



February 21, 2020

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# ENGROSSED HOUSE BILL No. 1042

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DIGEST OF HB 1042 (Updated February 19, 2020 4:00 pm - DI 104)

**Citations Affected:** IC 27-1; noncode.

**Synopsis:** Pharmacy benefit managers. Requires a pharmacy benefit manager to obtain a license issued by the department of insurance and sets forth requirements of the pharmacy benefit manager. Provides for the commissioner of the department of insurance to adopt rules to specify licensure, financial standards, and reporting requirements that apply to a pharmacy benefit manager. Sets forth requirements and prohibitions of a pharmacy benefit manager. Allows a party that has  
(Continued next page)

**Effective:** July 1, 2020.

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## Davisson, Karickhoff, Shackelford, Clere

(SENATE SPONSORS — BROWN L, HOLDMAN, CHARBONNEAU)

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January 6, 2020, read first time and referred to Committee on Public Health.  
January 28, 2020, amended, reported — Do Pass.  
January 30, 2020, read second time, ordered engrossed. Engrossed.  
February 3, 2020, read third time, passed. Yeas 94, nays 0.

SENATE ACTION

February 17, 2020, read first time and referred to Committee on Health and Provider Services.  
February 20, 2020, amended, reported favorably — Do Pass.

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EH 1042—LS 6213/DI 104



## Digest Continued

contracted with a pharmacy benefit manager to request an audit of compliance at least one time per year. Makes violations of the chapter concerning pharmacy benefit managers an unfair or deceptive act or practice in the business of insurance. Repeals the chapter of existing language on pharmacy benefit managers and moves the language concerning maximum allowable cost lists to the new chapter. Allows a pharmacy benefit manager to obtain the license not later than December 31, 2020, in order to do business in Indiana and provide services for any health provider contract beginning January 1, 2021. (The introduced version of this bill was prepared by the interim study committee on public health, behavioral health, and human services.)

**EH 1042—LS 6213/DI 104**



February 21, 2020

Second Regular Session of the 121st General Assembly (2020)

PRINTING CODE. Amendments: Whenever an existing statute (or a section of the Indiana Constitution) is being amended, the text of the existing provision will appear in this style type, additions will appear in **this style type**, and deletions will appear in ~~this style type~~.

Additions: Whenever a new statutory provision is being enacted (or a new constitutional provision adopted), the text of the new provision will appear in **this style type**. Also, the word **NEW** will appear in that style type in the introductory clause of each SECTION that adds a new provision to the Indiana Code or the Indiana Constitution.

Conflict reconciliation: Text in a statute in *this style type* or ~~this style type~~ reconciles conflicts between statutes enacted by the 2019 Regular Session of the General Assembly.

## ENGROSSED HOUSE BILL No. 1042

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A BILL FOR AN ACT to amend the Indiana Code concerning insurance.

*Be it enacted by the General Assembly of the State of Indiana:*

1 SECTION 1. IC 27-1-24.5 IS ADDED TO THE INDIANA CODE  
2 AS A **NEW** CHAPTER TO READ AS FOLLOWS [EFFECTIVE  
3 JULY 1, 2020]:

4 **Chapter 24.5. Pharmacy Benefit Managers**

5 **Sec. 1. As used in this chapter, "biological product" has the**  
6 **meaning set forth in 42 U.S.C. 262(i)(1).**

7 **Sec. 2. As used in this chapter, "claim processing service" means**  
8 **an administrative service performed in connection with the**  
9 **processing and adjudicating of a claim related to pharmacist**  
10 **services, including the following:**

11 (1) Receiving payments for pharmacist services.

12 (2) Making payments to pharmacists or pharmacies for  
13 pharmacist services.

14 **Sec. 3. As used in this chapter, "covered individual" means an**  
15 **individual who is entitled to coverage under a health plan.**

16 **Sec. 4. As used in this chapter, "effective rate of**  
17 **reimbursement" includes the following:**

EH 1042—LS 6213/DI 104



- 1           (1) Generic effective rates.
- 2           (2) Brand effective rates.
- 3           (3) Direct and indirect remuneration fees.
- 4           (4) Any other reduction or aggregate reduction of payment.

5           **Sec. 5.** As used in this chapter, "equal access and incentives"  
6 means that a pharmacy benefit manager allows any willing  
7 pharmacy provider to participate as part of any of the pharmacy  
8 benefit manager's networks and in any class or tier of any  
9 pharmacy network as long as the pharmacy provider agrees to the  
10 terms and conditions of the relevant contract applicable to any  
11 other pharmacy provider within that network.

12           **Sec. 6.** As used in this chapter, "generic drug" means a drug  
13 product that is identified by the drug's chemical name and that is:

- 14           (1) accepted by the federal Food and Drug Administration;
- 15           (2) available from at least three (3) sources; and
- 16           (3) therapeutically equivalent to an originating brand name  
17 drug.

18           **Sec. 7.** As used in this chapter, "health plan" means the  
19 following:

- 20           (1) A state employee health plan (as defined in IC 5-10-8-6.7).
- 21           (2) A policy of accident and sickness insurance (as defined in  
22 IC 27-8-5-1). However, the term does not include the  
23 coverages described in IC 27-8-5-2.5(a).
- 24           (3) An individual contract (as defined in IC 27-13-1-21) or a  
25 group contract (as defined in IC 27-13-1-16) that provides  
26 coverage for basic health care services (as defined in  
27 IC 27-13-1-4).

28           **Sec. 8.** As used in this chapter, "independent pharmacies"  
29 means pharmacies that are not a pharmacy benefit manager  
30 affiliate.

31           **Sec. 9.** As used in this chapter, "maximum allowable cost"  
32 means the maximum amount that a pharmacy benefit manager will  
33 reimburse a pharmacy for the cost of a generic prescription drug.  
34 The term does not include a dispensing fee or professional fee.

35           **Sec. 10.** As used in this chapter, "maximum allowable cost list"  
36 means a list of drugs that is used:

- 37           (1) by a pharmacy benefit manager; and
- 38           (2) to set the maximum amount that may be reimbursed to a  
39 pharmacy or pharmacist for a drug.

40           **Sec. 11.** As used in this chapter, "pharmacist" means an  
41 individual licensed as a pharmacist under IC 25-26.

42           **Sec. 12.** As used in this chapter, "pharmacist services" means



1 products, goods, and services provided as part of the practice of  
2 pharmacy.

3 Sec. 13. As used in this chapter, "pharmacy" means the physical  
4 location:

- 5 (1) that is licensed under IC 25-26; and
- 6 (2) at which drugs, chemicals, medicines, prescriptions, and  
7 poisons are compounded, dispensed, or sold at retail.

8 Sec. 14. (a) As used in this chapter, "pharmacy benefit  
9 manager" means an entity that, on behalf of a health benefits plan,  
10 state agency, insurer, managed care organization, or other third  
11 party payor:

- 12 (1) contracts directly or indirectly with pharmacies to provide  
13 prescription drugs to individuals;
- 14 (2) administers a prescription drug benefit;
- 15 (3) processes or pays pharmacy claims;
- 16 (4) creates or updates prescription drug formularies;
- 17 (5) makes or assists in making prior authorization  
18 determinations on prescription drugs;
- 19 (6) administers rebates on prescription drugs; or
- 20 (7) establishes a pharmacy network.

21 (b) The term does not include the following:

- 22 (1) A person licensed under IC 16.
- 23 (2) A health provider who is:
  - 24 (A) described in IC 25-0.5-1; and
  - 25 (B) licensed or registered under IC 25.
- 26 (3) A consultant who only provides advice concerning the  
27 selection or performance of a pharmacy benefit manager.

28 Sec. 15. As used in this chapter, "pharmacy benefit manager  
29 affiliate" means a pharmacy or pharmacist that directly or  
30 indirectly, through one (1) or more intermediaries:

- 31 (1) owns or controls;
- 32 (2) is owned or controlled by; or
- 33 (3) is under common ownership or control with;

34 a pharmacy benefit manager.

35 Sec. 16. As used in this chapter, "pharmacy benefit manager  
36 network" means a group of pharmacies or pharmacists that is  
37 offered:

- 38 (1) through an agreement or health plan contract; and
- 39 (2) to provide pharmacist services for health plans.

40 Sec. 17. As used in this chapter, "pharmacy services  
41 administrative organization" means an organization that assists  
42 independent pharmacies and pharmacy benefit managers or health



1 plans to achieve administrative efficiencies, including contracting  
2 and payment efficiencies.

3 **Sec. 18. (a) As used in this chapter, "rebate" means a discount  
4 or other price concession that is:**

5 **(1) based on use of a prescription drug; and**

6 **(2) paid by a manufacturer or third party to a pharmacy  
7 benefit manager, pharmacy services administrative  
8 organization, or pharmacy after a claim has been processed  
9 and paid at a pharmacy.**

10 **(b) The term includes an incentive and a disbursement.**

11 **Sec. 19. As used in this chapter, "spread pricing" means the  
12 model of prescription drug pricing by which a pharmacy benefit  
13 manager charges a plan sponsor a contracted price for a  
14 prescription drug, and that contracted price differs from the  
15 amount the pharmacy benefit manager directly or indirectly pays  
16 the pharmacist or pharmacy for the drug or for pharmacist  
17 services related to the drug.**

18 **Sec. 20. As used in this chapter, "third party" means a person  
19 other than a:**

20 **(1) pharmacy benefit manager; or**

21 **(2) covered individual.**

22 **Sec. 21. A person shall, before establishing or operating as a  
23 pharmacy benefit manager, apply to and obtain a license from the  
24 commissioner under this chapter.**

25 **Sec. 22. (a) A pharmacy benefit manager shall do the following:**

26 **(1) Provide a pharmacy benefit manager network for a  
27 covered individual to obtain prescription drugs from a  
28 pharmacy within a reasonable distance from the covered  
29 individual's residence.**

30 **(2) Not include a mail order pharmacy in the determination  
31 of compliance with subdivision (1). The health plan shall  
32 determine whether the pharmacy benefit manager has  
33 provided an adequate network as required under subdivision  
34 (1).**

35 **(3) Annually submit to the commissioner a pharmacy benefit  
36 manager network adequacy report describing covered  
37 individuals' access to pharmacies included in the pharmacy  
38 benefit manager network in Indiana, as required under  
39 section 23(b)(3)(B)(i) of this chapter.**

40 **(4) Provide equal access and incentives to all pharmacies  
41 within the pharmacy benefit network.**

42 **(b) A pharmacy benefit manager may not do any of the**



- 1 following:
- 2 (1) Condition participation in any network on accreditation,
- 3 credentialing, or licensing of a pharmacy provider that, other
- 4 than a license or permit required by the Indiana board of
- 5 pharmacy or other state or federal regulatory authority for
- 6 the services provided by the pharmacy.
- 7 (2) Exclude a pharmacy provider from dispensing any drug
- 8 product for which the pharmacy meets the manufacturer's
- 9 dispensing guidelines.
- 10 (3) Discriminate against any pharmacy provider.
- 11 (4) Engage in spread pricing.
- 12 (5) Directly or indirectly retroactively deny a claim or
- 13 aggregate of claims after the claim or aggregate of claims has
- 14 been adjudicated, unless any of the following apply:
- 15 (A) The original claim was submitted fraudulently.
- 16 (B) The original claim payment was incorrect because the
- 17 pharmacy or pharmacist had already been paid for the
- 18 drug.
- 19 (C) The pharmacist services were not properly rendered
- 20 by the pharmacy or pharmacist.
- 21 (6) Reduce, directly or indirectly, payment to a pharmacy for
- 22 pharmacist services to an effective rate of reimbursement,
- 23 including permitting an insurer or plan sponsor to make such
- 24 a reduction.
- 25 (7) Pay or reimburse a pharmacy or pharmacist at an amount
- 26 less than:
- 27 (A) the national average drug acquisition cost; or
- 28 (B) if the national average drug acquisition cost is
- 29 unavailable, the wholesale acquisition cost for the
- 30 ingredient drug product component of drugs provided by
- 31 the pharmacist or pharmacy.
- 32 A violation of this subsection by a pharmacy benefit manager
- 33 constitutes an unfair or deceptive act or practice in the business of
- 34 insurance under IC 27-4-1-4.
- 35 **Sec. 23. (a) The commissioner shall do the following:**
- 36 (1) Prescribe an application for use in applying for a license
- 37 to operate as a pharmacy benefit manager.
- 38 (2) Adopt rules under IC 4-22-2 to establish the following:
- 39 (A) Pharmacy benefit manager licensing requirements.
- 40 (B) Licensing fees.
- 41 (C) A license application.
- 42 (D) Financial standards for pharmacy benefit managers.



1           **(b) The commissioner may do the following:**

2           **(1) Charge a license application fee and renewal fees**  
 3           **established under subsection (a)(2) in an amount not to exceed**  
 4           **five hundred dollars (\$500) to be deposited in the department**  
 5           **of insurance fund established by IC 27-1-3-28.**

6           **(2) Examine or audit the books and records of a pharmacy**  
 7           **benefit manager to determine if the pharmacy benefit**  
 8           **manager is in compliance with this chapter.**

9           **(3) Adopt rules under IC 4-22-2 to:**

10           **(A) implement this chapter; and**

11           **(B) specify requirements for the following:**

12           **(i) Pharmacy benefit manager network adequacy.**

13           **(ii) Prohibited market conduct practices.**

14           **(iii) Data reporting in connection with violations of state**  
 15           **law.**

16           **(iv) Rebates.**

17           **(v) Maximum allowable cost list compliance and**  
 18           **enforcement requirements.**

19           **(vi) Prohibitions and limits on pharmacy benefit**  
 20           **manager practices that require licensure under**  
 21           **IC 25-22.5.**

22           **(vii) Pharmacy benefit manager affiliate information**  
 23           **sharing.**

24           **(viii) Lists of health plans administered by a pharmacy**  
 25           **benefit manager in Indiana.**

26           **(c) Financial information and proprietary information**  
 27           **submitted by a pharmacy benefit manager to the department is**  
 28           **confidential.**

29           **Sec. 24. A pharmacy benefit manager doing business in Indiana**  
 30           **shall, at least every seven (7) days, update, and make available to**  
 31           **pharmacies, the pharmacy benefit manager's maximum allowable**  
 32           **cost list.**

33           **Sec. 25. (a) Beginning June 1, 2021, and annually thereafter, a**  
 34           **pharmacy benefit manager shall submit a report containing data**  
 35           **from the immediately preceding calendar year to the commissioner**  
 36           **containing all of the following:**

37           **(1) The aggregate amount of all rebates that the pharmacy**  
 38           **benefit manager received from all pharmaceutical**  
 39           **manufacturers for:**

40           **(A) all insurers; and**

41           **(B) each insurer;**

42           **with which the pharmacy benefit manager contracted during**





- 1 the immediately preceding calendar year.
- 2 (2) The aggregate amount of administrative fees that the
- 3 pharmacy benefit manager received from all pharmaceutical
- 4 manufacturers for:
- 5 (A) all insurers; and
- 6 (B) each insurer;
- 7 with which the pharmacy benefit manager contracted during
- 8 the immediately preceding calendar year.
- 9 (3) The aggregate amount of retained rebates that the
- 10 pharmacy benefit manager received from all pharmaceutical
- 11 manufacturers and did not pass through to insurers with
- 12 which the pharmacy benefit manager contracted during the
- 13 immediately preceding calendar year.
- 14 (4) The highest, lowest, and mean aggregate retained rebate
- 15 for:
- 16 (A) all insurers; and
- 17 (B) each insurer;
- 18 with which the pharmacy benefit manager contracted during
- 19 the immediately preceding calendar year.
- 20 (b) Not later than sixty (60) days after the commissioner
- 21 receives a report required by this section, the commissioner shall
- 22 publish the report on the department's Internet web site.
- 23 (c) A pharmacy benefit manager that provides information
- 24 under this section may designate the information as a trade secret
- 25 (as defined in IC 24-2-3-2). Information designated as a trade
- 26 secret under this subsection must not be published under
- 27 subsection (b), unless required under subsection (d).
- 28 (d) Disclosure of information designated as a trade secret under
- 29 subsection (c) may be ordered by a court of Indiana for good cause
- 30 shown or made in a court filing.
- 31 **Sec. 26. (a) A pharmacy benefit manager shall do the following:**
- 32 (1) Identify to contracted pharmacies the sources used by the
- 33 pharmacy benefit manager to calculate the drug product
- 34 reimbursement paid for covered drugs available under the
- 35 pharmacy health benefit plan administered by the pharmacy
- 36 benefit manager.
- 37 (2) Establish an appeal process for contracted pharmacies,
- 38 pharmacy services administrative organizations, or group
- 39 purchasing organizations to appeal and resolve disputes
- 40 concerning the maximum allowable cost pricing.
- 41 (3) Establish an Internet web site to support the appeal
- 42 process described in subdivision (2) that allows contracted



1           pharmacies, pharmacy services administrative organizations,  
2           and group purchasing organizations to submit appeals on  
3           maximum allowable cost pricing.

4           (b) The appeal process required by subsection (a)(2) must  
5           include the following:

6           (1) The right to appeal a claim not to exceed sixty (60) days  
7           following the initial filing of the claim.

8           (2) The investigation and resolution of a filed appeal by the  
9           pharmacy benefit manager not later than ten (10) calendar  
10          days from the filing of the appeal.

11          (3) If an appeal is denied, a requirement that the pharmacy  
12          benefit manager do the following:

13           (A) Provide the reason for the denial.

14           (B) Identify:

15           (i) the national drug code of a drug product that is  
16           commercially available with no minimum purchase  
17           amounts; and

18           (ii) the source where the drug product may be purchased  
19           at a price that is at or below the stated maximum  
20           allowable cost and from a licensed wholesaler by any  
21           contract pharmacy.

22           (C) Identify alternative sources for a drug product as  
23           described in clause (B) if the contracting pharmacy  
24           provides reasonable evidence to the pharmacy benefit  
25           manager that the pharmacy is unable to source the drug  
26           product as described in clause (B).

27          (4) If an appeal is approved, a requirement that the pharmacy  
28          benefit manager do the following:

29           (A) Change the maximum allowable cost of the drug for  
30           the pharmacy that filed the appeal as of the initial date of  
31           service that the appealed drug was dispensed.

32           (B) Adjust the maximum allowable cost of the drug for the  
33           appealing pharmacy and for all other contracted  
34           pharmacies in the network of the pharmacy benefit  
35           manager that filled a prescription for patients covered  
36           under the same health benefit plan beginning on the initial  
37           date of service the appealed drug was dispensed.

38           (C) Individually notify all other contracted pharmacies in  
39           the network of the pharmacy benefit manager that a  
40           retroactive maximum allowable cost adjustment has been  
41           made as a result of an approved appeal that is effective on  
42           the initial date of service the appealed drug was dispensed.



- 1           **(D) Adjust the drug product reimbursement for contracted**  
 2           **pharmacies that resubmit claims to reflect the adjusted**  
 3           **maximum allowable cost, if applicable.**  
 4           **(E) Allow the appealing pharmacy and all other contracted**  
 5           **pharmacies in the network that filled the prescriptions for**  
 6           **patients covered under the same health benefit plan to**  
 7           **reverse and resubmit claims and receive payment based on**  
 8           **the adjusted maximum allowable cost from the initial date**  
 9           **of service the appealed drug was dispensed.**  
 10           **(F) Make retroactive price adjustments in the next**  
 11           **payment cycle.**  
 12           **(5) The establishment of procedures for auditing submitted**  
 13           **claims by a contract pharmacy in a manner established by**  
 14           **administrative rules under IC 4-22-2 by the department. The**  
 15           **auditing procedures:**  
 16               **(A) may not use extrapolation or any similar methodology;**  
 17               **(B) may not allow for recovery by a pharmacy benefit**  
 18               **manager of a submitted claim due to clerical or other error**  
 19               **where the patient has received the drug for which the**  
 20               **claim was submitted;**  
 21               **(C) must allow for recovery by a contract pharmacy for**  
 22               **underpayments by the pharmacy benefit manager; and**  
 23               **(D) may only allow for the pharmacy benefit manager to**  
 24               **recover overpayments on claims that are actually audited**  
 25               **and discovered to include a recoverable error.**  
 26           **(c) The department must approve the manner in which a**  
 27           **pharmacy benefit manager may respond to an appeal filed under**  
 28           **this section. The department shall establish a process for a**  
 29           **pharmacy benefit manager to obtain approval from the**  
 30           **department under this section.**  
 31           **Sec. 27. (a) For every drug for which the pharmacy benefit**  
 32           **manager establishes a maximum allowable cost to determine the**  
 33           **drug product reimbursement, the pharmacy benefit manager shall**  
 34           **make available to all contracted pharmacies in a manner**  
 35           **established by the department by administrative rule described in**  
 36           **subsection (b) the following:**  
 37               **(1) Information identifying the national drug pricing**  
 38               **compendia or sources used to obtain the drug price data.**  
 39               **(2) The comprehensive list of drugs subject to maximum**  
 40               **allowable cost and the actual maximum allowable cost for**  
 41               **each drug.**  
 42               **(3) Weekly updates to the list of drugs subject to maximum**



- 1           allowable cost and the actual maximum allowable cost for  
2           each drug.
- 3           **(b) The department shall adopt rules under IC 4-22-2**  
4 **concerning the manner in which a pharmacy benefit manager shall**  
5 **communicate the following to contracted pharmacies:**
- 6           **(1) Drug price data should be used to establish drug**  
7 **reimbursements by pharmacy benefit managers as described**  
8 **in subsection (a)(1).**
- 9           **(2) The comprehensive list of drugs described in subsection**  
10 **(a)(2).**
- 11           **(3) The weekly updates to the list of drugs described in**  
12 **subsection (a)(3).**
- 13           **Sec. 28. (a) For every drug for which a pharmacy benefit**  
14 **manager establishes a maximum allowable cost to determine**  
15 **reimbursement for the drug product, the pharmacy benefit**  
16 **manager shall make available to the department, upon request of**  
17 **the department, information that is needed to resolve an appeal.**
- 18           **(b) If the pharmacy benefit manager fails to promptly make**  
19 **available to the department the information as required in**  
20 **subsection (a), the department shall consider the appeal granted in**  
21 **favor of the appealing pharmacy.**
- 22           **Sec. 29. (a) A pharmacy benefit manager shall:**
- 23           **(1) review any drug the pharmacy benefit manager subjects**  
24 **to a maximum allowable cost to set the drug product**  
25 **reimbursement; and**
- 26           **(2) make any adjustments to reimbursement for the maximum**  
27 **allowable cost for the drug;**
- 28 **at least every seven (7) calendar days. The pharmacy benefit**  
29 **manager shall immediately implement any adjustment to the**  
30 **reimbursement to the maximum allowable cost in calculating**  
31 **payments for all pharmacies that have contracted with the**  
32 **pharmacy benefit manager.**
- 33           **(b) The pharmacy benefit manager shall, for every drug for**  
34 **which the pharmacy benefit manager establishes a maximum**  
35 **allowable cost for reimbursement of a drug product, ensure that a**  
36 **drug subject to a maximum allowable cost meets the following:**
- 37           **(1) Is generally available for purchase by pharmacies and**  
38 **pharmacists from an appropriately licensed national or**  
39 **regional wholesaler.**
- 40           **(2) Is not any of the following:**
- 41           **(A) Obsolete.**
- 42           **(B) Temporarily unavailable.**



- 1                   (C) Included on a drug shortage list.
- 2                   (D) Unable to be lawfully substituted.
- 3           (3) Is rated either as:
- 4                   (A) an "A" or "B" rating in the most recent version of the
- 5                   federal Food and Drug Administration's Approved Drug
- 6                   Products with Therapeutic Equivalence Evaluations; or
- 7                   (B) a "NR", "NA", or a similar rating by a nationally
- 8                   recognized reference.
- 9           (4) Is reimbursed at a rate based solely on the drug if the drug
- 10           does not have a therapeutically equivalent drug.
- 11           (c) A pharmacy benefit manager shall, for every drug for which
- 12           the pharmacy benefit manager establishes a maximum allowable
- 13           cost for reimbursement of a drug product, ensure that
- 14           reimbursement for a drug that is subject to maximum allowable
- 15           cost is based solely on the drug and therapeutically equivalent
- 16           drugs listed in the most recent version of the federal Food and
- 17           Drug Administration's Approved Drug Products with Therapeutic
- 18           Equivalence Evaluations.
- 19           (d) A pharmacy benefit manager shall reimburse for a drug for
- 20           which the pharmacy benefit manager establishes a maximum
- 21           allowable cost as follows:
- 22                   (1) For a "B" rated drug, reimbursement based solely on that
- 23                   drug.
- 24                   (2) For a "NR" or "NA" drug with a similar rating by a
- 25                   nationally recognized reference, reimbursement is based
- 26                   solely on the drug and other drugs with that rating that are a
- 27                   therapeutically equivalent drug.
- 28           Sec. 30. (a) A party that has contracted with a pharmacy benefit
- 29           manager to provide services may, at least one (1) time in a calendar
- 30           year, request an audit of compliance with the contract. The audit
- 31           may include full disclosure of rebate amounts secured on
- 32           prescription drugs, whether product specific or general rebates,
- 33           that were provided by a pharmaceutical manufacturer.
- 34           (b) A pharmacy benefit manager shall disclose, upon request
- 35           from a party that has contracted with a pharmacy benefit
- 36           manager, to the party the actual amounts paid by the pharmacy
- 37           benefit manager to any pharmacy.
- 38           (c) A pharmacy benefit manager shall provide notice to a party
- 39           contracting with the pharmacy benefit manufacturer of any
- 40           consideration that the pharmacy benefit manager receives from a
- 41           pharmacy manufacturer for any name brand dispensing of a
- 42           prescription when a generic or biologically similar product is



1 available for the prescription.  
2 (d) Any provision of a contract entered into, issued, or renewed  
3 after June 30, 2020, that violates this section is unenforceable.  
4 Sec. 31. (a) A violation of this chapter is an unfair or deceptive  
5 act or practice in the business of insurance under IC 27-4-1-4.  
6 (b) The department may also adopt rules under IC 4-22-2 to set  
7 forth fines for a violation under this chapter.  
8 SECTION 2. IC 27-1-24.8 IS REPEALED [EFFECTIVE JULY 1,  
9 2020]. (Pharmacy Benefit Managers).  
10 SECTION 3. [EFFECTIVE JULY 1, 2020] (a) Notwithstanding  
11 IC 27-1-24.5, as added by this act, a pharmacy benefit manager  
12 must be licensed by the department of insurance not later than  
13 December 31, 2020, in order to do business in Indiana and provide  
14 services for any health provider contract (as defined in  
15 IC 27-1-37-3) that is in effect beginning or after January 1, 2021.  
16 (b) This SECTION expires December 31, 2021.



## COMMITTEE REPORT

Mr. Speaker: Your Committee on Public Health, to which was referred House Bill 1042, has had the same under consideration and begs leave to report the same back to the House with the recommendation that said bill be amended as follows:

Page 3, delete lines 38 through 40, begin a new paragraph and insert:

**"Sec. 16. A person shall obtain a license from the commissioner under this chapter to operate as a pharmacy benefit manager."**

and when so amended that said bill do pass.

(Reference is to HB 1042 as introduced.)

KIRCHHOFER

Committee Vote: yeas 10, nays 0.

## COMMITTEE REPORT

Madam President: The Senate Committee on Health and Provider Services, to which was referred House Bill No. 1042, has had the same under consideration and begs leave to report the same back to the Senate with the recommendation that said bill be AMENDED as follows:

Page 1, line 5, after "1." insert **"As used in this chapter, "biological product" has the meaning set forth in 42 U.S.C. 262(i)(1).**

**Sec. 2."**

Page 1, line 12, delete "2." and insert "3."

Page 1, line 14, delete "3." and insert **"4. As used in this chapter, "effective rate of reimbursement" includes the following:**

- (1) Generic effective rates.**
- (2) Brand effective rates.**
- (3) Direct and indirect remuneration fees.**
- (4) Any other reduction or aggregate reduction of payment.**

**Sec. 5. As used in this chapter, "equal access and incentives" means that a pharmacy benefit manager allows any willing pharmacy provider to participate as part of any of the pharmacy benefit manager's networks and in any class or tier of any pharmacy network as long as the pharmacy provider agrees to the**

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terms and conditions of the relevant contract applicable to any other pharmacy provider within that network.

**Sec. 6.** As used in this chapter, "generic drug" means a drug product that is identified by the drug's chemical name and that is:

- (1) accepted by the federal Food and Drug Administration;
- (2) available from at least three (3) sources; and
- (3) therapeutically equivalent to an originating brand name drug.

**Sec. 7."**

Page 2, line 7, delete "4." and insert "8."

Page 2, line 7, delete "pharmacy"" and insert "pharmacies"".

Page 2, line 8, delete "a pharmacy that is" and insert "pharmacies that are".

Page 2, line 9, delete "5." and insert "9. As used in this chapter, "maximum allowable cost" means the maximum amount that a pharmacy benefit manager will reimburse a pharmacy for the cost of a generic prescription drug. The term does not include a dispensing fee or professional fee.

**Sec. 10."**

Page 2, delete lines 14 through 27.

Page 2, line 28, delete "7." and insert "11."

Page 2, line 30, delete "8." and insert "12."

Page 2, line 33, delete "9." and insert "13."

Page 2, delete lines 38 through 42, begin a new paragraph and insert:

**"Sec. 14. (a)** As used in this chapter, "pharmacy benefit manager" means an entity that, on behalf of a health benefits plan, state agency, insurer, managed care organization, or other third party payor:

- (1) contracts directly or indirectly with pharmacies to provide prescription drugs to individuals;
- (2) administers a prescription drug benefit;
- (3) processes or pays pharmacy claims;
- (4) creates or updates prescription drug formularies;
- (5) makes or assists in making prior authorization determinations on prescription drugs;
- (6) administers rebates on prescription drugs; or
- (7) establishes a pharmacy network.

**(b)** The term does not include the following:

- (1) A person licensed under IC 16.
- (2) A health provider who is:
  - (A) described in IC 25-0.5-1; and





**(B) licensed or registered under IC 25.**

**(3) A consultant who only provides advice concerning the selection or performance of a pharmacy benefit manager."**

Page 3, delete lines 1 through 7.

Page 3, line 8, delete "11." and insert "15."

Page 3, line 15, delete "12." and insert "16."

Page 3, line 16, delete "are" and insert "is".

Page 3, line 20, delete "13." and insert "17."

Page 3, delete lines 25 through 33, begin a new paragraph and insert:

**"Sec. 18. (a) As used in this chapter, "rebate" means a discount or other price concession that is:**

**(1) based on use of a prescription drug; and**

**(2) paid by a manufacturer or third party to a pharmacy benefit manager, pharmacy services administrative organization, or pharmacy after a claim has been processed and paid at a pharmacy.**

**(b) The term includes an incentive and a disbursement.**

**Sec. 19. As used in this chapter, "spread pricing" means the model of prescription drug pricing by which a pharmacy benefit manager charges a plan sponsor a contracted price for a prescription drug, and that contracted price differs from the amount the pharmacy benefit manager directly or indirectly pays the pharmacist or pharmacy for the drug or for pharmacist services related to the drug."**

Page 3, line 34, delete "15." and insert "20."

Page 3, line 38, delete "16." and insert "21."

Page 3, line 38, delete "shall" and insert **"shall, before establishing or operating as a pharmacy benefit manager, apply to and"**.

Page 3, line 39, delete "to operate as a pharmacy benefit manager." and insert ".".

Page 3, line 40, delete "17." and insert **"22. (a)"**.

Page 4, line 4, after "(1)." insert **"The health plan shall determine whether the pharmacy benefit manager has provided an adequate network as required under subdivision (1)."**

Page 4, line 9, delete "18(b)(3)(B)(i)" and insert **"23(b)(3)(B)(i)"**.

Page 4, between lines 11 and 12, begin a new paragraph and insert:

**"(b) A pharmacy benefit manager may not do any of the following:**

**(1) Condition participation in any network on accreditation, credentialing, or licensing of a pharmacy provider that, other than a license or permit required by the Indiana board of**



pharmacy or other state or federal regulatory authority for the services provided by the pharmacy.

(2) Exclude a pharmacy provider from dispensing any drug product for which the pharmacy meets the manufacturer's dispensing guidelines.

(3) Discriminate against any pharmacy provider.

(4) Engage in spread pricing.

(5) Directly or indirectly retroactively deny a claim or aggregate of claims after the claim or aggregate of claims has been adjudicated, unless any of the following apply:

(A) The original claim was submitted fraudulently.

(B) The original claim payment was incorrect because the pharmacy or pharmacist had already been paid for the drug.

(C) The pharmacist services were not properly rendered by the pharmacy or pharmacist.

(6) Reduce, directly or indirectly, payment to a pharmacy for pharmacist services to an effective rate of reimbursement, including permitting an insurer or plan sponsor to make such a reduction.

(7) Pay or reimburse a pharmacy or pharmacist at an amount less than:

(A) the national average drug acquisition cost; or

(B) if the national average drug acquisition cost is unavailable, the wholesale acquisition cost for the ingredient drug product component of drugs provided by the pharmacist or pharmacy.

A violation of this subsection by a pharmacy benefit manager constitutes an unfair or deceptive act or practice in the business of insurance under IC 27-4-1-4."

Page 4, line 12, delete "18." and insert "23."

Page 4, delete lines 20 through 21.

Page 4, line 24, delete "." and insert "**in an amount not to exceed five hundred dollars (\$500) to be deposited in the department of insurance fund established by IC 27-1-3-28.**".

Page 4, delete line 36.

Page 4, line 37, delete "(vi)" and insert "(v)".

Page 4, line 39, delete "(vii)" and insert "(vi)".

Page 4, line 42, delete "(viii)" and insert "(vii)".

Page 5, line 2, delete "(ix)" and insert "(viii)".

Page 5, delete lines 4 through 14, begin a new paragraph and insert:  
**"(c) Financial information and proprietary information**



submitted by a pharmacy benefit manager to the department is confidential."

Page 5, line 15, delete "20." and insert "24."

Page 5, delete lines 19 through 20, begin a new paragraph and insert:

**"Sec. 25. (a) Beginning June 1, 2021, and annually thereafter, a pharmacy benefit manager shall submit a report containing data from the immediately preceding calendar year to the commissioner containing all of the following:**

**(1) The aggregate amount of all rebates that the pharmacy benefit manager received from all pharmaceutical manufacturers for:**

**(A) all insurers; and**

**(B) each insurer;**

**with which the pharmacy benefit manager contracted during the immediately preceding calendar year.**

**(2) The aggregate amount of administrative fees that the pharmacy benefit manager received from all pharmaceutical manufacturers for:**

**(A) all insurers; and**

**(B) each insurer;**

**with which the pharmacy benefit manager contracted during the immediately preceding calendar year.**

**(3) The aggregate amount of retained rebates that the pharmacy benefit manager received from all pharmaceutical manufacturers and did not pass through to insurers with which the pharmacy benefit manager contracted during the immediately preceding calendar year.**

**(4) The highest, lowest, and mean aggregate retained rebate for:**

**(A) all insurers; and**

**(B) each insurer;**

**with which the pharmacy benefit manager contracted during the immediately preceding calendar year.**

**(b) Not later than sixty (60) days after the commissioner receives a report required by this section, the commissioner shall publish the report on the department's Internet web site.**

**(c) A pharmacy benefit manager that provides information under this section may designate the information as a trade secret (as defined in IC 24-2-3-2). Information designated as a trade secret under this subsection must not be published under subsection (b), unless required under subsection (d).**



**(d) Disclosure of information designated as a trade secret under subsection (c) may be ordered by a court of Indiana for good cause shown or made in a court filing.**

**Sec. 26. (a) A pharmacy benefit manager shall do the following:**

**(1) Identify to contracted pharmacies the sources used by the pharmacy benefit manager to calculate the drug product reimbursement paid for covered drugs available under the pharmacy health benefit plan administered by the pharmacy benefit manager.**

**(2) Establish an appeal process for contracted pharmacies, pharmacy services administrative organizations, or group purchasing organizations to appeal and resolve disputes concerning the maximum allowable cost pricing.**

**(3) Establish an Internet web site to support the appeal process described in subdivision (2) that allows contracted pharmacies, pharmacy services administrative organizations, and group purchasing organizations to submit appeals on maximum allowable cost pricing.**

**(b) The appeal process required by subsection (a)(2) must include the following:**

**(1) The right to appeal a claim not to exceed sixty (60) days following the initial filing of the claim.**

**(2) The investigation and resolution of a filed appeal by the pharmacy benefit manager not later than ten (10) calendar days from the filing of the appeal.**

**(3) If an appeal is denied, a requirement that the pharmacy benefit manager do the following:**

**(A) Provide the reason for the denial.**

**(B) Identify:**

**(i) the national drug code of a drug product that is commercially available with no minimum purchase amounts; and**

**(ii) the source where the drug product may be purchased at a price that is at or below the stated maximum allowable cost and from a licensed wholesaler by any contract pharmacy.**

**(C) Identify alternative sources for a drug product as described in clause (B) if the contracting pharmacy provides reasonable evidence to the pharmacy benefit manager that the pharmacy is unable to source the drug product as described in clause (B).**

**(4) If an appeal is approved, a requirement that the pharmacy**



benefit manager do the following:

- (A) Change the maximum allowable cost of the drug for the pharmacy that filed the appeal as of the initial date of service that the appealed drug was dispensed.
  - (B) Adjust the maximum allowable cost of the drug for the appealing pharmacy and for all other contracted pharmacies in the network of the pharmacy benefit manager that filled a prescription for patients covered under the same health benefit plan beginning on the initial date of service the appealed drug was dispensed.
  - (C) Individually notify all other contracted pharmacies in the network of the pharmacy benefit manager that a retroactive maximum allowable cost adjustment has been made as a result of an approved appeal that is effective on the initial date of service the appealed drug was dispensed.
  - (D) Adjust the drug product reimbursement for contracted pharmacies that resubmit claims to reflect the adjusted maximum allowable cost, if applicable.
  - (E) Allow the appealing pharmacy and all other contracted pharmacies in the network that filled the prescriptions for patients covered under the same health benefit plan to reverse and resubmit claims and receive payment based on the adjusted maximum allowable cost from the initial date of service the appealed drug was dispensed.
  - (F) Make retroactive price adjustments in the next payment cycle.
- (5) The establishment of procedures for auditing submitted claims by a contract pharmacy in a manner established by administrative rules under IC 4-22-2 by the department. The auditing procedures:
- (A) may not use extrapolation or any similar methodology;
  - (B) may not allow for recovery by a pharmacy benefit manager of a submitted claim due to clerical or other error where the patient has received the drug for which the claim was submitted;
  - (C) must allow for recovery by a contract pharmacy for underpayments by the pharmacy benefit manager; and
  - (D) may only allow for the pharmacy benefit manager to recover overpayments on claims that are actually audited and discovered to include a recoverable error.
- (c) The department must approve the manner in which a pharmacy benefit manager may respond to an appeal filed under



this section. The department shall establish a process for a pharmacy benefit manager to obtain approval from the department under this section.

**Sec. 27. (a)** For every drug for which the pharmacy benefit manager establishes a maximum allowable cost to determine the drug product reimbursement, the pharmacy benefit manager shall make available to all contracted pharmacies in a manner established by the department by administrative rule described in subsection (b) the following:

- (1) Information identifying the national drug pricing compendia or sources used to obtain the drug price data.
- (2) The comprehensive list of drugs subject to maximum allowable cost and the actual maximum allowable cost for each drug.
- (3) Weekly updates to the list of drugs subject to maximum allowable cost and the actual maximum allowable cost for each drug.

**(b)** The department shall adopt rules under IC 4-22-2 concerning the manner in which a pharmacy benefit manager shall communicate the following to contracted pharmacies:

- (1) Drug price data should be used to establish drug reimbursements by pharmacy benefit managers as described in subsection (a)(1).
- (2) The comprehensive list of drugs described in subsection (a)(2).
- (3) The weekly updates to the list of drugs described in subsection (a)(3).

**Sec. 28. (a)** For every drug for which a pharmacy benefit manager establishes a maximum allowable cost to determine reimbursement for the drug product, the pharmacy benefit manager shall make available to the department, upon request of the department, information that is needed to resolve an appeal.

**(b)** If the pharmacy benefit manager fails to promptly make available to the department the information as required in subsection (a), the department shall consider the appeal granted in favor of the appealing pharmacy.

**Sec. 29. (a)** A pharmacy benefit manager shall:

- (1) review any drug the pharmacy benefit manager subjects to a maximum allowable cost to set the drug product reimbursement; and
- (2) make any adjustments to reimbursement for the maximum allowable cost for the drug;



at least every seven (7) calendar days. The pharmacy benefit manager shall immediately implement any adjustment to the reimbursement to the maximum allowable cost in calculating payments for all pharmacies that have contracted with the pharmacy benefit manager.

(b) The pharmacy benefit manager shall, for every drug for which the pharmacy benefit manager establishes a maximum allowable cost for reimbursement of a drug product, ensure that a drug subject to a maximum allowable cost meets the following:

- (1) Is generally available for purchase by pharmacies and pharmacists from an appropriately licensed national or regional wholesaler.
- (2) Is not any of the following:
  - (A) Obsolete.
  - (B) Temporarily unavailable.
  - (C) Included on a drug shortage list.
  - (D) Unable to be lawfully substituted.
- (3) Is rated either as:
  - (A) an "A" or "B" rating in the most recent version of the federal Food and Drug Administration's Approved Drug Products with Therapeutic Equivalence Evaluations; or
  - (B) a "NR", "NA", or a similar rating by a nationally recognized reference.
- (4) Is reimbursed at a rate based solely on the drug if the drug does not have a therapeutically equivalent drug.

(c) A pharmacy benefit manager shall, for every drug for which the pharmacy benefit manager establishes a maximum allowable cost for reimbursement of a drug product, ensure that reimbursement for a drug that is subject to maximum allowable cost is based solely on the drug and therapeutically equivalent drugs listed in the most recent version of the federal Food and Drug Administration's Approved Drug Products with Therapeutic Equivalence Evaluations.

(d) A pharmacy benefit manager shall reimburse for a drug for which the pharmacy benefit manager establishes a maximum allowable cost as follows:

- (1) For a "B" rated drug, reimbursement based solely on that drug.
- (2) For a "NR" or "NA" drug with a similar rating by a nationally recognized reference, reimbursement is based solely on the drug and other drugs with that rating that are a therapeutically equivalent drug.



**Sec. 30. (a) A party that has contracted with a pharmacy benefit manager to provide services may, at least one (1) time in a calendar year, request an audit of compliance with the contract. The audit may include full disclosure of rebate amounts secured on prescription drugs, whether product specific or general rebates, that were provided by a pharmaceutical manufacturer.**

**(b) A pharmacy benefit manager shall disclose, upon request from a party that has contracted with a pharmacy benefit manager, to the party the actual amounts paid by the pharmacy benefit manager to any pharmacy.**

**(c) A pharmacy benefit manager shall provide notice to a party contracting with the pharmacy benefit manufacturer of any consideration that the pharmacy benefit manager receives from a pharmacy manufacturer for any name brand dispensing of a prescription when a generic or biologically similar product is available for the prescription.**

**(d) Any provision of a contract entered into, issued, or renewed after June 30, 2020, that violates this section is unenforceable.**

**Sec. 31. (a) A violation of this chapter is an unfair or deceptive act or practice in the business of insurance under IC 27-4-1-4.**

**(b) The department may also adopt rules under IC 4-22-2 to set forth fines for a violation under this chapter."**

Page 5, after line 22, begin a new paragraph and insert:

**"SECTION 3. [EFFECTIVE JULY 1, 2020] (a) Notwithstanding IC 27-1-24.5, as added by this act, a pharmacy benefit manager must be licensed by the department of insurance not later than December 31, 2020, in order to do business in Indiana and provide services for any health provider contract (as defined in IC 27-1-37-3) that is in effect beginning or after January 1, 2021.**

**(b) This SECTION expires December 31, 2021."**

Renumber all SECTIONS consecutively.

and when so amended that said bill do pass.

(Reference is to HB 1042 as printed January 28, 2020.)

CHARBONNEAU, Chairperson

Committee Vote: Yeas 10, Nays 0.

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