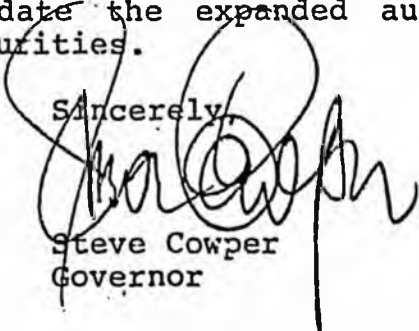
Dear Representative Cotten:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the purchase of international investments for the permanent fund by the board of trustees of the Alaska Permanent Fund Corporation. The bill specifically permits the purchase of non-domestic equity and debt securities by the board.

Returns from international investments have exceeded those from investments in the United States over most recent ten-year periods. In addition, the United States represents less than one-half of the world's equity capitalization, and that share is declining as non-domestic economies experience more rapid long-term growth. No one national market consistently produces superior or inferior returns, and non-domestic securities markets exhibit a low correlation with the U.S. market. Consequently, the ability to invest in those non-domestic securities will reduce overall portfolio risk while providing an increased return when compared to a portfolio of solely U.S. equities.

The bill allows the returns on the non-domestic securities to be denominated in either U.S. or non-domestic currency, and changes the various percentages allowed for categories of investments to accommodate the expanded authority to invest in international securities.

Sincerely,



Steve Cowper
Governor

Alaska State Legislature, House Committee on State Affairs

Prepared remarks of Gary C. Anders, Associate Professor
of Economics, University of Alaska Southeast

Politically Financing Alaska's Development
Through the Permanent Fund

Representative Boucher, and Senator Pourchot

Thank you for inviting me to provide testimony today. In the interests of time I will keep my remarks brief.

My understanding of the issue before us is whether or not it is a good idea to make changes in the current use of Alaska's Permanent Fund, and specifically if a portion of the Earnings Reserve Account should be utilized to support the state government's operating budget.

I do believe that there are good reasons for making some changes in the management and composition of the Permanent Fund for the sake of long-term security and growth, but I am strongly opposed to tapping either the inflation proofing or the earnings reserve account to support the short fall in state revenues, or to provide endowments for pet programs.

First, I will explain my rationale for keeping the Permanent Fund in tact, then I will suggest some policy changes as they will relate to need to change the law allowing for a portion of the Permanent Fund to be placed in international investments.

We will be increasingly subjected to a strong appeal from various special interests and members of the legislature to tap the Permanent Fund because of the reduction in oil revenues, and the impending deficit. A great deal of attention needs to be focused on this issue, because the people of Alaska have not yet determined what they want or can realistically expect from the state. Our proven experience over the last few years is that wants exceed needs and both exceed existing resources--even in flush times.

Our greatest weakness is that we have not forced the political process to exercise its mandated leadership responsibility to prioritizing the delivery of services and establish viable levels of government.

Government services are necessary and while Alaska is a big state requiring high levels of government involvement in education, health and social services, environmental conservation, natural resources, fish and game, and so on we must, however, realize that there has been no objective determination of what the optimal levels of employment and service delivery should be. Government does not create wealth, and in terms of economic policy, sustaining government spending from the Permanent Fund is an inefficient form of fiscal policy to counter economic cycles.

The easy way out is to tap additional monies to serve us at the current levels. The appeal is strong for we are told that cuts in state government will increase unemployment, and further weaken the economy. Yet, we are in this situation today because we did not apply economic common sense in the first place. I think we will be far better off if we address the issue of supportable government now. This means that we reduce unnecessary and low priority programs and personnel, cut spending, bring our projected cost of state government down, and reinstitute state income taxes.

If our concern is to keep as many people in the state as possible then even bolstering state spending is not an optimal way of achieving this end, because administrative costs and bureaucratic drains reduce the employment multipliers which increase the demand for service sector jobs. There are teachers in our state making over \$80,000 per year, and state and municipal employees making over \$100,000 whose secondary form of employment in the private sector would be far lower. Certainly some kind of economic realignment needs to occur. The opportunity cost of the Permanent Fund earnings is too large a cost to disregard, and the precedent we would be setting would in a short time undermine the long-term vision of the fund.

In reading over the Trustees Papers I see that a number of distinguished economist such as Kenneth Arrow, Malcom Gillis, Maxwell Fry have provided advice to the state regarding the inadvisability of subsidizing development. Their counsel, which is based upon extensive experience in many underdeveloped countries, should have particular bearing on us. The acid logic of these economists is that we should invest in only those projects that will be viable and self supporting, but if they are economically viable why can't these projects attract private financing in the first place.

An analysis of the political decision-making process reaffirms the suspicion that our legislature is unable to provide economic rationality to allocations of public resources unless they have a strong motivation. Instead, because needs and wants are greater than existing funds the compromise process results in not completely funding worthwhile programs. Because of political considerations funding levels will be adjusted and spread out over competing regions, agencies, and programs. In other words, the tendency is to misallocate by giving the deserving economically sound ones too little money, and others too much. Government does need to provide social services and infrastructure to support economic development projects such as highways, ports, and transportation systems, but can you guarantee that our political system will insure that Permanent Fund dollars will be invested in capital projects where they will foster economic growth. We can't afford any more performing arts Taj Mahals.

These spend now/pay later policies suffer from, in my opinion, a lack of appreciation for the fundamentals. We can see it at the national level in even greater terms. The U.S. has been turned into the largest debtor nation because we have not been willing to adjust spending levels or raise taxes. The consequences are likely to be far ranging in magnitude and duration.

This brings me to my second point which is that we should seriously entertain revisions in the law that will allow adding foreign investments to the Permanent Fund portfolio. As you know both the trade and budgetary deficits of the U.S. are reaching staggering proportions. While there may be some economic miracle that the President and Congress can pull together that will alleviate the immediate crisis, rising interests rates and inflation are becoming more threatening.

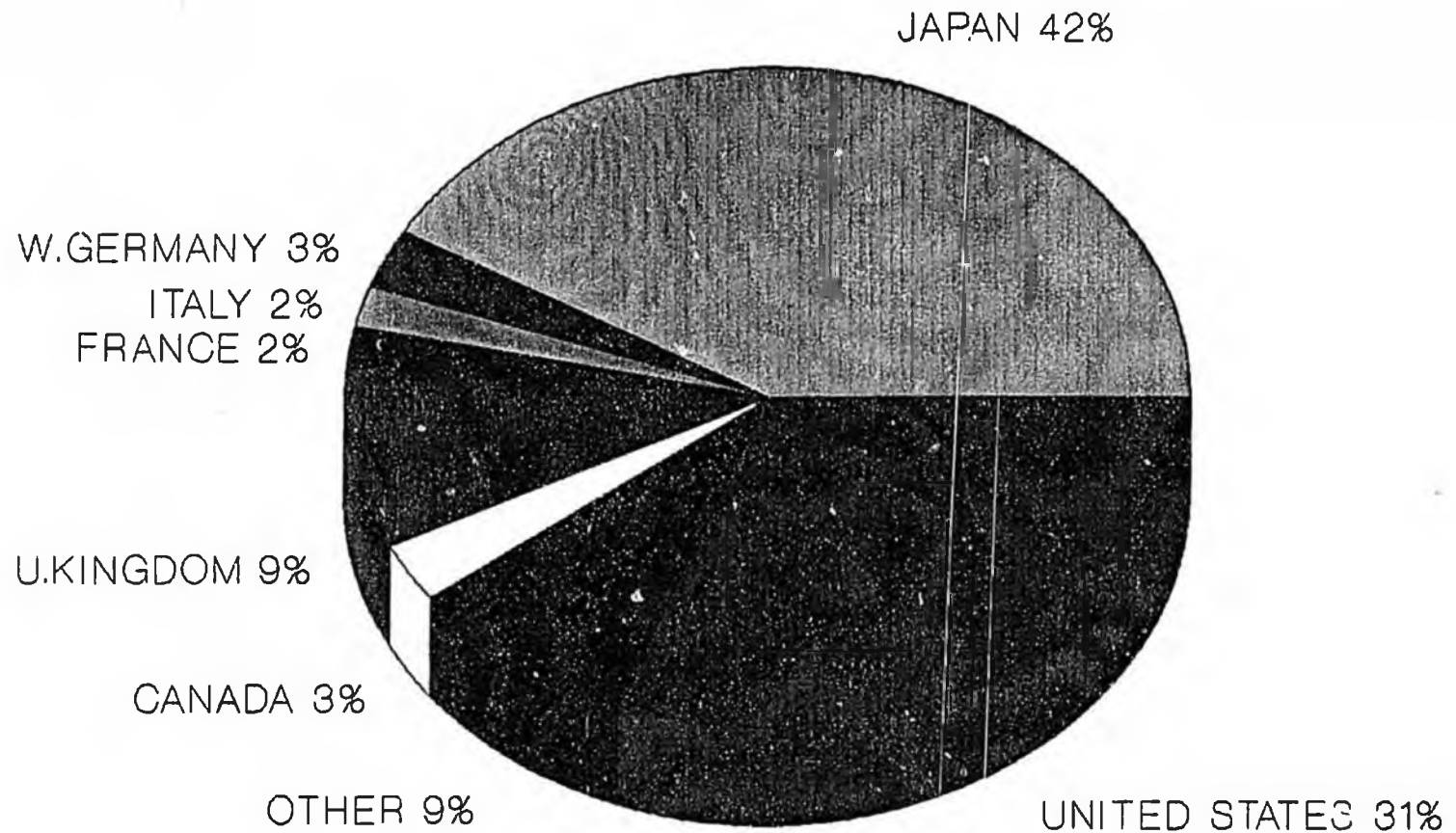
Alaska's Permanent Fund managers are to be commended for the excellent job that they have done in times of great financial uncertainty. Their conservative approach has carefully balanced risk and return far better than any similar sized fund. But currently about 83% of the fund's assets are invested in fixed income securities, 12% in stocks which is divided into a passive account managed by Bankers Trust and active portfolio placed with a number of asset managers, and finally about 5% which is invested in real estate and other properties.

When the inflationary pressures building in the American economy are eventually vented, we do not have an adequate hedge to insure the corpus of the fund. Even if the stock and real estate components of Permanent Fund are increased it is still conceivable that inflation may be at such a high rate that the earnings may not be sufficient to provide the necessary annual adjustments to bring the fund up in real terms.

Given the prospect of rising interest rates and a depreciating dollar it would be prudent to change the law to allow for a portion of the Permanent Fund to be invested in overseas markets. This would do several things. First, in the event of an increase in inflation in the U.S., and a further devaluation of the dollar, investments in secure foreign investments would provide a hedge against the principal. Second, since many of these equities markets are more vibrant than our own domestic markets, the potential rates of return for comparable risk are likely to be several percentage points higher. Finally, in light of our Pacific and East Asian orientation, financial investments of Alaska's capital might serve as useful leverage for increasing investment and operations of Asian firms in the state's economy.

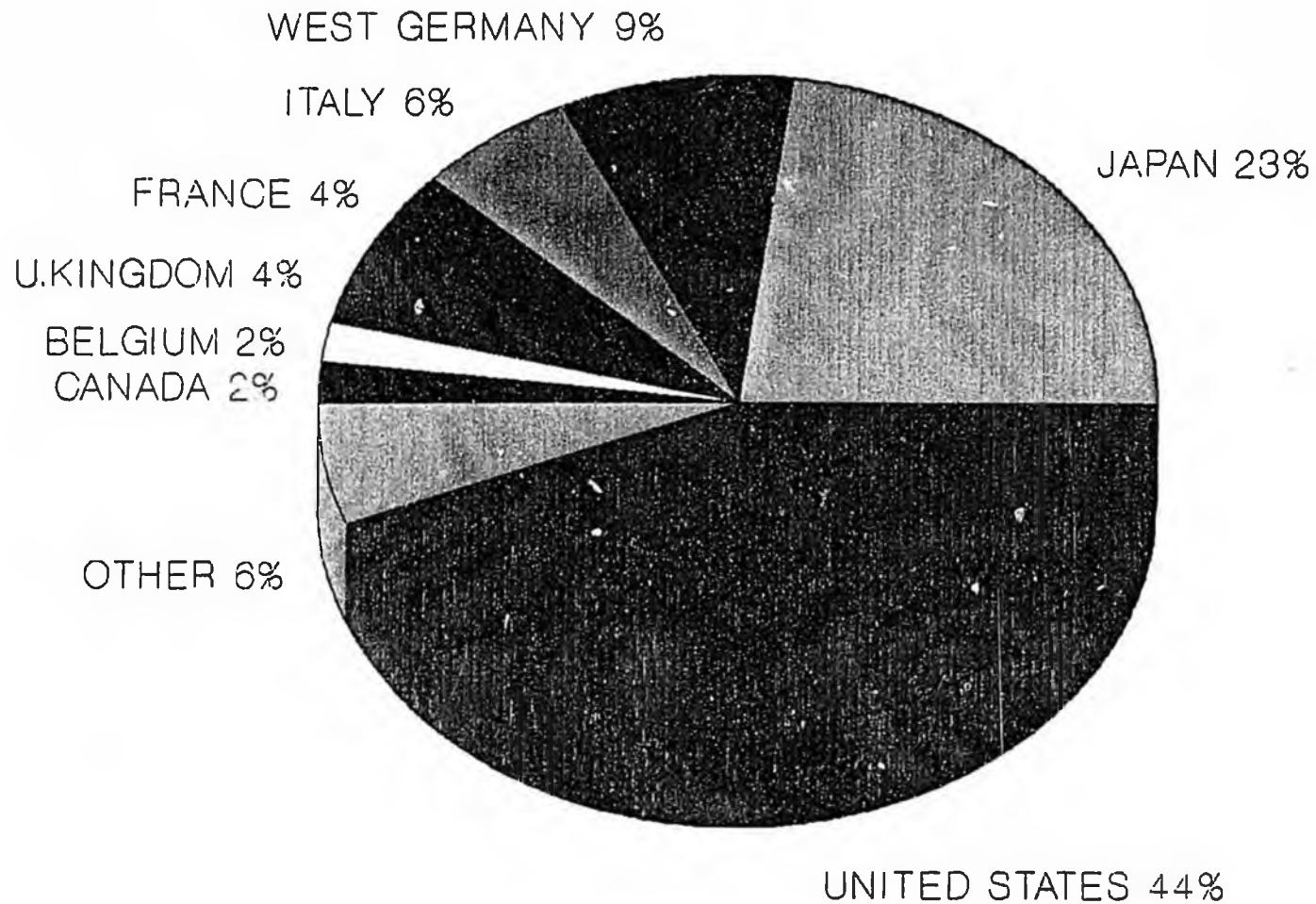
This ends my prepared comments. I want to thank you again for including me in these important hearings.

INVESTING IN INTERNATIONAL MARKETS EQUITIES - \$7.1 TRILLION 1987

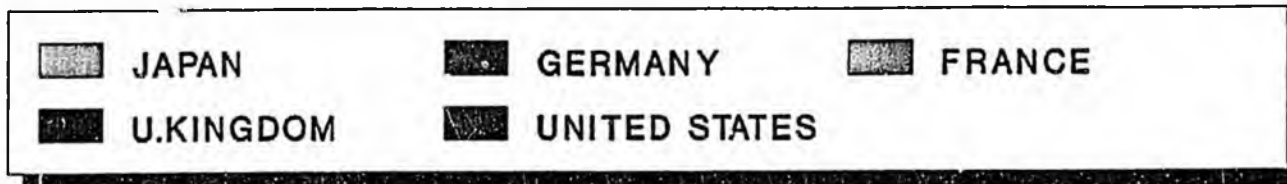
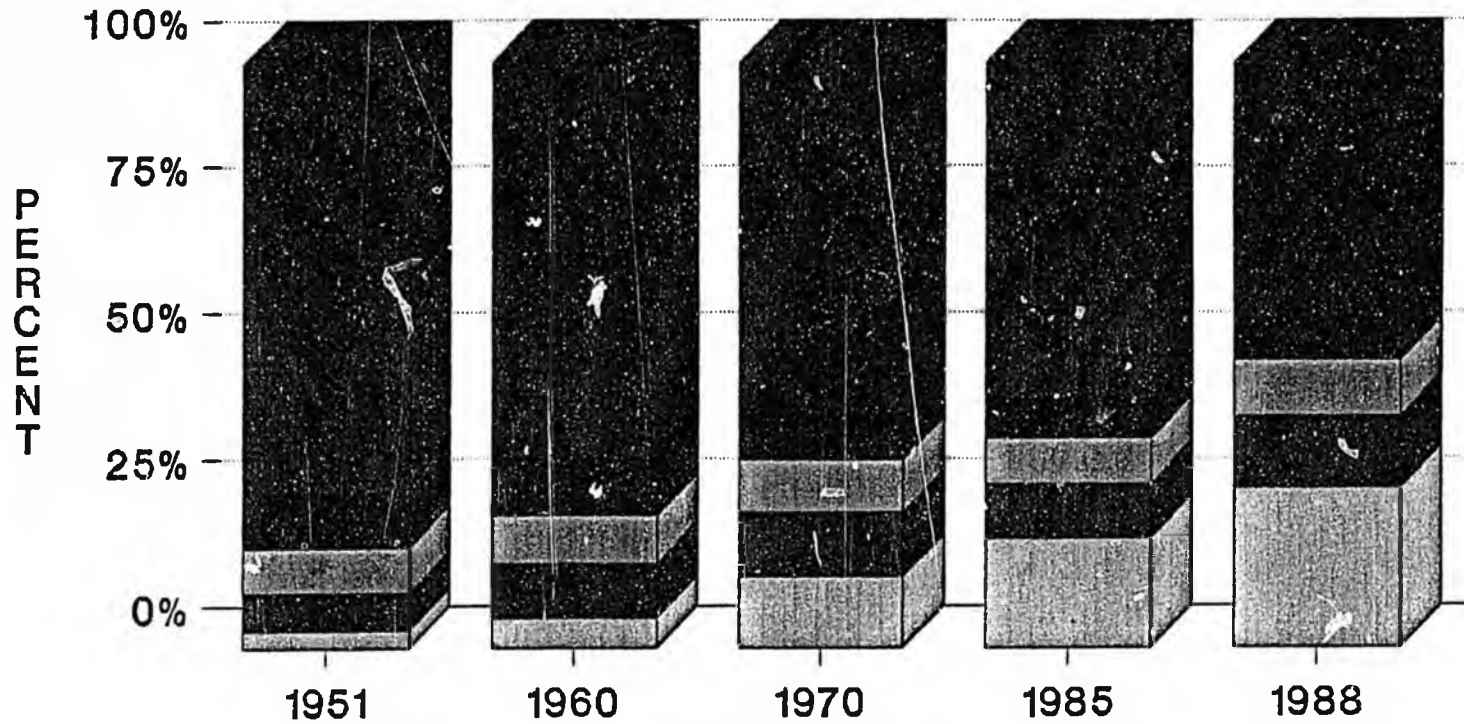


INVESTING IN INTERNATIONAL MARKETS

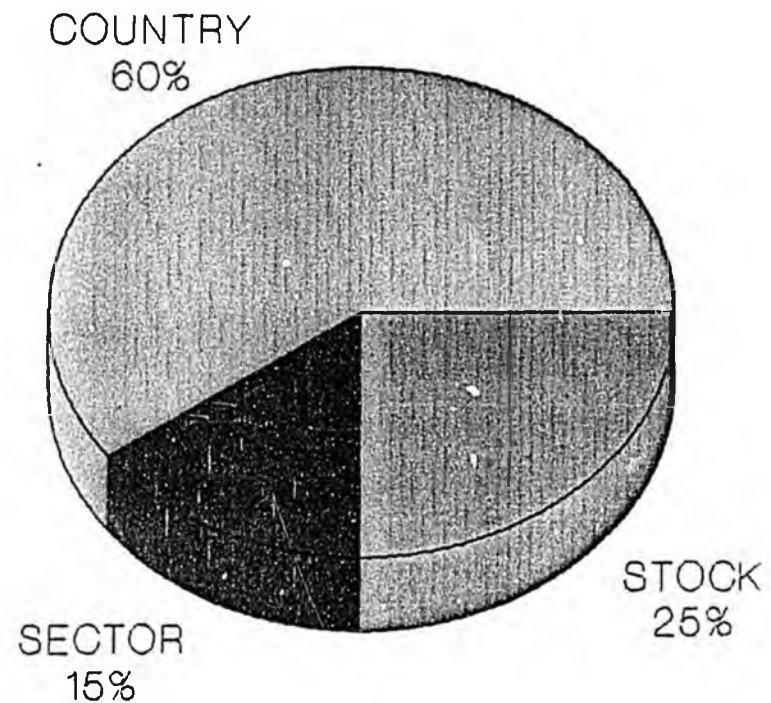
BONDS - \$9.4 TRILLION 1987



GLOBAL GNP















INTERNATIONAL INVESTING RETURN ATTRIBUTION *



* Results of a cross-sectional regression analysis study of 200 randomly created international equity portfolios of 50 stocks each.

TOTAL ANNUAL RETURN (U.S. DOLLARS)

	<u>Germany</u>	<u>Switzer- land</u>	<u>U.K.</u>	<u>Australia</u>	<u>Hong Kong</u>	<u>Japan</u>	<u>Singapore</u>	<u>Canada</u>	<u>S&P 500</u>
1977	25.8	28.7	58.0	13.0		15.9	5.9	(2.1)	(7.2)
1978	26.9	21.9	14.6	21.3	18.5	53.3	45.1	20.4	
1979		12.1	22.1	43.6	83.5	11.9	28.5	51.8	19.5
1980		(7.3)	41.1	55.3	72.7	30.3	62.8	22.6	32.4
1981	(8.2)	(9.5)	(10.6)		(15.8)	15.8	18.3	(10.7)	(4.9)
1982	12.3	3.4	9.2	(22.6)		(0.5)	(16.7)	2.4	21.5
1983	25.9	19.3	17.2	56.0		24.9	31.7	33.4	22.4
1984	(3.8)	(11.1)	5.4	(12.6)	46.8	17.1		(7.6)	6.2
1985	140.9	108.9	53.4	21.0	51.6	43.9		16.1	31.7
1986	37.2	34.3	27.1	43.8	56.0	99.7	45.2		18.2
1987		(10.7)	31.6	6.7	(7.2)	42.4	0.8	11.6	5.2
1988	20.6		6.0	36.4	28.1	35.4	33.3	17.1	14.6



BEST PERFORMER



WORST PERFORMER

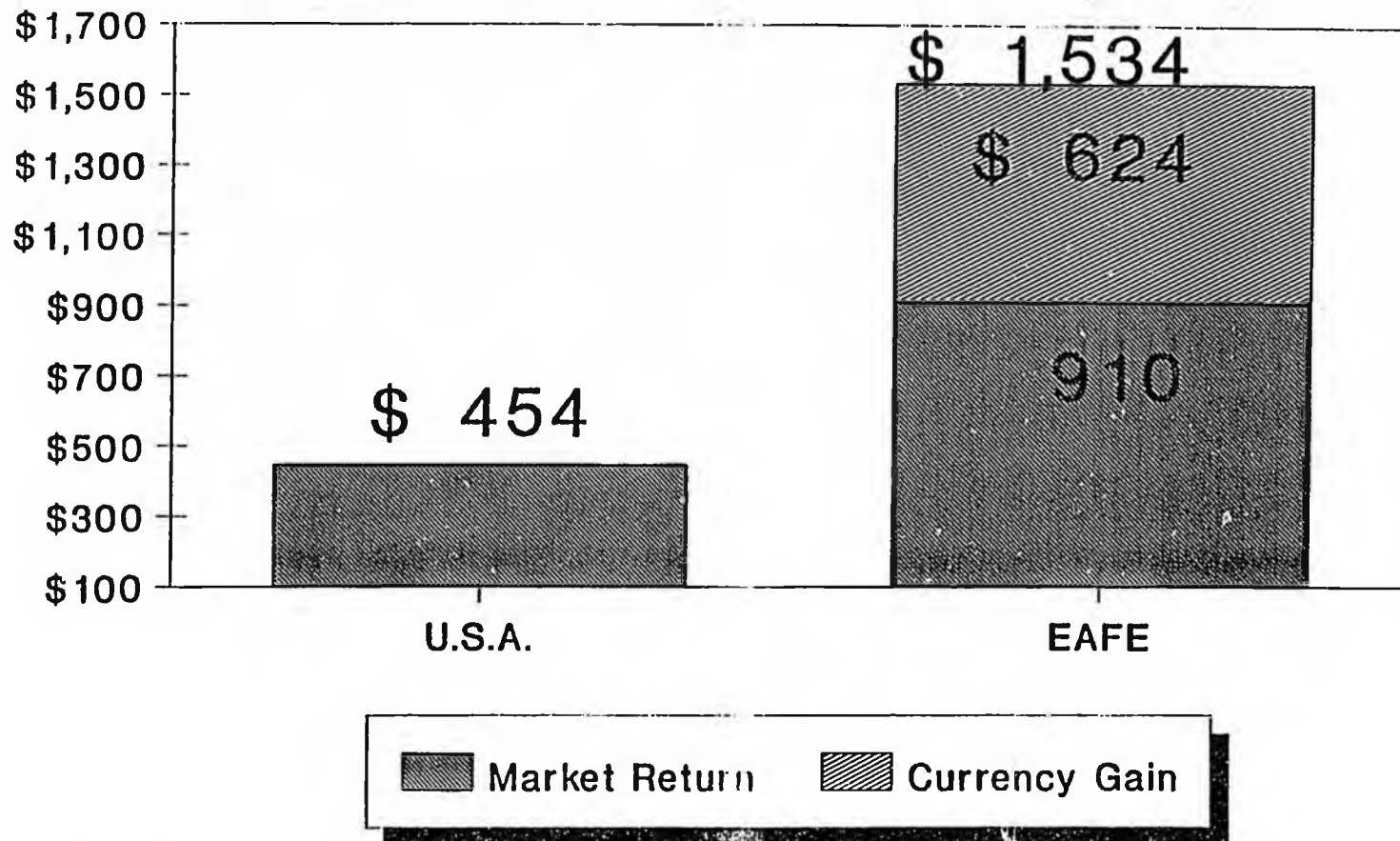
Largest Five Companies by Industry

	<u>Sales (\$MM)</u>		<u>Sales (\$MM)</u>
Automotive		Electrical Equipment	
General Motors	102	<u>Hitachi</u>	40
Ford	72	General Electric	39
<u>Toyota</u>	55	<u>Siemens</u>	33
<u>Daimler-Benz</u>	42	<u>Toshiba</u>	27
<u>Nissan</u>	35	<u>CGE</u>	24
Banking (Based on Assets)		Food & Household	
<u>Dai-ichi</u>	298	<u>Unilever</u>	31
<u>Sumitomo</u>	276	<u>Nestle</u>	28
<u>Fuji</u>	268	Procter & Gamble	17
<u>Mitsubishi</u>	242	Kraft	10
<u>Sanwa</u>	240	<u>Dalgerty</u>	9
Chemicals		Steel	
El duPont	31	<u>Nippon</u>	19
<u>BASF Group</u>	26	<u>Thyssen</u>	17
<u>Bayer Group</u>	24	USX	15
<u>Imperial Chemical</u>	20	<u>Nippon Kokan</u>	10
<u>Dow Chemical</u>	13	<u>Kobe</u>	9

Source: MSCI

WORLD EQUITY RETURNS

\$100 invested from 1970 through 1988



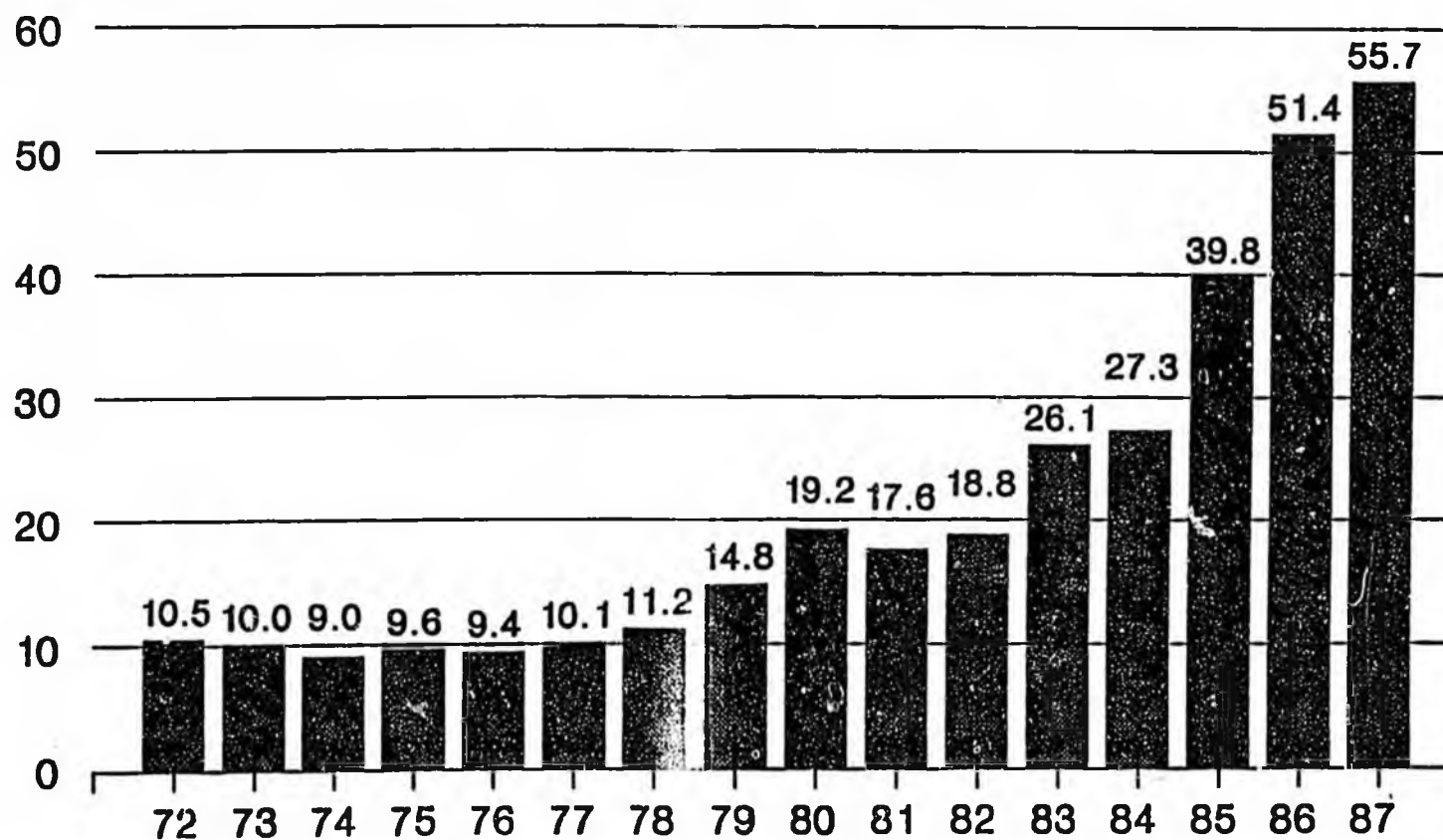
As of 1/1/89 with dividends reinvested

Source: MSCI

U.S. Holdings of Foreign Stock

1972 - 1987
(Year End Data)

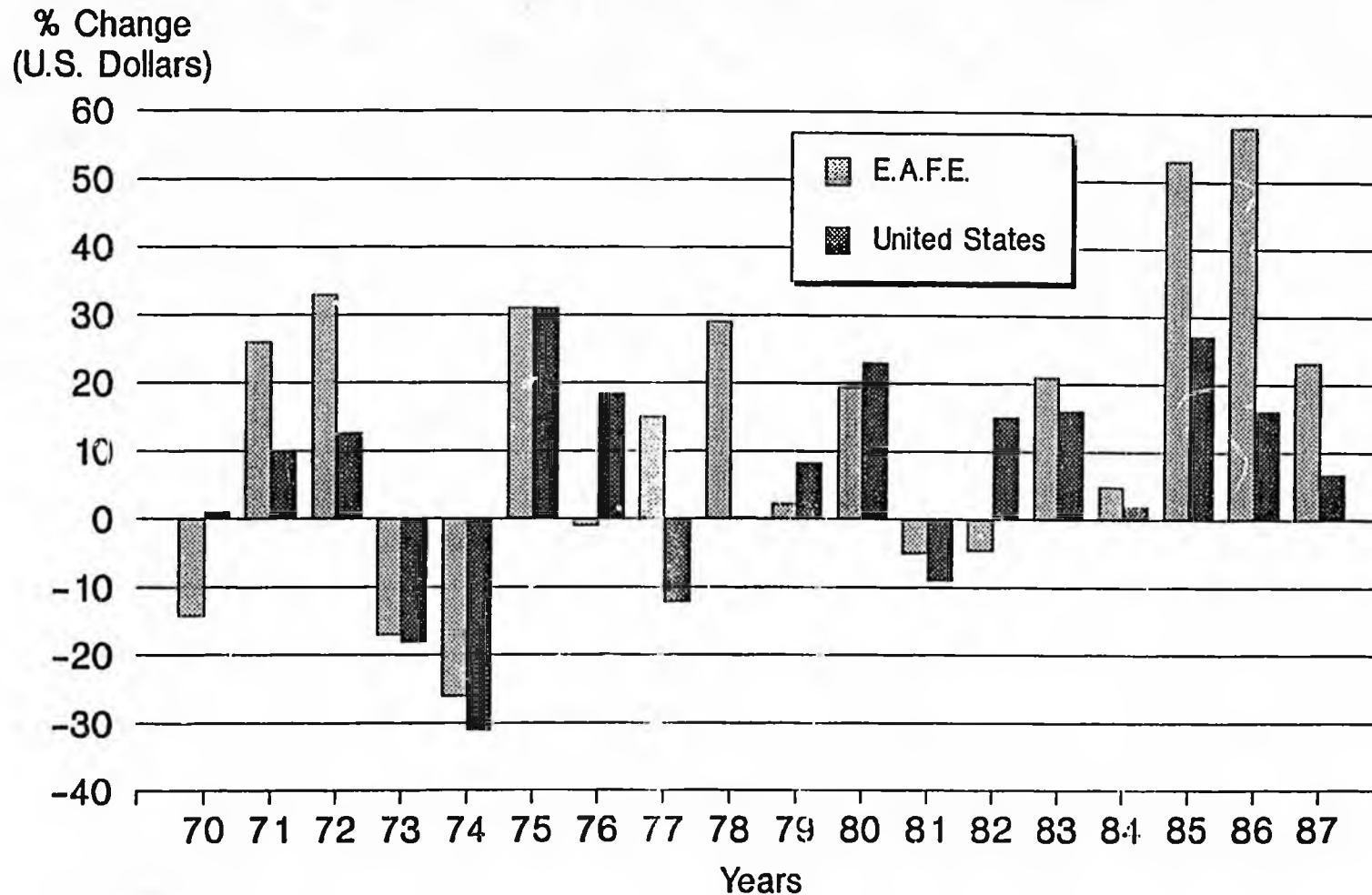
U.S. Holdings
(\$ Billions)



Source: Commerce Dept., Bureau of Economic Analysis

E.A.F.E. vs. United States

*Yearly Percentage Change
January 1, 1970 to December 31, 1987*

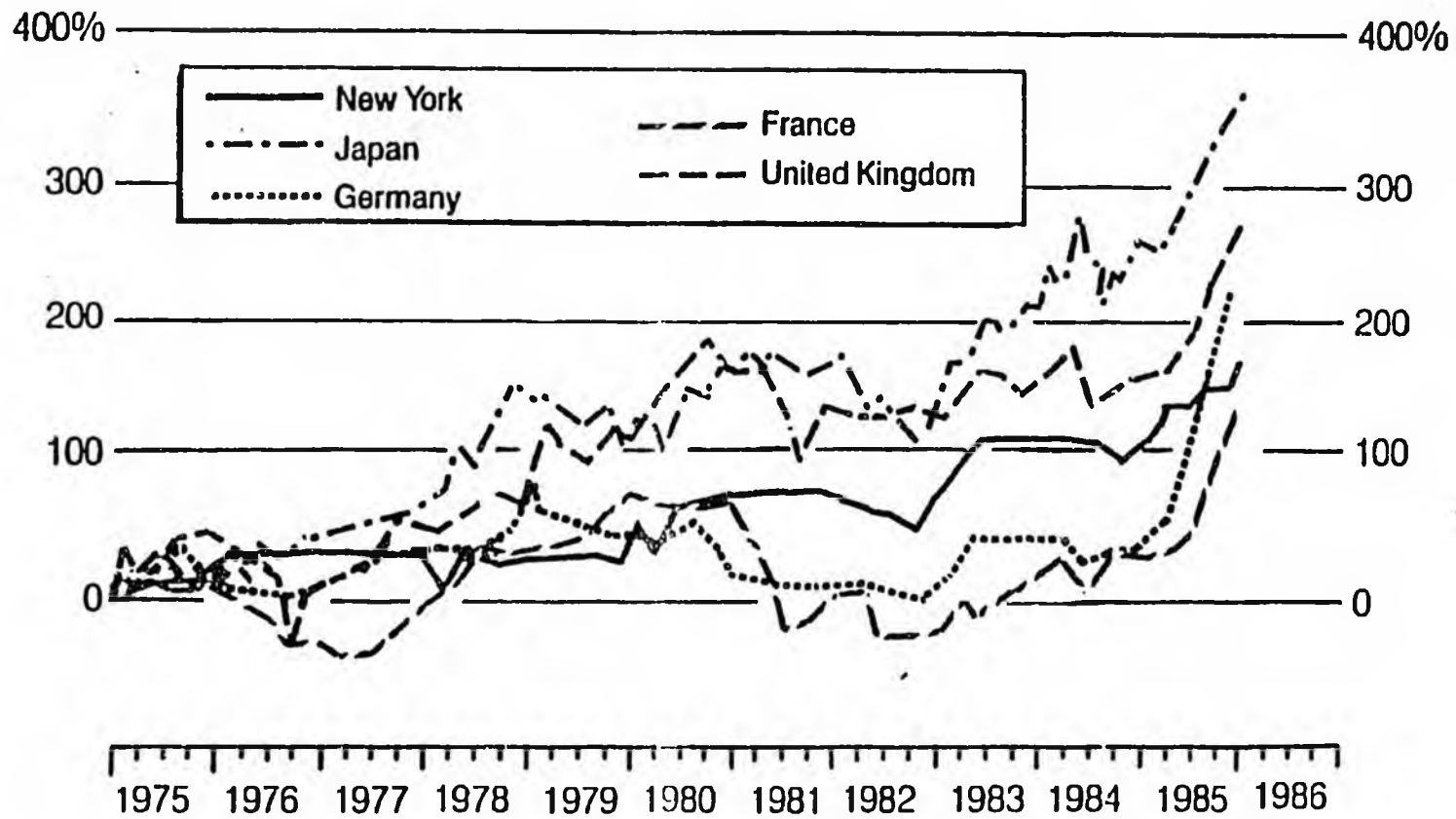


Source: MSCI

World Stock Markets

January 1, 1975–January 1986

Zerobased
Price



Morgan Stanley Capital International Country Indices

**Historical Total Returns of Government Bonds in U.S. Dollars
(in percent)**

Country	1978***	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1978- 1988**	Annualized 1978- 1988**	Standard Deviation of Annual Returns
Australia*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-12.36	17.61	28.69	30.36	72.90	14.67	17.13
Canada	-2.38	-0.63	1.70	-2.41	35.73	9.57	8.80	17.51	17.16	8.57	20.01	179.45	10.92	11.13
France	31.90	0.15	-8.07	-16.07	1.88	-2.81	1.60	52.70	33.93	25.43	3.75	172.84	10.65	20.31
Germany	15.51	7.40	-10.58	-8.42	14.09	-8.06	-1.03	43.36	38.72	28.67	-6.30	152.89	9.81	18.62
Netherlands	7.69	16.24	-5.76	-8.55	15.85	-8.61	-2.61	42.66	36.14	32.01	-6.10	167.82	10.44	18.25
Switzerland	32.19	-0.59	-9.63	-1.65	1.18	-4.82	-14.66	34.36	35.16	32.60	-12.49	102.26	7.36	19.64
United Kingdom	3.83	12.40	28.88	-19.00	26.51	1.04	-13.11	40.59	15.28	47.52	2.96	233.10	12.90	20.06
United States	0.51	1.90	-0.79	3.86	31.33	4.06	14.29	28.48	21.6	-1.37	8.16	173.37	10.67	11.34
Japan	32.70	-21.46	22.88	5.50	3.28	12.55	2.69	37.31	43.57	39.87	4.24	363.49	16.72	19.33
Non-U.S.*	18.74	-4.98	13.68	-4.61	11.88	4.32	-1.96	37.15	33.92	36.17	2.95	260.43	13.80	15.45
World*	9.74	-1.74	7.82	-1.04	20.24	5.73	5.70	32.21	26.47	15.53	5.88	216.27	12.31	10.42

Source: Datastream

* Australian cumulative returns are for 1984 - 1988. World and Non-U.S. returns are weighted by market capitalizations.

** Numbers are calculated from January 1978 - December 1988

*** 1978 total returns are calculated from January - December 1978, i.e., 11 months. The reported number is not annualized.

ИВ

В

7

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HOUSE COMMITTEE REPORT

(11)

Date Referred: March 6, 1989

FURTHER REFERRALS:

Date of Committee Action: 3/17/89

The FINANCE Committee considered:

HB 70

HOUSE BILL NO. 70

[MEDICAL ASSISTANCE FOR DRUGS]

"An Act relating to pharmaceutical medical assistance for needy persons; and providing for an effective date."

RECOMMENDATIONS:

- [] be replaced with CS HB 70 (Fin) [] the same title
[] a new title
[] have attached amendment(s)
[] do pass
[] do not pass
[] no recommendation
[] individual recommendations
[] additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s):
(Dept)

APPROVES PREVIOUS:
(Date/Dept)

- [] fiscal impact _____
[] zero fiscal note _____
[] zero with analysis _____

- [] fiscal note(s) _____
[] zero fiscal note(s) _____
[] zero fn/analysis HD-SS : 1/9 /89

SIGNING DO PASS:

SIGNING:
(Check approp. column)

[Signature] Hoffman
[Signature] Larson
[Signature] Brown
[Signature] Koponen

	Do Not Pass	No Rec	Amend
<u>[Signature]</u> Shultz	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
<u>[Signature]</u> Ulmer		<input checked="" type="checkbox"/>	
<u>[Signature]</u> Phillips Ni Rec		<input checked="" type="checkbox"/>	
<u>[Signature]</u> Rieger		<input checked="" type="checkbox"/>	

CO- [Signature]
CO- [Signature] Chairman's signature

STATE OF ALASKA
1989 LEGISLATIVE SESSION

BILL VERSION: HB 70
PUBLISH DATE: HOUSE 1/9/89

24
al

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: An Act relating to pharmaceutical
medical assistance for needy persons.
Sponsor: Rules Committee
Requestor: Governor

Agency Affected: Health & Social Services
BRU: Medical Assistance
Components: General Relief Medical
and Medicaid Non-Facility

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		0	0	0	0	0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

* See Attached *

Prepared by: Kim Busch *Kim Busch* Phone: 165-3355
Division: Director Date: 11-3-88

Approved by Commissioner: *[Signature]* Date: 12-1-88
Agency: DHSS

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

Adopted

Summary

Before the last legislative session, pharmacy services for Medicaid eligible individuals were purchased from the General Relief Medical program because Alaska had not adopted the pharmacy option under the Medicaid program. During the last legislative session, CSSB 255, which was signed into law as Chapter 120, SLA 1988, added pharmacy services as a Medicaid option for the period October 1, 1988 - June 30, 1989. (SB 255 has a sunset clause which repeals Chapter 120 effective July, 1989.)

Unless this legislation is passed, a general fund appropriation of \$2,560 million will be needed in FY90 to continue to pay for pharmacy services for poor Alaskans. In essence, the state would be relinquishing \$2.56 million in federal match and pharmacy services for Medicaid eligible individuals would once again be purchased through the general relief medical program (GRM). Should general funds not be appropriated, significant reductions in pharmacy services would also likely occur.

Budgetary and Program Impact

All services which are purchased by the state under the Medicaid program receive a dollar-for-dollar federal match. All services purchased under the General Relief Medical program are entirely general funds.

The Department has submitted its FY90 budget assuming this legislation would pass, pharmacy services would remain as a Medicaid option and, \$2,560.2 in federal funds would be received as match. Consequently, this legislation has a zero fiscal note. If it passes, the total pharmacy cost of \$5.037 million is split between federal funds and general funds. The

proposed FY90 budget contains sufficient general funds to pay the state share, so pharmacy services would continue as currently provided.

If this legislation does not pass, federal matching funds for pharmacy services would be lost. Should this occur, an additional \$2,560.2 in general funds would be needed to replace the federal funds so that existing services could be maintained.

When pharmacy legislation (SB 255) passed in FY89, the department estimated \$2 million in savings because the total drug program cost about \$4 million. Services to new eligibles and utilization and price increases have since increased the total program cost to \$5 million. Consequently, returning to a totally general funded pharmacy program would cost \$1 million more in FY90 than it did in FY88, the last year in which pharmacy was entirely funded by several funds.

Throughout the interim, the department has worked diligently with pharmacists to fashion a Medicaid program which captures federal reimbursement while minimizing financial impact to pharmacists. A separate document describes the policy making process, the research conducted on pharmacy costs, and the reimbursement methodologies which resulted from that process.

If the legislature decides not to pass this legislation, the department requests that the full \$2.56 million in general funds be appropriated. This amount includes the inflation in pharmacy service costs which occurred from FY88 to FY90 in addition to the restoration of the general fund which had been supplanted by federal funds.

The following describes the sequence of modification to the FY90 budget that would be needed to continue present services should the legislation not pass:

1. Transfer \$2,476.9 State General Fund Match (SGFM) from the Medicaid Non-Facility component to the General Relief Medical component. (1,328.9 FY89 transfer for Chapter 120, 913.6 FY90 Budget Request transfer and 234.4 FY90 increments for price, utilization and eligibles.) If the program is not a Medicaid option, there are no federal funds to match with state general funds.
2. Decrement the Medicaid Non-Facility component for 2,560.2 federal funds. (1,412.3 FY89 Chapter 120, 913.6 FY90 Budget request and 234.3 FY90 increments for price, utilization and eligibles.) These federal match funds are not received if the pharmacy services are not provided through Medicaid.
3. Increment the General Relief Medical program for 2,560.2 state general funds to offset the federal decrements in #2 above.

The following chart depicts the development of the FY90 budget request and the above described modifications.

FY90 Budget Development

	<u>GRM</u>	<u>Medicaid Non-Facility</u>	<u>Total</u>
FY89 Authorization	913.6	2,741.2	3,654.8
C-4 Transfer	<u>(913.6)</u>	<u>913.6</u>	<u>0</u>
FY90 Adjusted Base	0	3,654.8	3,654.8
FY90 Increments:			
Federal Increment		913.6	913.6
Price		135.2	135.2
Eligibles		196.4	196.4
Utilization	<u> </u>	<u>137.1</u>	<u>137.1</u>
FY90 Budget Request	0	5,037.1	5,037.1

Required Modifications

Transfer SGFM	2,476.9	[1] (2,476.9)	0
Decrement Federal	-	[2] (2,560.2)	(2,560.2)
Increment SGF	[3] <u>2,560.2</u>	<u>-</u>	<u>2,560.2</u>
Totals	5,037.1	0	5,037.1

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 70 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act extending the termination date of the Board
7 of Pharmacy; relating to substitution of generic
8 drugs that are therapeutically equivalent; relating
9 to pharmaceutical medical assistance for needy per-
10 sons; changing the order of priority for eliminating
11 medical assistance coverage for certain services; and
12 providing for an effective date."

13 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

14 * Section 1. AS 08.03.010(c)(4) is amended to read:

15 (4) Board of Pharmacy (AS 08.80.010) -- June 30, 1993

16 [1989].

17 * Sec. 2. AS 08.80.460(b) is repealed and reenacted to read:

18 (b) A person who violates AS 08.80.295 is guilty of a violation.

19 * Sec. 3. AS 47.07.030(b) is amended to read:

20 (b) In addition to the mandatory services specified in (a) of
21 this section, the department may offer only the following optional
22 services: case management and nutrition services for pregnant women;
23 personal care services in a recipient's home; emergency hospital
24 services; long-term care noninstitutional services; medical supplies
25 and equipment; clinic services; inpatient psychiatric facility ser-
26 vices for individuals age 65 or older and individuals under age 21;
27 prescribed drugs; physical therapy; occupational therapy; chiropractic
28 services; treatment of speech, hearing, and language disorders; adult
29 dental services; prosthetic devices and eyeglasses; optometrists'

1 services; intermediate care facility services, including intermediate
2 care facility services for the mentally retarded; skilled nursing
3 facility services for individuals under age 21; and reasonable trans-
4 portation to and from the point of medical care.

5 * Sec. 4. AS 47.07.035 is amended to read:

6 Sec. 47.07.035. PRIORITY OF MEDICAL ASSISTANCE. If the depart-
7 ment finds that the cost of medical assistance for all persons eligi-
8 ble under this chapter will exceed the amount allocated in the state
9 budget for that assistance for the fiscal year, the department shall
10 eliminate coverage for optional medical services and optionally eligi-
11 ble groups of individuals in the following order:

- 12 (1) chiropractic services;
- 13 (2) adult dental services;
- 14 (3) emergency hospital services;
- 15 (4) treatment of speech, hearing, and language disorders;
- 16 (5) optometrists' services and eyeglasses;
- 17 (6) occupational therapy;
- 18 (7) prosthetic devices;
- 19 (8) medical supplies and equipment;
- 20 (9) clinic services;
- 21 (10) physical therapy;
- 22 (11) personal care services in a recipient's home;
- 23 (12) prescribed drugs;
- 24 (13) long-term care noninstitutional services;
- 25 (14) [(13)] inpatient psychiatric facility services;
- 26 (15) [(14)] intermediate care facility services for the men-
27 tally retarded;
- 28 (16) [(15)] intermediate care facility services;
- 29 (17) [(16)] pregnant women, and children five years of age

1 or younger, with a household income that does not exceed 100 percent
2 of the federal poverty level;

3 (18) [(17)] individuals under age 21 who are not eligible
4 for benefits under the federal aid to families with dependent children
5 program because they are not deprived of one or more of their natural
6 or adoptive parents;

7 (19) [(18)] skilled nursing facility services for persons
8 under age 21;

9 (20) [(19)] aged, blind, and disabled individuals who,
10 because they do not meet the income requirements, do not receive
11 supplemental security income under Title XVI of the Social Security
12 Act, but who are eligible, or would be eligible if they were not in a
13 skilled nursing facility or intermediate care facility, to receive an
14 optional state supplementary payment;

15 (21) [(20)] individuals in a hospital, skilled nursing
16 facility, or intermediate care facility whose income while in the
17 facility does not exceed 300 percent of the supplemental security
18 income benefit rate under Title XVI of the Social Security Act, but
19 who, because of income, are not eligible for the optional state sup-
20 plementary payment;

21 (22) [(21)] individuals under age 21 under supervision of
22 the department, for whom maintenance is being paid in whole or in part
23 from public money and who are in foster homes or private child-care
24 institutions.

25 * Sec. 5. AS 47.07 is amended by adding a new section to read:

26 Sec. 47.07.065. PAYMENT FOR PRESCRIBED DRUGS. The department
27 shall pay for prescribed drugs under AS 47.07.030(b) under regulations
28 adopted by the commissioner in conformity with applicable federal
29 regulations.

1 * Sec. 6. Section 2 of this Act takes effect January 1, 1990, unless by
2 that date the director of the division of occupational licensing has certi-
3 fied to the revisor of statutes that the Board of Pharmacy has adopted
4 regulations establishing the schedule of civil fines required under AS 08.-
5 80.460(b).

6 * Sec. 7. Sections 1 and 3 - 5 of this Act take effect July 1, 1989.
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Alaska State Legislature

Representative Fran Ulmer



P.O. Box V
Juneau, Alaska 99811
(907) 465-4947

HOUSE OF REPRESENTATIVES

LETTER OF INTENT

CSHB 70

It is the intent of the legislature that the State of Alaska shall implement a pharmaceutical medical assistance program for needy persons with the widest possible delivery of services. Toward that end, the legislature directs the state to plan and implement a program which uses the concepts of the Texas Model reimbursement system to back-up the "fourth option" reimbursement methodology put forth in the Myers and Stauffer "Report On the Cost of Dispensing Pharmaceutical Prescriptions in the State of Alaska. Both systems utilize a formula which is linked to the cost of ingredients. We recognize this system as more equitable to service providers and to be cost effective in implementation.

AMENDMENT TO CS HB 70 (HESS)

By ULMER

PAGE 3, LINE 22, replace Sec. 4 with new language:

"This act is repealed on June 10, 1990."

Renumber last section accordingly.

Alaska State Legislature

Representative Fran Ulmer



P.O. Box V
Juneau, Alaska 99811
(907) 465- 47

HOUSE OF REPRESENTATIVES

MEMORANDUM

March 16, 1989

TO: Members, House Finance Committee
FROM: Rep. Fran Ulmer
RE: CSHB 70

Last year when the Legislature passed CSSB 255 regarding pharmacy services as a Medicaid option, it contained a sunset date of June 10, 1989. The purpose of that sunset provision was to continue the legislative oversight of the program and to ensure that Alaska's program would adequately deliver the services intended.

Unfortunately, the program implemented by the Dept. of Health and Social Services under emergency regulations in January of this year is not having the desired effect. Within the last 30 days we have seen a growing number of providers withdraw from the program with the net result that at least one community is completely without service today. I believe that if we continue in the direction already indicated we will seriously jeopardize the delivery of services throughout Alaska.

For that reason, I recommend that we again add a sunset provision to this legislation, dated June 10, 1990. The legislature needs to continue its oversight of this program. In addition, I recommend that we append a letter of intent to this legislation which directs the Department of Health and Social Services to propose and implement a program which will ensure the widest possible participation by providers and thus the widest delivery of services.

Specifically, I suggest that we direct the department to submit a program proposal to the federal government which uses the Texas reimbursement model for fee structures. This program has been in operation since September, 1985 and was formally approved by the federal government in 1987 when the Medicaid guidelines were changed. Since implementation, the state of Texas reports a

savings of \$103.5 million resulting from the use of their fee structure in combination with an upper limits policy. The administrator of that program, Mr. Robert Harris, reported to me that Texas has hard data showing a \$1 saving per claim.

The Texas model is supported by the Alaska Pharmaceutical Association and will, I believe, result in broad participation by providers. This model is essentially the same as option "four" in the Myers and Stauffer study conducted for the State of Alaska in 1988. The reason that this fee structure is more acceptable than the formula currently in place is that reimbursement is tied to actual cost of goods. The result is a more equitable program. An explanation of the formula is attached.

The administrator of the Texas program reports that the program is relatively easy to implement. The pricing information regarding drugs can either be managed in-house by one professional or can be purchased from computer companies such as First Data Co. in San Francisco.


A fee structure similar to the Texas model was discussed by the agency with Region 10 personnel who said the Alaska program would not be approved. It is clear that, if we move forward with the Texas model in the Alaska program, there will be some objection from the federal government. However, I do not believe the federal government can disallow a program proposal which has already been formally accepted elsewhere in the country. I believe that risk is worth taking, however, in order to address the problem which has already arisen in Alaska in the last 30 days regarding service delivery.

Attached you will find a draft amendment and a letter of intent for which I request your support.

U R G E N T M E M O R A N D U M

=====

TO: All members of the Alaska State Legislature both Senate & House.

FROM:  Eldon R. Ulmer , R.Ph., Community Pharmacy owner
Downtown Rexall Drug, 415 West 5th Ave., Anchorage,
Alaska 99510 &
Ulmer Rexall & True Value, 3858 Lake Street , Homer,
Alaska, 99603.

SUBJECT: Untimely & premature implementation , by the Division of Medical Assistance (DMA) of new Medicaid pharmacy program , scheduled for 1 February 1989.

In the opinion of the writer of this memorandum, the FEDS have NOT accepted the proposed plan. To verify this and also to get an insight from the FEDS.....it is urged that you call The Federal Region 10 Director Bob Tanna. Mr. Tanna's phone number is (206) 442-0587. He is in the Seattle area. Mr. Tanna will give you straight facts.....not wishful thinking. The FEDS will not accept any program that has been proposed by DMA. They are asking for additional studies to determine Average Wholesale Price (AWP) of drugs to pharmacies in Alaska. The DMA last year quoted a figure of some \$ 10,000.00 to make the studies that were necessary to involve the FEDS. To date the costs (to the best of my knowledge) are in excess of \$ 160,000.00 and the FEDS are asking for more information and this means more costs.

There is no way my pharmacies can break even under what I believe will be the ultimate program that the FEDS will buy. I project a loss in my two stores and therefore can not participate as a provider, even for the 30 days the DMA is asking for as an extension of what they said could be done in 90 days , and has now taken almost a year and still not done.

Attached is a chronological event schedule of what has happened since February 1988. It is comprehensive and unbiased and was prepared by the Alaska Pharmaceutical Association, and states facts NOT FICTION. It is asked that you read it.

A group of pharmacists are visiting Juneau all day Thursday, February 2, 1989. It would be helpful if you will meet with them , individually, so you are well informed. I have a long time commitment to the American Cancer Society to attend a meeting of great importance to the ACS, in the lower 48 & I can not get to Juneau with the group. Members of the pharmacy group will be contacting you while they are in Juneau.

If a reasonable solution can not be found, it is my opinion that most providers will not participate in the program and unfortunate recipients will be without service in many areas , if not all areas of the state.

Can Walk

The Association has agreed to distribute a communication from the pharmacist members of the Medicaid Pharmacy Steering committee to pharmacists in Alaska. As noted in this communication, any analysis and decisions regarding the Medicaid program and your business must be made by yourself on an individual basis.

CHRONOLOGY ON FEDERAL PHARMACY MEDICAID PROGRAM

1988

- February 29th • Association writes to legislators stating opposition to legislation.
- April • Ron Sedgwick prepares independent position paper for legislature.
- Association hosts teleconference to assess positions and determine strategy.
- Association prepares position paper for legislators.
- Association funds poll of pharmacies by Dittman Research Corporation to determine percentage of Medicaid business and willingness to participate in federally funded program.
- 27th • Association and pharmacists testify at Senate Finance Committee hearing. Senate Finance Committee amends bill to include one year "sunset" provision and attaches letter of intent.
- 30th • SB 255 passes Senate.
- May 17th • Division of Medical Assistance writes Association, stating intent to work with members of the Association in development of program.
- July 22nd • Eric Hansen (DMA) contacts Association to provide project schedule and inform us of the formation of a Medicaid steering committee.
- 27th • Association responds to Eric Hansen with recommendations for pharmacist members of Medicaid steering committee.

- August**
- 29th** • Commissioner of HESS appoints Dave Swanson, Bill Larson, and Ron Sedgwick to Medicaid steering committee and appoints Chris Coursey and Bernie Klouda to Proposal Evaluation Committee.
 - 29th** • Proposal evaluation committee reviews proposals for dispensing cost survey and recommends the firm of Myers and Stauffer to the Commissioner of HESS.
- September**
- Commissioner awards contract to Myers and Stauffer to conduct dispensing cost survey.
 - Proposal evaluation committee reviews proposals submitted for state pharmacist consultant and informs Commissioner that they cannot recommend any of the submitted proposals.
 - 15th** • Medicaid steering committee meets to review cost survey form and to review project schedule. Also in attendance: Chris Coursey, Bernie Klouda, and Darrell Stauffer (accountant).
 - Dispensing cost surveys are mailed to all pharmacy Medicaid providers.
 - 19th** • Association writes to members encouraging participation in the cost survey.
 - Commissioner approves emergency contracting procedures for pharmacist consultant after rejecting previous bids.
 - 30th** • Eric Hansen submits contract w/ Orkand Corp. (Bert Parrish) to Commissioner for approval after review with members of Proposal Evaluation Committee.
- October**
- 14th** • Chris Coursey meets w/ Eric Hansen, Bert Parrish and Kim Busch to review Medicaid issues identified by Bert Parrish. Chris Coursey communicates Association position on Formulary (no formulary), ingredient cost (AWP), co-pay (support) and physician dispensers (no fee).
- November**
- 17th** • Steering Committee meeting in Juneau. Review of survey response (54%, above national average) and initial survey report. Committee agrees on
 - a) AWP plus percentage of cost plus fixed fee
 - b) different dispensing fees based on factors supported by cost survey data such as Medicaid Rx volume, geographic area, etc.
 - 21st** • DMA sends letter to regional federal officials outlining state's position.

- December
- 7th • Kim Busch, Eric Hansen, Bert Parrish, and Darrell Stauffer meet with federal HCFA officials in Baltimore to review state plan.
 - 14th • State meets with regional HCFA officials in Seattle to review state plan
 - 16th • Steering committee meets by teleconference. Also in attendance are Chris Coursey, Bernie Klouda. Eric Hansen reviews federal response to state plan. Feds firmly reject percentage markup formula as well as AWP as reimbursement for ingredient cost. Feds require state to perform survey to determine actual ingredient costs being paid by Alaskan pharmacies. State desires to implement interim plan by February 1st while performing ingredient cost survey. If final plan approved by Feds by March 1st, the state can be reimbursed retroactive to January 1st. State proposes to pay AWP minus 5% plus fee of \$7.90 (average-varies individually) until survey is done at which time ingredient cost will be adjusted to survey results. All non-pharmacist members of the committee vote yes with Eric Hansen abstaining. Pharmacist members ask for conference prior to taking position.
 - 18th • Dave Swanson, Ron Sedgwick, Chris Coursey and Bernie Klouda meet by teleconference to discuss position on interim program proposed by state. Dave Swanson conferred with Bill Larson who could not attend this meeting. Pharmacists unanimously agreed that they could only support the initial state plan (AWP plus markup plus fee) and would vote no to the backup proposal by the state.
 - 19th • Chris Coursey communicated the votes (3 nays) of the steering committee members (Sedgwick, Swanson, Larson) to Eric Hansen.
 - 22nd • Eric Hansen contacts Chris Coursey with new state proposal. State will reimburse AWP plus 7.90 fee (average) starting Feb. 1st, until the ingredient cost survey is done, at which time AWP would be replaced with the actual ingredient cost as determined by the survey. In addition, the state would require the Association to provide a letter supporting the final program and agreeing not to oppose HESS during the upcoming legislative session.
 - 22nd • After reviewing proposal with Dave Swanson, Ron Sedgwick, and Bernie Klouda, Chris Coursey informs Kim Busch that the Association cannot provide the letter as requested and will take no action which limits the options of the pharmacy providers. Kim Busch indicates that the state will probably adopt AWP minus 5% plus a fee of \$7.90 (average) until the cost ingredient survey is completed.

THE PHARMACIST MEMBERS OF THE MEDICAID PHARMACY STEERING COMMITTEE FEEL IT IS IMPORTANT FOR EACH POTENTIAL PHARMACY PROVIDER TO HAVE CERTAIN INFORMATION IN ORDER TO EVALUATE THEIR PARTICIPATION IN THE NEW MEDICAID PHARMACY PROGRAM IN ALASKA. THIS IS AN ATTEMPT TO SET FORTH SOME AREAS OF CONSIDERATION FOR INDIVIDUAL ANALYSIS BY EACH PHARMACY.

EACH PHARMACY, ON AN INDIVIDUAL BASIS, MUST DETERMINE THE IMPACT OF PARTICIPATING IN THE NEW MEDICAID PROGRAM ON THEIR PROFIT AND LOSS STRUCTURE. IT IS IMPORTANT FOR THE INDIVIDUAL TO GATHER ALL THE DATA NECESSARY TO MAKE AN INFORMED DECISION. EACH CASE WILL BE DIFFERENT DEPENDING ON VARYING FACTORS SUCH AS MEDICAID VOLUME, THE INDIVIDUAL FEE OFFERED TO YOU BY THE PROGRAM, YOUR INDIVIDUAL PHILOSOPHIES AND YOUR INDIVIDUAL BUSINESS STRATEGIES.

THE FOLLOWING ARE EXAMPLES OF THE TYPE OF INFORMATION NEEDED FOR AN INDIVIDUAL PHARMACY TO EVALUATE THE IMPACT OF THEIR PARTICIPATION IN THE NEW MEDICAID PRESCRIPTION PROGRAM.

HOW MUCH DOES IT COST TO FILL A PRESCRIPTION IN YOUR PHARMACY?

THIS INFORMATION WILL BE SUPPLIED TO EACH PHARMACY THAT COMPLETED THE "ALASKA PHARMACY COST REPORT". THIS INFORMATION WAS MAILED FROM MYERS AND STAUFFER ACCOUNTANTS ON JANUARY 3, 1989. IF YOU SUBMITTED A COST SURVEY TO MYERS AND STAUFFER AND YOU DO NOT RECEIVE OR HAVE MISPLACED THIS INFORMATION YOU MAY CALL MEYERS AND STAUFFER AT (913) 233-6200 AND THEY WILL GIVE YOU THIS INFORMATION BY PHONE. NOTE THAT THE AMOUNT PER PRESCRIPTION REPORTED TO YOU IS ONLY YOUR COST OF DOING BUSINESS AND ** DOES NOT INCLUDE ANY PROFIT MARGIN **. (THOSE PHARMACIES THAT DID NOT PARTICIPATE IN THE COST SURVEY WILL NEED TO ADD UP ALL OF THEIR ANNUAL PHARMACY OVERHEAD COSTS INCLUDING SALARIES ETC. AND DIVIDE THE TOTAL BY THEIR TOTAL ANNUAL PRESCRIPTIONS DISPENSED.)

ADD THE AMOUNT PER PRESCRIPTION YOU FEEL IS NECESSARY PROFIT FOR YOUR OPERATION (73 CENTS PER RX WAS THE AMOUNT DETERMINED STATISTICALLY FROM THE ALASKA PHARMACY COST SURVEY TO BE THE STATEWIDE AVERAGE PROFIT PER PRESCRIPTION) AND THEN USE THIS "DISPENSING FEE TOTAL" TO EVALUATE THE MEDICAID DISPENSING FEE BEING OFFERED TO YOUR PHARMACY BY THE ALASKA MEDICAID PROGRAM.

NOTE THAT THE "ACQUISITION OR INGREDIENT COST" THAT WILL BE ADDED TO THE MEDICAID FEE FOR SINGLE SOURCE "BRAND NAME" DRUGS WILL INITIALLY BE AWP MINUS 5%. THE DIVISION OF MEDICAL ASSISTANCE WILL BE CONDUCTING AN "ESTIMATED ACQUISITION COST" SURVEY IN THE VERY NEAR FUTURE TO DETERMINE WHAT TRADE DISCOUNTS ALASKAN PHARMACIES ARE RECEIVING AND WILL BE ADJUSTING THE INGREDIENT COST FORMULA ACCORDINGLY WITHIN A SHORT TIME. SOME ESTIMATES ARE THAT

THE FINAL FORMULA MAY RANGE TO AS MUCH AS "AWP MINUS 11%" WITH THE FINAL FIGURE TO BE DETERMINED BY THE DEPARTMENT FROM THEIR SURVEY RESULTS.

IF YOU DETERMINE YOUR USUAL AND CUSTOMARY CHARGES TO THE GENERAL PUBLIC UTILIZING "AWP" IN YOUR CALCULATIONS, YOU SHOULD EVALUATE THE IMPACT OF THIS ASPECT OF THE MEDICAID PROGRAM ON YOUR OPERATION, ESPECIALLY ON THE WIDE RANGE OF HIGH ACQUISITION COST PRESCRIPTIONS YOU DISPENSE.

NOTE THAT A LARGE NUMBER OF MULTISOURCE "GENERIC" DRUGS (IN EXCESS OF 300 SEPARATE ITEMS!) HAVE THE INGREDIENT COST THAT YOU WILL BE REIMBURSED MANDATED BY THE MEDICAID PROGRAM AT SET LEVELS. IF YOU DISPENSE ITEMS THAT COST YOU MORE THAN THESE SET LEVELS YOU WILL LOSE THIS ADDITIONAL AMOUNT AS YOU WILL BE REIMBURSED AT THE MANDATED LOWER LEVEL. IN ORDER TO PREVENT THIS FROM HAPPENING IT IS NECESSARY TO INSURE THAT YOU TAYLOR YOUR INVENTORY OF GENERICS TO BE ABLE TO FILL PRESCRIPTIONS FOR ALL THE ITEMS ON THE MANDATED "FFP" LIST WITHOUT ABSORBING ADDITIONAL LOSS. IF YOU DO NOT PRESENTLY STOCK AN EXTENSIVE GENERIC LINE THAT MEETS THE FEDERAL LEVELS YOU WILL NEED TO CONSIDER THE EFFECT OF ADDING THE ADDITIONAL INVENTORY ON YOUR COST OF DOING BUSINESS IN ORDER TO PARTICIPATE IN THE NEW MEDICAID PROGRAM.

ANOTHER NEW ASPECT FOR CONSIDERATION IS THAT THE MEDICAID PROGRAM WILL NOT REIMBURSE YOU FOR DRUGS DISPENSED THAT ARE CONSIDERED "LESS THAN EFFECTIVE" BY THE FDA. THIS LIST OF DRUGS OCCUPIES OVER 200 PAGES IN THE NEW PROVIDER MANUAL AND SHOULD BE CONSULTED EACH TIME BEFORE YOU FILL A MEDICAID PRESCRIPTION UNTIL YOU ARE FAMILIAR WITH THE APPROXIMATELY 5000 ITEMS CONTAINED IN THIS LIST. PRESCRIPTIONS DISPENSED FOR ANY OF THESE ITEMS WILL NOT BE PAID FOR AND YOU WILL HAVE TO ABSORB THE ENTIRE LOSS YOURSELF. THERE ARE SOME COMMONLY PRESCRIBED ITEMS IN THIS LIST SO BE WELL AWARE OF THIS ASPECT OF THE NEW MEDICAID PROGRAM.

YOU SHOULD CONSIDER THE IMPACT OF THE REGULATION THAT REQUIRES THAT YOU BE REIMBURSED AT THE "LOWER OF" THE MEDICAID FEE PLUS ACQUISITION COST AS DESCRIBED ABOVE OR YOUR "USUAL AND CUSTOMARY" PRICE WHICHEVER IS LEAST. AN INDIVIDUAL PHARMACY MAY FIND THAT MANY OF THEIR LOW END PRICES FALL FAR BELOW THE MEDICAID FEE PLUS COST, BUT THIS LOWER FEE WHICH IS DICTATED BY THE MARKETPLACE WILL BE THE AMOUNT YOU ARE REIMBURSED. "LOSS LEADER" TYPE PRICES AS CHARGED TO THE PUBLIC MUST BE PASSED ON TO THE MEDICAID PROGRAM AND ARE YOUR "USUAL AND CUSTOMARY" PRICE TO BE BILLED TO THE PROGRAM. YOU DO NOT GET THE BENEFIT OF THE MEDICAID FEE BEING HIGHER THAN YOUR NORMAL FEES AT THE LOW END OF THE SCALE TO MAKE UP FOR THE LOSSES OF THE MEDICAID FEE BEING LOWER THAN YOUR NORMAL FEES ON HIGH PRICED PRESCRIPTIONS.

THE FACT THAT THE MEDICAID PROGRAM SUBTRACTS AN AMOUNT FROM AWP AND ALSO UTILIZES THE "LOWER OF RULE" MAKES IT MUCH DIFFERENT FROM OTHER THIRD PARTY PROGRAMS THAT UTILIZE A FIXED FEE REIMBURSEMENT AND THE SIGNIFICANT IMPACT OF THIS DIFFERENCE SHOULD BE EVALUATED BY THE INDIVIDUAL PHARMACY.

AGAIN, EACH PHARMACY, ON AN INDIVIDUAL BASIS, MUST DETERMINE THE IMPACT OF PARTICIPATING IN THE NEW MEDICAID PROGRAM ON THEIR INDIVIDUAL OPERATION. WE URGE YOU TO GATHER THE NECESSARY DATA, EVALUATE THE VARIOUS FACTORS AFFECTING YOUR PARTICULAR CASE, AND THEN MAKE YOUR OWN DECISION OF THE PATH YOU WILL TRAVEL ACCORDING TO YOUR INDIVIDUAL PHILOSOPHIES AND BUSINESS STRATEGIES.

March 1986

Alaska State Legislature
PO BOX V
Juneau, AK 99811

ATTN: FINANCE COMMITTEE

Dear Legislator:

I am a medicaid recipient. Up to this point I have received prescriptions in Sitka with my welfare coupon. I now understand that the pharmacy is no longer able to fill my prescriptions because they are not getting paid for the cost of the medicine.

I hope that something can be worked out with the state and the pharmacy so I can continue to get my prescriptions filled at home and without the delay of mailing them to me.

THANK YOU,

*Dalene
Savitsky*

TO: HOUSE FINANCE COMMITTEE

TO: REP TAYLOR

TO: REP C. DAVIS

RE: HB 070 PAYMENT OF MEDICATION UNDER MEDICAID GUIDELINES

I WOULD LIKE TO EXPRESS MY CONCERNS REGARDING THE PROPOSED LEGISLATION. THE NEW PAYMENT SCHEDULE IS BELOW THE ONE RECOMMENDED IN YOUR OWN STUDY. THE PROFIT OF LESS THEN A DOLLAR PER RX LEAVES LITTLE LEEWAY TO OFFSET ERRORS IN WHICH A NON-MAC OR A NONREIMBURSEABLE DRUG IS USED.

I ALSO HAVE RESERVATIONS ON USING SOME OF THE GENERICS THAT ARE REQUIRED BY THIS LEGISLATION. SINCE I HAVE ALREADY SEEN THERAPEUTIC FAILURE IN SOME OF THESE MEDICATIONS, PRIMARILY IN THYROID AND SEIZURE PRODUCTS.

THEN TO COMPOUND THE PROBLEM, WITH VIRGINIA COMPUTERS REFUSAL TO RETURN CALLS, SEND INFORMATION , ANSWER QUESTIONS AND EXTREME REDUNDANCY IN INFORMATION REQUIRED. THE PROGRAM BECOMES A NIGHTMARE OF POOR PAYMENT, RESUBMITTAL, AND REFUSAL. MOST GOOD BUSINESSES WOULD PUT THIS TYPE OF CLIENT ON A CASH ONLY BASIS.

SINCERELY

Ronald D. Rose, M.D.
2300 Tongass Ave
St. Paul, Va. 99901

225-4151

①

TO: HOUSE FINANCE COMMITTEE

TO: REP TAYLOR

TO: REP C. DAVIS

RE: HB 070 PAYMENT OF MEDICATION UNDER MEDICAID GUIDELINES

I WOULD LIKE TO EXPRESS MY CONCERNS REGARDING THE PROPOSED LEGISLATION. THE NEW PAYMENT SCHEDULE IS BELOW THE ONE RECOMMENDED IN YOUR OWN STUDY. THE PROFIT OF LESS THEN A DOLLAR PER RX LEAVES LITTLE LEEWAY TO OFFSET ERRORS IN WHICH A NON-MAC OR A NONREIMBURSEABLE DRUG IS USED.

I ALSO HAVE RESERVATIONS ON USING SOME OF THE GENERICS THAT ARE REQUIRED BY THIS LEGISLATION. SINCE I HAVE ALREADY SEEN THERAPEUTIC FAILURE IN SOME OF THESE MEDICATIONS, PRIMARILY IN THYROID AND SEIZURE PRODUCTS.

THEN TO COMPOUND THE PROBLEM, WITH VIRGINIA COMPUTERS REFUSAL TO RETURN CALLS, SEND INFORMATION , ANSWER QUESTIONS AND EXTREME REDUNDANCY IN INFORMATION REQUIRED. THE PROGRAM BECOMES A NIGHTMARE OF POOR PAYMENT, RESUBMITTAL, AND REFUSAL. MOST GOOD BUSINESSES WOULD PUT THIS TYPE OF CLIENT ON A CASH ONLY BASIS.

SINCERELY

Douglas S. Noeill, RPh

DOUGLAS S. NOEILL, RPh
704 WATER ST. #A

KETCHIKAN, AK 99901

225-4769

TO: HOUSE FINANCE COMMITTEE

TO: REP TAYLOR

TO: REP C. DAVIS

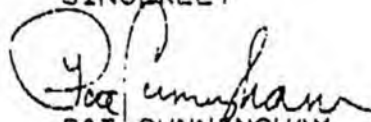
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SINCERELY


PAT CUNNINGHAM

2415 HEMLOCK 208

KETCHIKAN, AK 99901

Phone 225-8712

TO: HOUSE FINANCE COMMITTEE

TO: REP TAYLOR

TO: REP C. DAVIS

RE: HB 070 PAYMENT OF MEDICATION UNDER MEDICAID GUIDELINES

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SINCERELY

Lorenna Sigler
300 Austin St
Ketchikan, Ak 99901
(907) 225-6967

(4)

PERCENTAGE OF MEDICAID CASES BY RACE AND REGION
for month of 6/88

<u>REGION</u>	<u>Alaska Native</u>	<u>American Indian</u>	<u>Hispanic</u>	<u>Black</u>	<u>White</u>	<u>Asian</u>	<u>Pacific Island.</u>	<u>Other/ Unknown</u>
Anchorage	23.0	1.0	3.3	12.8	53.0	4.6	1.3	.8
Kotzebue	98.9	.2	-	-	.8	-	-	-
Nome	97.0	.2	.2	-	1.5	.2	-	.8
Northern	41.7	1.0	1.8	5.9	47.7	1.2	.3	.3
Southcentral	28.2	.7	1.0	.5	66.9	.4	.9	1.6
Southeast	46.0	1.3	.9	1.1	46.8	1.5	.7	1.6
Southwest	98.3	.1	-	-	1.1	-	.1	-
Total	44.2	.8	1.8	5.9	43.5	2.1	.8	.8

Pharmacy Expenditure Analysis

	Actuals					Projected		
	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88 (12/88)	FY 89 (12/89)	
Total	1,358.0	1,806.2	2,452.8	2,760.3	2,847.0	3,083.6	3,416.2	4,134.1
GRM	196.3	165.5	204.0	268.3	85.5	103.2	85.4	142.4
Medicaid	1,159.7	1,635.7	2,248.6	2,492.0	2,763.5	3,780.4	3,532.8	3,991.7
5%	579.9	815.4	1,124.4	1,246.0	1,381.8	1,890.2	1,766.4	1,952.9
% Change Total		33.15%	35.65%	12.54%	3.14%	36.41%	-6.83%	14.25%
% Change Medicaid		41.30%	37.23%	11.81%	10.85%	35.80%	-6.55%	12.95%
% Change GRM		-14.52%	20.35%	31.52%	-65.62%	23.59%	-17.25%	66.74%

	FY85 - FY86
Total Cost to the State	14,023.1
Cost to State had program been Medicaid funded	7,041.6

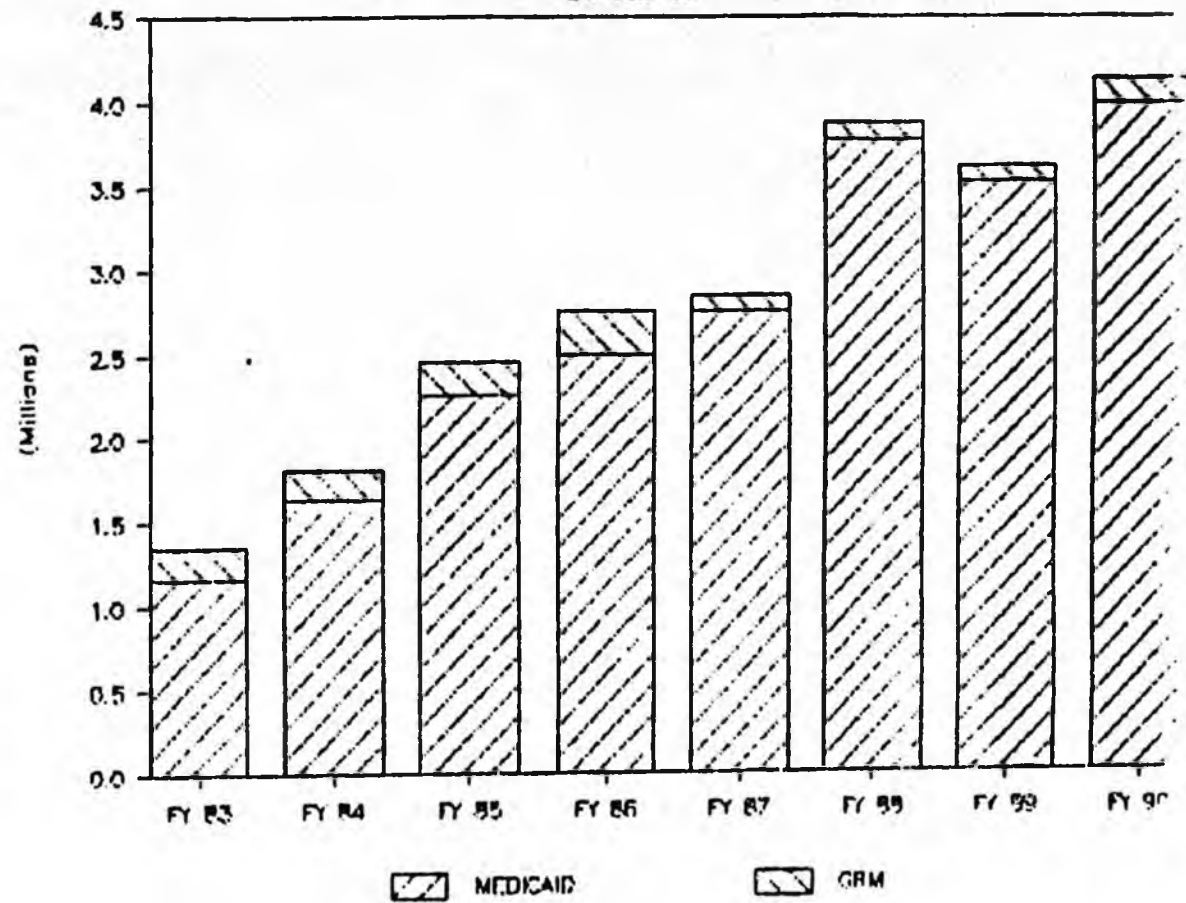
	FY85 - FY86
Potential Savings if program moved to Medicaid	3,762.3

- FY 87**
- .GRM program redefinition
 - .Implement Pharmacy Cost Containment
 - .8% Copayments
 - In FY 84 107,000 prescriptions were covered. A 8% copayment resulted in an annual savings of: 117.0
 - .Over the Counter
 - Elimination of over the counter purchases with exception of insulin resulted in a savings of: 61.0
 - .30 day Supply on hand
 - No way to directly measure in the claims payment system. Estimated at: 51.0
 - .Generic Substitution where possible
 - No way to directly measure in the claims payment system. Estimated at: 20.0
- =====
- 415.0

FY 88 and FY 89 Projections based on 12/88 projection.

PHARMACY EXPENDITURES

25-Jan-89



STANDARDS AND MAXIMUM PAYMENTS - Revised Edition

AFDC	7/1/81	7/1/82	1/1/83	1/1/84	1/1/85	1/1/86	7/1/86	1/1/87	1/1/88	1/1/89
AI 2	508	546	597	617	638	657	657	665	692	719
3	533	614	674	696	719	740	740	740	770	800
4	634	652	751	775	800	823	823	833	866	893
5	697	750	828	854	881	906	906	917	953	980
6	760	818	905	933	962	989	989	1001	1040	1071
7	823	886	986	1012	1043	1072	1072	1085	1127	1161
EA ADD	63	68	77	79	81	83	83	84	87	90
<hr/>										
ANI 1	222	236	238	246	254	261	261	264	275	281
2	445	476	476	492	508	522	522	528	550	57
3	508	544	553	571	589	605	605	612	637	66
4	571	612	630	650	670	688	688	696	724	75
5	634	680	707	729	751	771	771	780	811	84
6	697	748	784	808	832	854	854	864	898	93
7	760	816	861	887	913	937	937	948	985	102
EA ADD	63	68	77	79	81	83	83	84	87	9
<hr/>										
SINGLE ADULT/ PREGNANT WOMAN 11/1/83	286	308	*359 *382	*391	404	416	416	421	437	45
**ADDITIONAL INCREMENT FOR INCAP. SPOUSE				**145	**150	**154	**154	**156	**162	**16
<hr/>										
APA							WASKY SUIT			
INDIV. -35	426	426	546	566	586	605	624	632	659	68
+35	526	526								
COUPLE -35	638	638	802	830	859	887	925	937	976	100
+35	773	773								
N.H.P. NEEDS:	35	70	70	70	70	70	70	70	70	75
-INDIV. B			451	466	482	497	516	523	545	54
-B ELIG. COUPLE			660	683	707	730	768	778	811	84
-A COUPLE, 1 INELIGIBLE			660	683	707	730	749	759	791	81
-B COUPLE, 1 INELIGIBLE			518	536	555	573	592	600	625	61
-NURSING HOME 300% CASES				942	975	1008	1020	1020	1062	111
<hr/>										
SSI STANDARDS:										
-INDIV. "A" LVC. ARR.				314	325	336	336	340	354	367
-INDIV. "B" LVC. ARR.				209.34	216.67	224	224	226.67	236	245
-COUPLE "A"				472	488	504	504	510	532	55
-COUPLE "B"				314.67	325.34	336	336	340	354.67	366
-SSI - LONG TERM N.H.									25	30
<hr/>										
APA-SSI RESOURCE LIMITS:										
- INDIVIDUAL				1500	1600	1700	1700	1800	1900	20
- COUPLE				2250	2400	2550	2550	2700	2850	30
<hr/>										
100% of Federal Poverty Level - Alaska Monthly Standard								H:		2/12/86
								1		600
								2		805
								3		1009
								4		1213
								5		1417
								6		1621
								7		1825
								E		2030

AFDC = Aid to Families with Dependent Children

AI = AFDC Adult Included

ANI = AFDC Adult Not Included

APA = Adult Public Assistance (Old Age Assistance, Aid to the Disabled, Aid to the Blind)

N.H.P. = Nursing Home Person Needs Allowance

See A:

ANCHORAGE CONSUMER PRICE INDEX
ALL URBAN CONSUMERS

<u>Period</u>	<u>Medical Care</u>	<u>Medical Care Services</u>
FY83 to FY84	4.77%	4.71%
FY84 to FY85	5.02%	4.83%
FY85 to FY86	7.47%	7.76%
FY86 to FY87	14.52%	15.65%
FY87 to FY88	6.8%	7.46%

Percentages displayed represent the percent change from one fiscal year compared to the next fiscal year.

Medical Care - Included in this category is prescription drugs, non-prescription drugs, internal and respiratory over-the-counter drugs, non-prescription medical equipment and supplies.

Medical Care Services - Physician services, dental and eye care services, other medical professional services, hospital and related services, other inpatient costs, and outpatient services.

UNDUPLICATED NUMBER OF MEDICAID RECIPIENTS BY PROGRAM
for June 1988

<u>Assistance Program</u>	<u>Unduplicated Recipients</u>
Old Age Assistance	
Cash	1,939
No Cash	283
Aid to the Blind	
Cash	55
No Cash	0
Aid to the Disabled	
Cash	2,679
No Cash	81
AFDC Children	
Cash	14,064
No Cash	4,692
AFDC Adults	
Cash	6,436
No Cash	563
Program Total	
Cash	25,173
No Cash	5,619
	<hr/>
Total Recipients	30,792

PERCENTAGE OF MEDICAID RECIPIENTS BY AGE
for month of 6/88

<u>AGES</u>	<u>PERCENTAGE of RECIPIENTS</u>
Under 1	4%
1 - 5	21%
6 - 14	23%
15 - 20	9%
21 - 44	28%
45 - 64	6%
65 - 74	5%
75 - 84	3%
85 +	1%

NUMBER OF MEDICAID CASES BY REGION
for month of 6/88

	<u>AFDC</u>	<u>APA</u>	<u>Medicaid Only</u>
Anchorage	2972	1720	1020
Kotzebue	222	175	37
Nome	231	252	55
Northern	1276	919	421
Southcentral	1438	910	581
Southeast	778	601	378
Southwest	691	909	435
	—	—	—
Total	7608	5486	2927

AFDC = Aid to Families with Dependent Children

APA = Adult Public Assistance

Medicaid only = Medicaid benefits with no cash related cash assistance

TABLE OF MEDICAID PRIORITIES - AS 47.07.035

(Lowest to Highest)

Service	Recipients	FY89 Annual Amount
1. Chiropractic	600	381.2
2. Adult Dental	2,032	935.6
3. Emergency Hospital Services	-0-	-0-
4. Speech, Hearing & Language Disorders	298	159.4
5. Optometrists Services & Eyeglasses	4,543	905.0
6. Occupational Therapy	36	377.0
7. Prosthetic Devices	198	788.0
8. Medical Supplies & Equipment	330	
9. Clinic Services Includes Mental Health Clinics	1,384	3,497.8
10. Physical Therapy	224	152.2
11. Personal Care	96	797.2
12. Non-Institutional Long Term Care	-0-	-0-
13. Inpatient Psychiatric Services	69	3,552.4
14. Intermediate Care for the Mentally Retarded	116	6,983.6
15. Intermediate Care Services	400	17,108.6
16. Individuals Under 21 Not Eligible for AFDC	1,500	1,785.0
17. Skilled Nursing Services for Individuals under 21	14	786.3
18. Aged, Blind and Disabled Individuals	2,766	19,824.8
19. Individuals in a Hospital, Skilled or Intermediate Care Under 300% SSI level	49	2,800.2
20. Individuals Under 21 Under Supervision of the Department	500	595.0

13 Includes Alaska Psychiatric Institute

14 Includes Harborview Developmental Center

16-20 Are Eligibility Groups. The costs shown are included in the above optional services as well as the mandatory Medicaid services.

FY89 Annual Amount based on projection of 12/88.

Alaska's Medicaid Pharmacy Program
(Contact: Eric Hansen - 561-2171)

Goal Statement:

To facilitate the development and implementation of a Medicaid pharmacy program in Alaska by January 1, 1989 which maximizes federal matching funds with minimal financial impact to the pharmacy community; and with minimal adverse impact to the recipient community.

<u>Person</u>	<u>Action</u>	<u>Scheduled Completion Date</u>	<u>Date Completed</u>
All	1) Planning	July 15, '88	July 15
All	2) Steering Committee Nominations	July 20	August 12
E. Hansen	3) RFP's		
	a. Dispensing Fee Survey	July 20	July 22
	b. Pharmacist	August 4	August 5
E. Hansen	4) Proposal Evaluations		
	a. Dispensing Fee Survey	Sept. 1	Sept. 2
	b. Pharmacist	Sept. 10	Sept. 10
E. Hansen	5) Contracts in Place	Sept. 20	Oct. 11
K. Busch	6) Pricing Methodology Determined	Nov. 15	Dec. 10
Orkand	7) TVCC Work Order Submission	Nov. 16	Dec. 10
G. Landes	8) Emergency Regs Submission	Dec. 1	Jan. 16, '89
G. Landes	9) Medicaid Policy Manual Update	Dec. 20	-
TVCC	10) Provider Manual Distribution	Dec. 20	Dec. 28
All?	11) Program Implementation	Jan. 2, '89	Feb. 1, '89
E. Hansen	12) Contract Pharmacist for Program Administration	Feb. 20	
E. Hansen	13) Drug Cost Audit Required	March 1	
G. Landes	14) Draft State Plan Submitted	March 30	

Steering Committee Purpose:

1. Facilitate good communication and data sharing between the pharmacy community and the Department.
- 2) Provide representation for any and all contracting processes that are needed for the pharmacy program effort.
- 3) Produce a report on the program by April 1, 1989.

Steering Committee Membership:

Warren Berube, Kim Busch, Vance Sanders, Bill Larson, Dave Swanson,
Bob Coughlin, Eric Hansen, Einar Landstrom

Ingredient costs vary widely by pharmacy, but the state's approach is to pay as close to actual cost as is possible to determine from the results of the drug cost survey.

It has consistently been the intent of all parties to this effort to maximize reimbursement to the pharmacy, within the constraints of federal requirements for accountability and reasonableness.

From the outset, all those involved recognized that Alaska's situation was very unique. Not only have we the highest costs in the country, but we have been paying full "asked price" for all prescriptions. The federal position is that government will not pay retail price. So the conflict is apparent and irreconcilable.

However, it is the consensus of this committee that the most favorable terms possible have been developed for the pharmacy program. Particular concern for the smaller pharmacies is alleviated as the formula that arose from the survey data increases payments as size and volume decrease.

The pharmacist members of the committee however, are of the opinion that federal regulators are too restrictive, and that state court action against the federal government would result in a more favorable program.

Also, three states are challenging the federal policies in this area in court. It is the recommendation of this committee that all decisions of this nature be monitored and that state policy be modified, if possible, in the future to more closely reflect the preferred options of variable fees and payment of list catalog price (average wholesale price or "AWP").

Cost/Benefit Analysis:

The total one-time cost for the contracts to design, develop and implement the Medicaid pharmacy program was \$164,500. Savings through receipt of federal matching funds for the fiscal year ending June 30, 1989 is projected at \$1,000,000 with \$2,500,000 projected to be saved each year thereafter before inflation.

Development Process:

The Committee as a whole has operated in an open, inclusive way with the full participation and cooperation of all parties. Further, it was agreed that all representatives were conscientious in pursuing favorable program terms.

ALASKA LEGAL SERVICES CORPORATION

419 SIXTH STREET, SUITE 322

JUNEAU, ALASKA 99801

TELEPHONE (907) 586-6425

January 23, 1989

State of Alaska
House HESS Committee

Re: H.B. 70

Dear Committee members:

This letter is about H.B. 70, which will be the subject of a Committee hearing on Wednesday, January 25, 1989. Kim Busch of the Division of Medical Assistance has asked me to convey my views on this bill to the Committee. Unfortunately, I will be out of town and unable to attend the hearing. Please accept this letter as my formal testimony.

I am an attorney for Alaska Legal Services Corporation in its Juneau office. A large part of my practice consists of public benefits work, including medicaid and general relief medical ("GRM") cases. I am also a consumer advocate representative on the Medical Care Advisory Committee and a consumer advocate member of the Pharmacy Program Steering Committee.

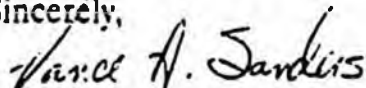
The Pharmacy Program Steering Committee was initiated by the Division of Medical Assistance to provide a forum for interested persons to propose or comment on proposals for implementing Alaska's Medicaid Pharmacy program. As you know, last year the legislature passed a law that moved funding for Alaska's pharmacy program from the G.R.M. (100% state dollars) to the medicaid program (equal state and federal funding). The Steering Committee's task was to bring together the expertise of pharmacists, policy makers, and consumers to formulate the best possible medicaid pharmacy program for Alaska's future pharmacy needs.

I believe the Steering Committee has done just that. In so doing, we held regular meetings which were open to the public. We had a high level of participation, including affected members of urban and rural pharmacies. Throughout this process, the Division of Medical Assistance sought and received valuable input. Once a decision was made on the workings of the program, the Department defended it with the federal bureaucracy.

As the consumer representative on the committee, I implore you to think long and hard before allowing the law authorizing the medicaid pharmacy program to sunset. In FY 90 alone, the state will realize a savings of 2.5 million dollars because of this program. Please do not retrench from a well-conceived and fiscally sound program.

On behalf of all indigent recipients of medical care in Alaska, I thank you for your time and effort on this important issue.

Sincerely,



Vance A. Sanders
Attorney at Law

09 Aug 83

Fiscal Year 1980												Fiscal Year 1987											
State	Dispensing Fee		Ingredient Reimbursement		Formulary Status	State MAC	State MAC'd drugs	Vendor Drug Payments	Avg Ingrad-ent Cost Per Class	Average Prescription Price	Number of Prescriptions Processed												
	Payment	Co-payment	Rate	Formulary																			
Alabama	\$3.75	.50-3.00	MAC-9.2%	Yes	C	Yes	12	\$31,081,371	\$8.80	\$12.05	3,710,767												
Alaska	7.90		AWP-5%	No	B	No	0	N/A	No History	21.00	130,000												
Arizona	--- AHCCCS Capitation Plan ---																						
Arkansas	\$4.01		AMP	Yes	C	Yes	25	\$41,719,545	\$12.97	\$16.32	2,877,274												
California	\$4.05	\$1.00 (1)	EAC	Yes	C	Yes	155	\$369,810,319	\$10.38	\$14.43	27,805,245												
Colorado	\$3.70	\$1.00	EAC (9)	Yes	C	Yes	200	\$22,444,056	\$15.30	\$18.50													
Connecticut	\$1.55 (2)		AMP/EAC	Yes	C	No		\$37,603,536	\$11.87	\$14.53	2,696,141												
Delaware	\$3.65		AAC	No	B	No		\$4,486,073	\$10.66	\$14.31	197,241												
Dist of Columbia	\$4.25	\$0.50	AMP (8)	No	B	Yes	(11)	\$11,128,067		\$14.73	756,647												
Florida	\$4.23		MAC-7%	No	B	No		\$116,229,853															
Georgia	\$4.26		AMP	Yes	C	Yes	85	\$111,007,153		\$16.59	7,512,592												
Hawaii	\$3.22		AMP/EAC	Yes	C	No		\$9,863,075			555,144												
Idaho	2.50-3.50		AMP/EAC	No	B	No		\$2,920,358	\$9.13	\$12.63	191,791												
Illinois	\$3.47		AMP-7.5%	Yes	C	Yes	(4)	\$137,797,193															
Indiana	\$3.00		AMP-3%	No	B	No		\$75,389,618	\$15.41	\$18.41	4,252,774												
Iowa	\$1.70 (2)	\$1.00	AMP (8)	No	B	Yes	35	\$33,777,984	\$10.15	\$13.57	2,508,720												
Kansas	2.46-4.67	\$1.00	AMP/EAC	Yes	C	Yes	(4)	\$20,223,958	\$9.67	\$13.46	1,647,180												
Kentucky	\$3.25		EAC (8)	Yes	C	Yes	229	\$36,446,526	\$6.58	\$9.83	4,084,774												
Louisiana	\$3.51		EAC	No	B	Yes	733	\$86,566,603	\$10.66		6,109,545												
Maine	\$3.55	\$0.50	EAC (8)	No	B	Yes	32	\$21,086,107	\$11.91	\$15.26	1,316,180												
Maryland	\$3.70	\$0.50 (1)	EAC	No	B	Yes	153	\$45,330,006		\$16.13	3,250,190												
Massachusetts	\$1.72		AMP/EAC	No	A	Yes	(4)	\$89,829,373															
Michigan	\$1.45	\$0.50	AAC (8)	Yes	C	Yes	(4)	\$129,397,205	\$9.43	\$12.57	10,294,129												
Minnesota	\$4.00		AMP-10%	Yes	C	Yes	120	\$47,430,302															
Mississippi	\$3.33	\$1.00	EAC	Yes	C	Yes	(4)	\$47,005,541	\$11.79	\$15.12	3,074,851												
Missouri	\$1.00	.50-2.00	AMP/EAC	Yes	C	Yes	(4)	\$46,775,000		\$11.30													
Montana	2.00-4.75	\$1.00	EAC (8)	No	A	No		\$7,837,330															
Nebraska	4.30-5.12(2)		EAC(6,8)	No	B	Yes	395	\$18,284,744	\$10.20	\$13.20	1,267,284												
Nevada	\$3.95		AMP-10%	No	B	No		\$4,751,057		\$10.94	252,306												
New Hampshire	2.85-3.00	.50-1.00	EAC/AMP	No	B	No		\$7,296,685	\$9.42	\$12.32	592,417												
New Jersey	3.63-3.97		EAC (8)	No	B	Yes	132	\$104,568,805	\$11.15	\$14.86	8,204,261												
New Mexico	\$3.65		AMP/EAC	No	B	Yes	(4)	\$14,689,445	\$13.04	\$15.51	958,409												
New York	\$2.60		EAC	Yes	C	No		\$385,312,110	\$10.82	\$13.42													
North Carolina	\$3.85 (10)	\$0.50	AMP/EAC	No	A	No		\$65,511,242	\$13.30	\$16.87	3,004,020												
North Dakota	\$3.75		AMP/EAC	No	B	No		\$7,516,587	\$10.78	\$14.53	530,620												
Ohio	\$3.12		FAC/AMP	Yes	C	Yes	317	\$150,570,202	\$9.45	\$12.57	12,709,041												
Oklahoma	\$3.55 Max		AMP	Yes	C	Yes	(4)	\$31,075,000	\$14.68	\$18.09	1,117,660												
Oregon	3.45-3.75		EAC/AMP	No	A	Yes	300	\$21,140,425	\$10.64	\$14.07	1,025,312												
Pennsylvania	\$2.75	\$0.50	EAC/AMP	No	B	Yes	126	\$143,387,994	\$11.30	\$14.05	12,120,401												
Rhode Island	\$3.40		EAC/AMP	No	B	Yes	28	\$14,426,849		\$13.97	1,055,045												
South Carolina	\$3.30	\$1.00	EAC (8)	No	B	Yes	7	\$32,385,353	\$12.98	\$16.28	1,489,276												
South Dakota	\$4.25	\$1.00	FAC (8)	No	B	Yes	40	\$5,767,588	\$10.78	\$15.03	356,000												
Tennessee	\$4.21		AMP-7%	Yes	C	Yes	150	\$80,961,451	\$9.71	\$13.19	6,104,171												
Texas	(5)		FAC(6,8)	No	B	Yes	145	\$123,297,069	\$11.69	\$15.87	7,697,796												
Utah	\$3.40		FAC (8)	No	B	Yes	46	\$9,933,605		\$12.39	815,122												
Vermont	\$2.75	\$1.00	AMP/EAC	No	B	Yes	352	\$8,082,238		\$14.45	559,324												
Virginia	\$3.40	.50-1.00	EAC	No	B	Yes	82	\$55,496,164	\$10.73	\$13.13	4,225,285												
Washington	3.05-3.85		8% AMP	Yes	C	Yes	282	\$43,891,112	\$9.15	\$12.55	4,328,811												
West Virginia	\$2.75	.50-1.00	AMP	Yes	C	No		\$19,739,981	\$11.91	\$12.66	831,149												
Wisconsin	\$3.70	\$0.50	AMP/EAC	No	B	Yes	291	\$66,232,967	\$8.40	\$12.19	2,842,810												
Wyoming	No Vendor Drug Program																						
	average								\$11.07	\$14.19	• Approx number												

MARCH 15, 1989

FROM: RON SEDGWICK, Reg.Pharm.
Legislative Chairman & Member Board of Directors
Alaska Pharmaceutical Association
Member Pharmacy Medicaid Steering Committee

Phone: office 789-9628 or 789-0458
home 789-9522

ALASKA'S PHARMACY MEDICAID PROGRAM

THE SERIOUS CURRENT PROBLEM

AND

A PROPOSED SOLUTION

The Problem

The Pharmacy Medicaid Program implemented by emergency regulation on February 1, 1989 along with further restrictions that are soon to be implemented appear to be too restrictive to continue to attract sufficient pharmacy providers to allow Medicaid recipients reasonable access to pharmacy services. Some Medicaid recipients no longer have access within their community to pharmacy services. Because current pharmacy nursing home providers find the existing program incompatible with their operating goals and procedures, the majority of nursing home patients in Anchorage, and perhaps soon Fairbanks, will no longer have pharmacy services if new providers cannot be found.

Title XIX of the Social Security Act dictates that Medicaid recipients are to have "free choice of qualified providers of health services." (S.Rep. no. 744, 90th Cong., 1st Sess. 5 (1967). Congress' intent was to remove from recipients both the stigma and lack of access to equivalent care as is available to the general public. The services are to be "through established private sector providers" of health care. In order to meet this fundamental statutory goal, reimbursement systems under Medicaid are to be designed "in order to encourage [providers] full cooperation and participation in the provision of services." (S.Rep.No. 404, 89th Cong., 1st Sess. 76 (1965). Congress recognized that in order to achieve its goal of providing equivalent access to and quality of medical care through the private sector, Medicaid reimbursement would, of necessity, have to provide adequate compensation to providers for both costs and profit.

Alaska's pharmacy Medicaid program currently meets neither the above criteria nor the criteria of the letter of intent passed last session by Alaska's legislature in authorizing the development and implementation of a pharmacy Medicaid program. (see attached "Letter of Intent")

Alaska's pharmacists are willing to fully participate in a well structured and equitable Medicaid system. But the existing system does not meet these goals because of its inequitable and unattractive reimbursement methodology.

The Solution

The reimbursement methodology put forth in the Myers and Stauffer "Report On the Cost of Dispensing Pharmaceutical Prescriptions in the State of Alaska" dated December 1988 and know as the "Estimated Acquisition Cost Formula-Based Fee" or the "fourth option" (see attached extract from the Myers and Stauffer report) if implemented would meet most of the criteria deemed necessary by Alaska's pharmacists.

This option was the only methodology found acceptable by the pharmacist members of the steering committee appointed by Commissioner Munson of Health and Social Services and was selected by the full committee as the methodology of choice.

When informally presented to federal Health Care Financing (HCFA) officials by representatives of Alaska's Department of Health and Social Services in an oral presentation the methodology was rejected as unsuitable, again in only an oral reply. An "on the record" written rejection of this preferred methodology apparently does not exist. Alaska Division of Medical Assistance officials, at least to date, have been unable to supply us with copies of any written record from federal HCFA officials that confirms or supports this rejection despite our requests for such information.

Could it be that HCFA officials were only trying to bluff Alaska DMA officials into moving away from a methodology perfectly acceptable under the "Final Rule" payments for drugs regulations? (Federal Register/Vol. 52, No.147 /7-31-87).

To us, this appears to be the case because another state is currently receiving federal matching funds for a program that utilizes the same elements and principles included in the Alaska preferred methodology that was unofficially rejected. (see attached memo: Texas Pharmacy Medicaid Program as Model for Alaska)

It is extremely probable that all Alaskan pharmacies would willingly participate in the medicaid program and the deteriorating provider network would be repaired if this preferred methodology were to be implemented.

Alaska's pharmacists respectfully request the assistance of the Alaska Legislature in requiring DMA officials to call HCFA's bluff and implement this preferred option.

Federal matching funds would still be captured and the pharmacy provider network would be restored to necessary levels.

MARCH 13, 1989

FROM: RON SEDGWICK, Reg.Pharm.
Legislative Chairman & member Board of Directors
Alaska Pharmaceutical Association

Phone: office 789-9628 or 789-0458
home 789-9522

Subject: Texas Pharmacy Medicaid Program as Model for Alaska

1. Texas Medicaid program has a pharmacy reimbursement system that utilizes a methodology where the total reimbursement is linked to to cost of ingredients.

Texas formula	Estimated Acquisition Cost (EAC)	+	\$3.26
	(divided by)		.945

2. The only reimbursement methodology recommended by the pharmacist members of the Alaska Medicaid "steering committee" and deemed acceptable by Alaskan pharmacists statewide is the "fourth option" of the Myers and Stauffer report. This is an implementation of a method utilizing a similar method to the Texas program.
"fourth option" = $EAC + (4.31 + (.21 \times EAC))$
3. Both the above methodologies provide an increasing fee that is added to the ingredient cost as the ingredient cost increases and therefore compensate the pharmacist more equitably for expensive drugs than other methods.

Facts about the Texas Model

One intent of the Texas method is to reimburse pharmacist providers with an increasing fee as the ingredient cost of the prescription increases. Reimbursement is directly tied to the cost of ingredients.

The Texas methodology has not been challenged by federal HCFA since the publication of the "Final Rule" in October of 1987. (challenges were made prior to 10/87 but any challenge for the period since that time became moot because the "Final Rule" removed any basis for challenge.)

Texas pharmacy Medicaid administrators support this methodology as being a fair and reasonable means of reimbursement to their pharmacy providers.

Texas pharmacy Medicaid contact available for verification of facts:

Mr. Bob Nash
Texas pharmacy Medicaid program
(512) 450-3198



Official Business

Alaska State Legislature

SENATE

Committee on Finance

P.O. Box V
State Capitol
Juneau, Alaska 99811

LETTER OF INTENT ON SB 255

It is the intent of the Legislature that as regulations are developed to implement this legislation that the form of the current general relief medical pharmacy program be duplicated to the extent consistent with federal guidelines. The goal of the Department of Health and Social Services shall be to seek a reimbursement system consistent with the usual, customary and reasonable fees charged by pharmacies to the Alaskan general public. The regulations should avoid harsh economic impact on the pharmacy provider community to insure the participation of the largest number of pharmacy providers across the state to allow the maximum access to pharmacy services by the medicaid recipient community. Legislative Audit shall perform a review of the program and report to the Legislature by February 1, 1989.

MARCH 13, 1989

FROM: RON SEDGWICK, Reg. Pharm.
Legislative Chairman & member Board of Directors
Alaska Pharmaceutical Association

Phone: office 789-9628 or 789-0458
home 789-9522

The following information is a photocopy extract from the
Myers and Stauffer pharmacy cost survey for Alaska completed
in December 1988.

It represents the only payment methodology alternative
acceptable to Alaska's pharmacists.

Report
On the Cost of Dispensing
Pharmaceutical Prescriptions
In the State of Alaska

Pg 7

Prepared for the

Division of Medical Assistance
Department of Health and Social Services
State of Alaska
4433 Business Park Boulevard, Building "M"
Anchorage, Alaska 99503

Prepared by

Myers and Stauffer, Chartered
Certified Public Accountants
909 Topeka Avenue
Topeka, Kansas 66612

In Consultation with

Gene Hotchkiss, RPh
Carol Morgan, RPh

December 1988

ESTIMATED ACQUISITION COST FORMULA-BASED FEE

The fourth dispensing fee option, which may be particularly appropriate for providers in the State of Alaska, essentially would reimburse providers at a rate consistent with the pattern

of their current charges. Data has been gathered on 56 pharmacies responding to the Usual and Customary Survey, resulting in a sample of approximately 930 prescriptions. Exhibit 4 is a bivariate plot with selling price on the vertical axis and average wholesale price on the horizontal axis. The formula for the line drawn in the exhibit is $\$4.31 + 1.21$ (drug acquisition cost or AWP) for any given prescription dispensed. The R^2 is .932, which denotes a highly accurate prediction of selling price using the above-mentioned formula.

Consider Exhibit 4. The fee that would be paid according to the formula is $\$4.31 + .21$ (EAC). This includes an allowance for profit, but does not include an adjustment for inflation.

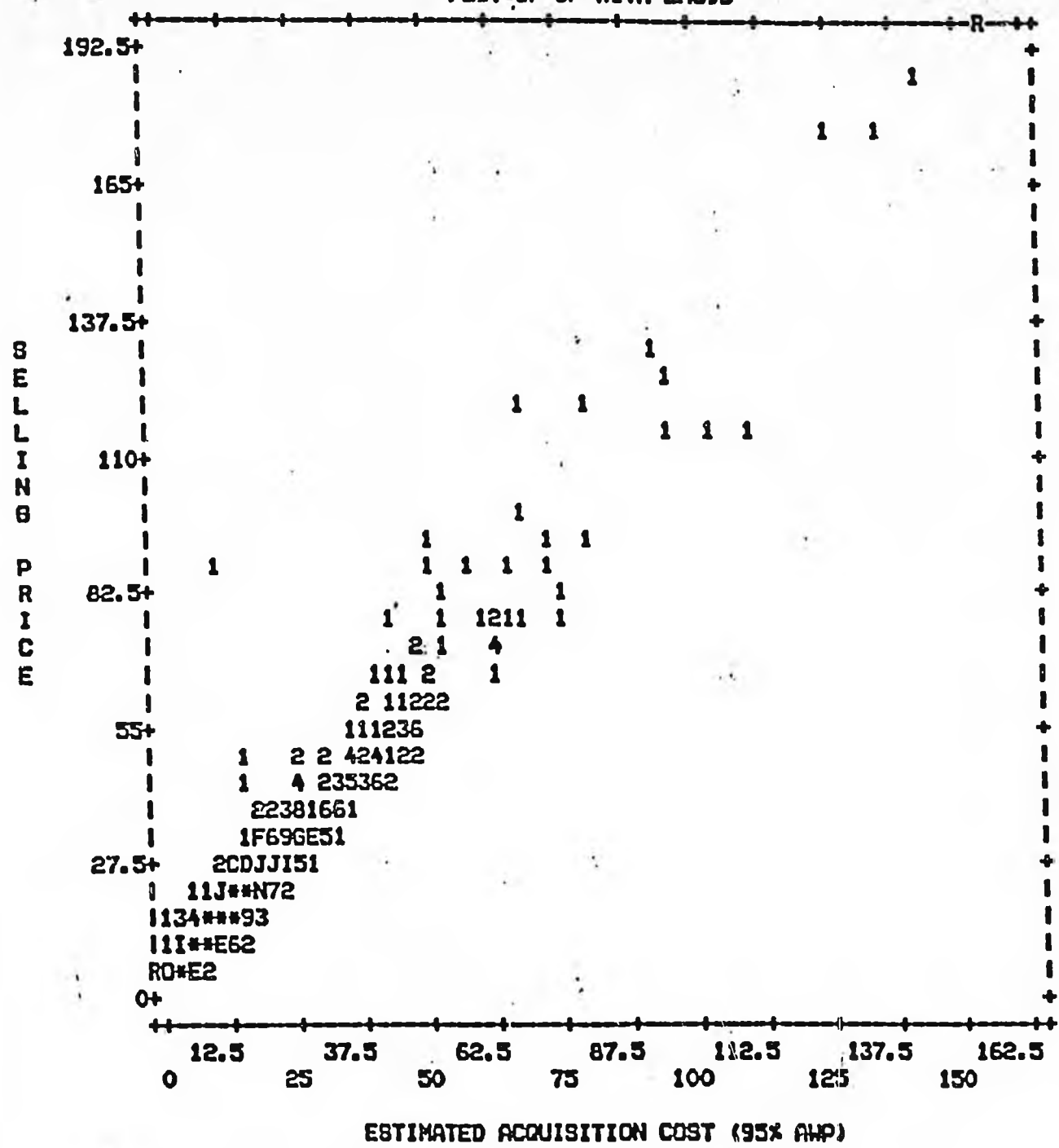
Exhibit 5 is a variation of the approach used in the fourth alternative. This exhibit expresses the results of a multiple regression model wherein additional data is taken into consideration. The additional data shows that a prescription being dispensed by an independent pharmacy and being dispensed from a rural location has a significant impact upon the predicted selling price of the prescription. An expanded formula for determining a fee based upon these considerations is:

$$\begin{aligned} &\$2.262 + 0.214 \text{ (EAC)} + 2.614 \text{ (if located in rural area)} \\ &\quad + 1.977 \text{ (if independent organization)} \end{aligned}$$

EXHIBIT 4

ALASKA PHARMACIES

PLOT OF SP WITH EAC95



936 cases plotted. Regression statistics of SP on EAC95:
 Correlation .96560 R Squared .93239 S.E. of Est. 3.24363 2-tailed Sig. .0000
 Intercept(S.E.) 4.30817(.24180) Slope(S.E.) 1.20870(.01065)

Variable	Mean	Std Dev	Minimum	Maximum	N
SP	23.66	20.16	3.20	188.50	936
EAC95	16.01	16.10	.01	143.26	936

EXHIBIT 5

ALASKA PHARMACIES

Regression Summary
Dependent Variable: Selling Price

<u>Step Number</u>	<u>Independent Variable Entered</u>	<u>Code</u>	<u>Coefficient</u>	<u>F to Enter</u>
0	Y-INTERCEPT		2.262	
1	95% AWP		1.214	12,880.403
2	RURAL		2.614	34.163
3	INDEPENDENT		1.977	23.347

Prepared without audit by Myers and Stauffer, Chartered, Certified Public Accountants, Topeka, Kansas.

Source: Regression Analysis. Schedule F, dated December 12, 1988.

FROM: RON SEDGWICK, REG. PHARMACIST
789-0458 JUNEAU

SEVERAL UNTRUE PERCEPTIONS HAVE COME UP REGARDING THE PHARMACY MEDICAID PROGRAM THAT UNTIL VERY RECENTLY HAS BEEN OPERATING SO SUCCESSFULLY. (SINCE THE EARLY 1970'S)

ALLEGATION: PHARMACIES HAVE BEEN ABLE TO CHARGE ANY PRICE THEY WISHED FOR THEIR SERVICES TO THE MEDICAL ASSISTANCE PROGRAM AND HAVE BEEN "OVER CHARGING" THE MEDICAID PROGRAM.

RESPONSE: IN ORDER TO BECOME A PHARMACY PROVIDER UNDER THE STATE MEDICAL ASSISTANCE PROGRAM, PHARMACIES SIGNED A CONTRACT WITH THE DEPARTMENT OF HEALTH AND SOCIAL SERVICES. THIS CONTRACT OR "PROVIDER AGREEMENT" STATES THAT THE PHARMACY WOULD CHARGE THE SAME PRICE FOR A PRESCRIPTION TO THE STATE PROGRAM AS WAS CHARGED TO THE GENERAL PUBLIC. CHARGING MORE THAN THIS WOULD BE A BREACH OF CONTRACT AND A FRAUDULENT BILLING. THE DEPARTMENT ALSO HAS THE RIGHT UNDER THE AGREEMENT TO INSPECT A PHARMACY'S RECORDS AT ANY TIME TO INSURE COMPLIANCE. IF THE DEPARTMENT HAS ANY EVIDENCE OF "OVER CHARGING" THEY CERTAINLY HAVE BEEN NEGLIGENT IN THEIR DUTIES TO DOCUMENT AND DEAL WITH SUCH PROBLEMS. DURING THE FIRST 3 TO 5 YEARS OF THE PROGRAM, EVERY CLAIM SUBMITTED TO THE PROGRAM WAS AUDITED BY A PHARMACIST UNDER CONTRACT TO THE DEPARTMENT. THE AUDITING WAS FINALLY DISCONTINUED BY THE DEPARTMENT AS BEING UNNECESSARY BECAUSE NO PROBLEM BILLINGS WERE BEING TURNED UP.

ALLEGATION: ALASKA HAS BEEN PAYING TOO MUCH FOR MEDICAL ASSISTANCE PRESCRIPTIONS, MAKING NEW CONTROLS NECESSARY.

RESPONSE: DURING FY88, \$3,710,670.00 WAS PAID FOR PRESCRIPTION SERVICES. THERE WERE 31,000 RECIPIENTS DURING THIS TIME. THE PER YEAR EXPENDITURE PER RECIPIENT WAS:

$3,710,670.00 / 31,000 = \119 PER RECIPIENT.

THE NATIONAL AVERAGE (EXTRAPOLATED FROM 1986 DATA) WAS \$213 PER RECIPIENT. (THE HIGHEST STATES RANGE BETWEEN \$250 AND \$300)

ALSO THE EXPENDITURES FOR PRESCRIPTIONS ACCOUNT FOR 3% TO 4% OF THE TOTAL ALASKA MEDICAID BUDGET. THIS COMPARES TO A NATIONAL AVERAGE OF 6.5% WITH SOME STATES RANGING AS HIGH AS 13% OF MEDICAID BUDGETS SPENT ON PHARMACEUTICALS.

WHEN WE CONSIDER THE FACT THAT ALASKAN PHARMACIES HAVE A COST OF DOING BUSINESS NEARLY DOUBLE THAT OF LOWER 48 PHARMACIES (THIS WAS DOCUMENTED BY THE MYERS AND STAUFFER PHARMACY COST SURVEY COMPLETED IN DECEMBER 1988) IT SHOULD BE OBVIOUS THAT THE MEDICAL ASSISTANCE PROGRAM HAS NOT ONLY NOT BEEN PAYING TOO MUCH FOR PHARMACEUTICALS, BUT HAS BEEN GETTING AN EXCEPTIONALLY GOOD DEAL, EVEN WHILE PAYING USUAL AND CUSTOMARY MARKET PLACE PRICES.

ALLEGATION: PHARMACISTS IN OTHER STATES ARE HAPPY WITH THEIR MEDICAID PROGRAMS, THEREFORE ALASKA'S PHARMACIES SHOULD BE HAPPY TOO.

RESPONSE: PROBLEMS WITH MEDICAID AND OTHER THIRD PARTY PAYMENT PROGRAMS REMAIN AS THE NUMBER ONE ISSUE WITH PHARMACISTS NATIONWIDE. LITIGATION BETWEEN PHARMACIST GROUPS AND MEDICAID PROGRAM ADMINISTRATORS IS CURRENTLY IN PROGRESS IN AT LEAST HALF A DOZEN STATES. IN A RECENT (FALL 1988) SPECIAL LEGISLATIVE SESSION IN THE STATE OF OREGON, NEARLY 60% OF THE SESSION WAS DEVOTED TO PROBLEMS PHARMACISTS ARE HAVING WITH OREGON'S MEDICAID PROGRAM. THE MERE EXISTENCE OF MEDICAID PROGRAMS IN THE OTHER STATES BY NO MEANS INDICATES THAT PHARMACISTS FIND THE PROGRAMS FAIR AND EQUITABLE. THEY SIMPLY HAVE HAD THE PROGRAMS RAMMED DOWN THEIR THROATS.

RON'S APOTHECARY SHOPPE
P.O. BOX 32007
JUNEAU, ALASKA 99803
(907)789-0458

February 15, 1989

Mr. Eric Hansen
Division of Medical Assistance
Department of Health and Social Services
Pouch H-07
Juneau, Alaska 99810

Dear Mr. Hansen:

We would like to take this opportunity to put into writing some of the reasons why we have decided that we can no longer continue as a pharmacy provider under the new Medicaid Pharmacy program implemented February 1, 1989.

We have always felt that participation in the pharmacy program was marginal even when the reimbursement rates were equivalent to our usual and customary fees. The costs and time involved in participation has always been much greater in providing Medicaid recipient prescriptions as compared to providing service to private paying customers. Even with program restrictions relating to product selection at a minimum under the old program, the hassles of filling out forms, assuring eligibility, waiting for payment, filling out more documents when claims were rejected (most rejections have been errors on the part of the fiscal intermediary) etc. have greatly increased handling costs for these prescriptions. If your present fiscal intermediary, TVCC of Anchorage, was unable to successfully process claims without problems under the old Medicaid program, we predict a complete disaster under the new Medicaid program with its added layers of requirements of multisource drugs, "non-effective" drugs, pricing of compounded drugs etc. If some providers are currently holding numbers of unpaid invoices under the old program, the outlook is even bleaker for the future.

Now, under the new program, in order to participate the pharmacy provider must increase his time involved in handling the prescription to insure new program requirements are met, and must increase inventories in order to stock items meeting program acquisition cost ceilings on generic multiple source drugs. All this to receive less than adequate compensation for the services provided!

When you offer reimbursement that is not only far below our usual and customary charges but is also below our actual cost of doing business (this fact was documented in the report we received from the accounting firm Myers and Stauffer and compiled from the data used in your fee survey), we have no choice but to discontinue service unless we are willing to increase our charges to our non medicald customers to subsidize the medicald program. When we have asked our other customers if they are willing to pay these increased charges, they remind us that they feel they already are paying their share of taxes. Since we also feel we are doing our share in the tax arena, we refuse to absorb the losses as a hidden form of tax. This leaves us only the alternative of discontinuing service.

We noted that we currently stocked only approximately 30% of the list of multiple source drugs that meet the price ceilings imposed by the medicald program. We are unwilling to invest in further inventory just to fill medicald prescriptions and are unwilling to absorb losses if dispensing from our regular stock items.

We are also unwilling to search through the list of 5000 plus items that the medicald program will not reimburse for each time we fill a medicald prescription even though many of these items are widely prescribed and utilized. We don't wish to take the risk of inadvertently dispensing such a prescription only to be forced to later take the entire loss because we missed seeing its NDC number on the huge listing provided to us by the department.

We are particularly upset by the new policy of not recognizing AWP (average wholesale price) as the cost basis for single source drugs. The trade discounts that you intend to confiscate in your AWP-minus policy are "earned discounts" and belong not to the department, but to the provider who earns them through prudent buying. Discounts are "return on investment", monies earned by investing in quantities of inventory. They are based on total volumes of merchandise purchased, not just the merchandise being used to fill medicald prescriptions. If only the volume necessary to fill medicald prescriptions was considered, the trade discounts would be greatly reduced, or non existent. The department will be confiscating earned discounts that rightfully belong to the pharmacy based on their total operation. It is simply unfair and unjust to subtract up to 11% from AWP as is being done in Washington state.

Another area of unreasonableness in the medicaid program is the losses you expect the provider to absorb due to the "lower of" clause of your reimbursement formula. In the real world of prescription prices, the amount of gross profit varies in a prescription price based on the cost of ingredients. Either a percentage markup, variable fee or a combination of both is used to compute the price. In a true fixed fee system the same fee is added to the cost of ingredients regardless of the level of this cost. When the ingredient cost is small the fee contributes to a larger gross margin. When the ingredient cost is large, then gross margin is reduced. The average of all prescriptions should provide a reasonable margin. But, in the medicaid system, since most pharmacies do not employ a fixed fee system, usual and customary charges will in many instances be less than the medicaid fee plus ingredient cost, and under the medicaid rules, this lower usual and customary fee will be the amount paid by the department, thus removing the margin needed to make up for the much lower than usual and customary fees paid by the medicaid system on high cost items. In other words, the pharmacist loses at both ends of the spectrum. In our case according to the computer analysis we have done on actual medicaid prescription data, this loss due to the "lower of clause" amounts to as much as an additional 5%. (Note that the 73 cents "profit" you are allowing in your reimbursement formulas per prescription amounts to only 3% on the average prescription!) The only way to eliminate this loss is to raise the minimum price of prescriptions to regular customers so that the "lower of" clause doesn't "kick in". The problem of doing this is that not only is it unfair to regular customers, but it also pushes prices higher than the market place will permit. Another no win situation for the pharmacist!

We note that a much more acceptable reimbursement scheme was proposed in the Myers and Stauffer "Report on the Cost of Dispensing Pharmaceutical Prescriptions in the State of Alaska" that utilized a combination of a percentage markup plus a fee. This proposal was the only reimbursement methodology that was deemed acceptable by the pharmacist members of the Pharmacy Program Steering Committee. Since there is nothing in the federal medicaid regulations that spells out that such a reimbursement method is prohibited and since the method is completely backed up by the survey which your department commissioned and was accomplished by a nationally recognized expert in the field, why did your department not implement such a methodology and then use the evidence at hand to back up your selected method, rather than back down at the first sign of federal reluctance to the implementation of a new type of system?

It is obvious to us that federal officials base their opinions on the old medicaid regulations, and not on the "final rule" regulations that were published in the fall of 1987. The "final rule" regulations as we read them and as they were interpreted for us by an attorney for the National Association of Retail Druggists, leave the reimbursement policy up to the State as long as it is backed up by evidence such as your fee survey provides. Letting federal officials walk all over you as you did without putting up a fight is certainly not in the best interests of a successful Alaska Medicaid Program.

Although it was a difficult decision for us to make to withdraw from the Medicaid program, we feel we made the right choice because of the reasons outlined above. We note that other pharmacists around the state are moving in a similar direction, and therefore realize that we are not the only providers thoroughly disappointed with the new Medicaid program.

We hope that the Alaska Legislature will see that your department failed in adhering to the intent of the pharmacy Medicaid implementation legislation passed last session and will work towards a solution that will allow all pharmacies to again be Medicaid providers.

Sincerely,

Ronald K Sedgwick RPh
Ronald K. Sedgwick R.Ph.

Sue K Sedgwick RPh
Sue K. Sedgwick R.PH



Alaska State Legislature

SENATE

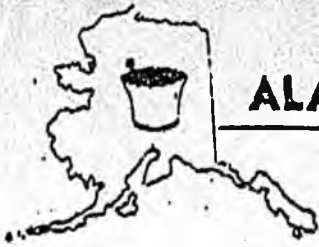
Committee on Finance

Official Business

P.O. Box V
State Capitol
Juneau, Alaska 99811

LETTER OF INTENT ON SB 255

It is the intent of the Legislature that as regulations are developed to implement this legislation that the form of the current general relief medical pharmacy program be duplicated to the extent consistent with federal guidelines. The goal of the Department of Health and Social Services shall be to seek a reimbursement system consistent with the usual, customary and reasonable fees charged by pharmacies to the Alaskan general public. The regulations should avoid harsh economic impact on the pharmacy provider community to insure the participation of the largest number of pharmacy providers across the state to allow the maximum access to pharmacy services by the medicaid recipient community. Legislative Audit shall perform a review of the program and report to the Legislature by February 1, 1989.



ALASKA PHARMACEUTICAL ASSOCIATION

Box 10-1185 Anchorage, Alaska 99510

RESOLUTION OF THE ALASKA PHARMACEUTICAL ASSOCIATION

WHEREAS: The intent of the Alaska State Legislature, in enacting SB 255 during the 1988 Legislative Session, was to direct the Department of Health and Social Services to seek a reimbursement system consistent with the usual, customary and reasonable fees charged by pharmacies to the Alaskan General Public;

WHEREAS: The Medicaid Program developed was to avoid harsh economic impact upon the Pharmacy Provider Community while maintaining current levels of service to the Medicaid Recipient Community;

WHEREAS: The Alaska Pharmaceutical Association worked in close cooperation with the Division of Medical Assistance in developing proposed programs;

WHEREAS: The current methodology adopted by Emergency Regulation effective February 1, 1989 is hastily conceived and incomplete in some cases;

THEREFORE BE IT RESOLVED by the Alaska Pharmaceutical Association at its Annual Meeting February 12, 1989 THAT:

The Alaska Pharmaceutical Association cannot support some aspects of the currently proposed State Plan and urges the Alaska State Legislature to direct the Department of Health and Social Services to more closely adhere to the intent of SB 255, which will assure participation of the largest number of Pharmacy Providers across the State and allow maximum access to Pharmacy Services by the Medicaid Recipient Community.

The Alaska Pharmaceutical Association further urges the Alaska Legislature to continue oversight of the Medicaid Program by retaining a "SUNSET" provision as a permanent part of Alaska Statute, consistent with present historical administrative practice.

ALASKA PHARMACEUTICAL ASSOCIATION**Legislative Fact Sheet**

March 1989

- I. The Association supports the extension of the sunset provision of SB 255 an additional year for the following reasons:
- A. In order to fulfill the requirements of SB 255 as defined by the Senate Committee on Finance letter of intent. (see attached)
 - B. In order to ensure a legislative review of the final program which is yet to be determined, and furthermore, has yet to be approved by federal HCFA officials.
 - C. In order for the Department to adequately address the following reimbursement issues:
 1. "High-tech" pharmacy services such as I.V. products and supplies.
 2. Compounded drug products which do not have NDC codes associated with ingredients.
 3. Very expensive drugs.
 4. Nursing home pharmacy services.
 5. Hold harmless agreement for the use of generic drugs.
- II. The Association endorses the reimbursement formula as developed by the consulting firm of Myers and Stauffer. This state commissioned reimbursement formula received unanimous support from the Steering Committee for the following reasons:
- A. It most closely reflects the intent of SB 255. (see attached)
 - B. The reimbursement formula meets the requirements of HCFA "Final Rule" regulations of October 1987.
 - C. It allows for the most equitable distribution of dispensing fees. The current system, as imposed by emergency regulations, creates disparities whereby an Anchorage chain drug store may receive a much higher dispensing fee than many of our "bush" community pharmacies.
 - D. It guarantees the lowest cost to the state on high volume items which are competitively priced, and yet, adequately reimburses the pharmacist for very expensive drug products.
 - E. It would ensure the greatest participation of pharmacy providers in all areas of the state by not penalizing those providers in more expensive outlying locations.
- III. The Association supports the canvassing of smaller independent pharmacies and pharmacies in outlying locations for the "Estimated Acquisition Cost" survey. The current survey excluded Seward, Sitka, Valdez, Nome, Bethel, Petersburg, Wrangell, Cordova, Anchor Point, Delta Junction, Homer, and Seldovia, which are locations having justifiably higher costs associated with freight.
- IV. The State of Alaska has historically allocated 3.4% of the total Medicaid expenditures to prescription medication. This compares to a national average of 6.6%. At usual and customary fee structures, the pharmacy community has consistently provided the State of Alaska with a lower Medicaid pharmacy cost than 46 other states.

MEDICAL CARE ADVISORY COMMITTEE
DEPARTMENT OF HEALTH AND SOCIAL SERVICES

Resolution Passed by Medical Care Advisory Committee (MCAC)
March 4, 1989

The MCAC represents all Medicaid providers and recipients in Alaska. In its role under federal law of advising the state about its Medicaid policies, the MCAC concerns itself with all services - mandatory and optional - provided to the Medicaid recipients. The MCAC is loathe to see the Medicaid pharmacy issue decided for the benefit of a single special interest provider group to the detriment of Alaska's indigent people and all other groups of Medicaid providers.

It is the conclusion of the MCAC that the previous method of paying for prescription drugs - which utilize 100% state dollars - did not and will not serve the best interests of Alaska's Medicaid and GRM recipients or providers.

In 1988 the Alaska legislature provided that prescription drugs would be added to Alaska's Medicaid program as an optional service. By so doing, the legislature allowed the state to capture 50% of the cost of paying for these drugs from the federal government. As a result, the state's medical assistance budget will be reduced by approximately \$2.6 mill in FY90 alone. However, the 1988 Legislature provides for a sunset of that law on June 30, 1989.

HB 70, which is currently being considered by the legislature, would make this optional service a permanent part of Alaska's Medicaid program. The federal match for prescription drugs would continue. The MCAC strongly

supports HB 70 because of its cost surveys and avoidance of further cuts in GRM and Medicaid funded services to all indigent Alaskans and providers. Due to drastic cuts in the GRM budget during the past 3 years, the services provided to very low income Alaskans have been greatly reduced. Meanwhile, the state has continued to pay for prescription drugs using 100% of state dollars. The portion of the GRM budget used to pay for those drugs has grown to a tremendous rate; that increase has meant concomitantly fewer dollars to help fund ever-increasing Medicaid and GRM health care costs. HB 70 will do so.

The MCAC supports this legislation even if its passage results in some pharmacies not participating in the Medicaid Pharmacy program. The state has the legislative authority to contract for those services or ensure access to prescription drugs through other means.

Given the current realities of health care costs, the state of Alaska simply must recoup all available federal funds for Medicaid services.

09-Aug-88

State	Fiscal Year 1987				Fiscal Year 1987				Number of Prescription Processed		
	Dispensing Fee Copayment	Ingredient Reimbursement Basis	Formulary Status	State HAC	State HAC'd drugs	Vendor Drug Payments	Avg Ingre-dient Cost Per Claim	Average Prescription Price*			
Alabama	\$3.75	.50-3.00	WAC+9.2% AWP-5%	Yes No	C B	Yes No	12 0	\$31,881,371 N/A	\$0.00 No history	\$12.05 21.00	3,710,767 180,000
*Alaska	--- ANCCCS Capitation Plan ---										
Arizona			AWP	Yes	C	Yes	25	\$41,719,545	\$12.97	\$16.32	2,877,274
Arkansas	\$4.01		EAC	Yes	C	Yes	155	\$369,810,319	\$10.38	\$14.43	27,605,245
California	\$4.05	\$1.00 (1)	EAC (9)	Yes	C	Yes	200	\$22,444,056	\$15.30	\$18.50	
Colorado	\$3.70	\$1.00	AWP/EAC	Yes	C	No		\$37,603,536	\$11.87	\$14.53	2,696,141
Connecticut	\$3.55 (2)		AAC	No	B	No		\$4,486,023	\$10.66	\$14.31	197,241
Delaware	\$3.65		AWP (8)	No	B	Yes	(11)	\$11,128,062		\$14.73	756,647
Dist of Columbia	\$4.25	\$0.50	AWP (8)	No	B	No		\$116,229,853			
Florida	\$4.23		WAC+7%	No	B	Yes	85	\$111,007,153		\$16.59	7,519,592
Georgia	\$4.26		AWP	Yes	C	No		\$9,863,075			555,144
Hawaii	\$3.22		AWP/EAC	Yes	C	No		\$2,920,358	\$9.13	\$12.63	391,791
Idaho	2.50-3.50		AWP/EAC	No	B	No	(4)	\$137,797,393			
Illinois	\$3.47		AWP-7.5%	Yes	C	Yes		\$75,389,638	\$15.41	\$18.41	4,252,774
Indiana	\$3.00		AWP-3%	No	B	No		\$75,389,638	\$15.41	\$18.41	2,508,728
Iowa	\$3.78 (2)	\$1.00	AWP (8)	No	B	Yes	35	\$33,777,984	\$10.15	\$13.57	1,647,180
Kansas	2.46-4.67	\$1.00	AWP/EAC	Yes	C	Yes	(4)	\$20,223,958	\$9.67	\$13.46	1,647,180
Kentucky	\$3.25		EAC (8)	Yes	C	Yes	229	\$36,446,526	\$6.58	\$9.83	4,084,774
Louisiana	\$3.51		EAC	No	B	Yes	733	\$86,566,603	\$10.66		6,109,545
Maine	\$3.55	\$0.50	EAC (8)	No	B	Yes	32	\$21,086,107	\$11.91	\$15.26	1,316,180
Maryland	\$3.70	\$0.50 (3)	EAC	No	B	Yes	153	\$45,330,006		\$16.13	3,250,190
Massachusetts	\$3.72		AWP/EAC	No	A	Yes	(4)	\$89,829,373			
Michigan	\$3.45	\$0.50	AAC (8)	Yes	C	Yes	(4)	\$129,397,205	\$9.43	\$12.57	10,294,129
Minnesota	\$4.00		AWP-10%	Yes	C	Yes	120	\$47,430,302			
Mississippi	\$3.33	\$1.00	EAC	Yes	C	Yes	(4)	\$46,775,000	\$11.79	\$15.12	3,074,857
Missouri	\$3.00	.50-2.00	AWP/EAC	Yes	C	Yes	(4)	\$46,775,000		\$11.30	
Montana	2.00-3.75	\$1.00	EAC (8)	No	A	No		\$7,837,330			1,267,284
Nebraska	4.30-5.12 (7)		EAC (6, 8)	No	B	Yes	395	\$18,284,744	\$10.20	\$13.20	1,267,284
Nevada	\$3.95		AWP-10%	No	B	No		\$4,751,057		\$18.94	272,306
New Hampshire	2.85-3.00	.50-1.00	EAC/AWP	No	B	No		\$7,296,685	\$9.42	\$12.32	592,417
New Jersey	3.63-3.97		EAC (8)	No	B	Yes	132	\$104,568,805	\$11.15	\$14.86	8,284,261
New Mexico	\$3.65		AWP/EAC	No	B	Yes	(4)	\$14,689,445	\$13.04	\$15.51	958,400
New York	\$2.60		EAC	Yes	C	No		\$385,312,110	\$10.82	\$13.42	
North Carolina	\$3.05 (10)	\$0.50	AWP/EAC	No	A	No		\$65,511,242	\$13.30	\$16.87	3,804,028
North Dakota	\$3.75		AWP/EAC	No	B	No		\$7,516,587	\$10.78	\$14.53	510,620
Ohio	\$3.12		EAC/AWP	Yes	C	Yes	317	\$150,570,202	\$9.45	\$12.57	12,709,041
Oklahoma	\$3.55 Max		AWP	Yes	C	Yes	(4)	\$31,075,000	\$14.68	\$18.09	1,717,668
Oregon	3.45-3.75		EAC/AWP	No	A	Yes	300	\$21,140,425	\$10.64	\$14.07	1,825,312
Pennsylvania	\$2.75	\$0.50	EAC/AWP	No	B	Yes	126	\$143,387,994	\$11.30	\$14.05	12,370,487
Rhode Island	\$3.40		EAC/AWP	No	B	Yes	28	\$14,426,849		\$13.97	1,055,045
South Carolina	\$3.30	\$1.00	EAC (8)	No	B	Yes	7	\$2,305,353	\$12.98	\$16.28	1,989,276
South Dakota	\$4.25	\$1.00	EAC (8)	No	B	Yes	40	\$5,767,588	\$10.78	\$15.03	356,000
Tennessee	\$4.21		AWP-7%	Yes	C	Yes	150	\$80,961,451	\$9.71	\$13.19	6,304,177
Texas	(5)		EAC (6, 8)	No	B	Yes	145	\$123,297,069	\$11.69	\$15.87	7,697,796
Utah	\$3.40		EAC (8)	No	B	Yes	46	\$9,933,605		\$12.39	815,122
Vermont	\$2.75	\$1.00	AWP/EAC	No	B	Yes	352	\$8,002,238		\$14.45	559,324
Virginia	\$3.40	.50-1.00	EAC	No	B	Yes	82	\$55,496,164	\$10.73	\$13.13	4,225,285
Washington	3.05-3.85		89% AWP	Yes	C	Yes	282	\$43,891,312	\$9.15	\$12.55	4,328,011
West Virginia	\$2.75	.50-1.00	AWP	Yes	C	No		\$19,739,981	\$11.91	\$12.66	813,149
Wisconsin	\$3.70	\$0.50	AWP/EAC	No	B	Yes	291	\$66,232,967	\$8.40	\$12.39	2,847,810
Wyoming	--- No Vendor Drug Program ---										
								average	\$11.02	\$14.39	* Approx number