

# Congress of the United States

House of Representatives

Washington, DC 20515-1505

October 14, 2005

JUDICIARY

AGRICULTURE

SMALL BUSINESS

Mr. Anthony Beraldi  
701 16th Avenue  
Council Bluffs, Iowa 51501

Dear Mr. Beraldi,

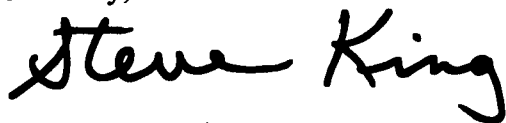
Thank you for contacting me regarding Medicaid reimbursement for prescription drugs.

As you may know, the Congressional Budget Resolution, H. Con. Res. 95 established five-year spending limits for Congress. This bill directs the House Energy and Commerce Committee to find \$10 billion in savings for Fiscal Years 2006-10. Different proposals have been made regarding how to find these savings, including possible changes to Medicaid. One idea recommended by the Bipartisan Commission on Medicaid Reform includes changes to the Prescription Drug Reimbursement Formula. Currently many states establish pharmaceutical prices based on the Average Wholesale Price (AWP) which is the published suggested wholesaler price to retailers of a drug compiled by third party.

Some are concerned that the current reimbursement system results in different prices being paid for the same product from state to state and probable overpayments because payments based on published prices may be considerably higher than pharmacists' costs. There are a few proposals for fixing Medicaid prescription reimbursement. One uses a rate based on the average sales price (ASP) and another uses the average manufacturer price (AMP). Some have suggested basing pharmacy payments on ASP, which is the weighted average of all non-federal sales prices to all purchasers, excluding sales exempt from the best price calculations, net of rebates, discounts, and other price concessions. This proposal would set pharmacy dispensing fees at a flat rate, as opposed to a percent of the product's cost, which could reduce pharmacists' inclination to educate patients about generic availability and to suggest generic substitution. The Commission has recommended allowing states to establish pharmaceutical prices based on the average manufacturer price rather than the published AWP.

The budget reconciliation process will determine what changes will take place to achieve the targeted savings levels. I appreciate your taking the time to contact me regarding this issue. You can rest assured that I will keep your thoughts in mind as Congress works through the reconciliation process and considers issues involving Medicaid prescription drug payments.

Sincerely,



Steve King  
Member of Congress

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