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United States Senate

CHARLES E. GRASSLEY

WASHINGTON, DC 20510-1501

March 12, 2007

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

Dear Mr. Beraldi:

Thank you for taking the time to contact me with regard to the proposed Centers for Medicare and Medicaid Services (CMS) rule on Average Manufacturer Prices (AMPs) and Release of Data. As your Senator, it is important for me to hear from you.

The federal government, as well as the states, are finding it more difficult to fund their Medicaid programs. The National Governors Association has stated that Medicaid spending is the single biggest obstacle facing state budgets. In many states, Medicaid expenditures continue to exceed revenue growth.

On December 21, 2005, the Senate passed legislation that takes action to bring down the costs of this program, before the situation becomes worse. The Deficit Reduction Act (DRA) includes \$4.7 billion in Medicaid savings. This legislation will provide needed relief to states by directing resources where they are needed and improving access to health care for vulnerable populations.

One area of the Medicaid program that was in need of improvement is the prescription drug payment program. Medicaid has been significantly overpaying for prescription drugs, at times up to 70%. By ending pharmacy overpayments we will ensure that the Medicaid program is a more prudent purchaser of health care services. The included provisions ensure that pharmacy payments are appropriate and are a true representation of drug costs.

Average Manufacturer Prices (AMPs) will not accurately reflect prices available to retail pharmacies unless they are defined and calculated accurately and include only prices that are available to the "retail class of trade." In May of 2006, Dr. McClellan, then Director of CMS, announced that CMS would not publicly release the AMPs on July 1, 2006, as was previously scheduled, because pharmacists had raised concerns that the more specific definition of AMP would not be reflected in the current AMP data as reported by manufacturers.

On December 15, 2006, CMS announced proposed changes in the payment for certain prescription drugs in the Medicaid program. These changes

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implement provisions of the DRA. The DRA changes how the federal government limits payments to state Medicaid agencies for the aggregate costs of prescription drugs when a generic substitute is available. The DRA establishes a new federal upper limit (FUL) calculation that is based on 250% of the lowest AMP in a drug class. States will retain the authority to set their own reimbursement levels and dispensing fees paid to pharmacists, and may pay above or below the FUL as long as overall payments for drugs subject to a FUL are under the annual aggregate cap. As required by DRA, the proposed rule includes a proposed definition of AMP on which CMS requests public comment.

By equipping states with data on the average prices at which consumers are purchasing drugs, states will better be able to determine how to more wisely purchase drugs. By making these prices more accessible, pharmacists and wholesalers will also be able to get lower prices through greater competition. All in all, these are appropriate changes that will improve the prescription drug program for the states, the pharmacists, and the beneficiaries.

The proposed rule is the first step in the regulatory process. CMS will revise and publish a final regulation after consideration of public comment on the proposals. The DRA requires that the final regulation be put into law by July 1, 2007. This legislation will make the data on prescription prices publicly available and require that the states are given monthly updates.

Pharmacists are playing an important role in ensuring that millions of Medicare and Medicaid beneficiaries have access to needed prescription drugs. Please know I will continue to monitor CMS as they implement these programs to ensure that the best interests of all those involved are served.

Again, thank you for getting in touch.

Sincerely,



Charles E. Grassley
United States Senator