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# United States Senate

CHARLES E. GRASSLEY

WASHINGTON, DC 20510-1501

December 7, 2005

Mr. Anthony J. Beraldi  
238 Harmony Street  
Council Bluffs, Iowa 51503

Dear Mr. Beraldi:

Thank you for taking the time to contact me. It is always good to hear from people back home.

I appreciate your interest in Medicaid prescription drug pricing reform. Prescription drug pricing is an issue that has been a health care policy concern during the past few years. Several reports from the Health and Human Services Office of the Inspector General and the Congressional Budget Office have shown that the Medicaid program significantly overpays for prescription drugs, at times up to 70%. Any changes to the program need to ensure that pharmacy payments are appropriate and are an accurate reflection of the true acquisition cost of the drug.

For states to pay pharmacists fairly, they need to know the actual price pharmacists pay for drugs. The current system which is based on the Average Wholesale Price (AWP), is not an accurate reflection of the true acquisition cost of the drug.

In October of 2005, the Senate Finance Committee, of which I chair, favorably reported legislation to be included in the Deficit Reduction Omnibus Reconciliation Act (DRORA) of 2005. Included is a provision to reform the way Medicaid pays for prescription drugs.

To more accurately reflect the true cost of these drugs, this legislation will replace the AWP system with one based on the Average Manufacturers Price (AMP). The AMP is an average of the actual acquisition cost prices for prescription drugs by retail pharmacists. Specifically, this legislation will reimburse pharmacists for brand name drugs at AMP plus 5%.

Generic drugs will be reimbursed using a system based on the

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WAMP, Weighted Average Manufacturers Price. The calculation of the cost of generic drugs is based on the average cost for all drugs in a class weighted by volume. This includes the cost of the higher priced brand name drug. By including all drugs, both generic and brand name, in the same calculation pharmacists will on average receive a higher Medicaid reimbursement for generics than what they actually pay based on the acquisition cost of the generic. The new reimbursement formula will also add a 15% markup on top of the WAMP.

In addition, this policy protects pharmacists by requiring states to provide a dispensing fee. This is an improvement since the Medicaid statute does not currently require states to adequately reimburse pharmacists for the cost of dispensing the drug. Under this provision, states are further required to take into account geographic factors in setting the dispensing fees. For example, states will provide rural independent pharmacists with additional assistance.

This legislation provides an improvement over the current system because it redefines AMP to ensure that the government pays the actual price available to pharmacists for drugs. It also ensures that pharmacists receive an additional reimbursement for dispensing drugs.

On November 3, 2005, DRORA was passed by the Senate. To enact any of the changes that might be assumed in the budget, separate spending and revenue bills must be passed by the full Congress. I hope that this process continues in a timely manner. The integrity of the Medicaid prescription drug pricing system is important to me. Please know I will keep the interests of all Iowans in mind as Congress continues with budget reconciliation.

Thanks again for contacting me. It is important for me to hear from you and I urge you to keep in touch.

Sincerely,

A handwritten signature in black ink that reads "Chuck". The signature is written in a cursive, slightly slanted style.

Charles E. Grassley  
United States Senator