

A 10985 Gottfried Same as [S 8934](#) RIVERA  
Public Health Law  
TITLE....Provides for pharmacy benefit management  
and the procurement of prescription drugs at a  
negotiated rate for dispensation; repealer  
05/29/18 referred to health

S8934 RIVERA Same as [A 10985](#) Gottfried  
ON FILE: 06/06/18 Public Health Law  
TITLE....Provides for pharmacy benefit management  
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06/06/18 REFERRED TO RULES

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## STATE OF NEW YORK

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10985

### IN ASSEMBLY

May 29, 2018

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Introduced by M. of A. GOTTFRIED -- read once and referred to the  
Committee on Health

AN ACT to amend the public health law, in relation to pharmacy benefit  
managers; and to repeal certain provisions of such law relating there-  
to

The People of the State of New York, represented in Senate and Assem-  
bly, do enact as follows:

1 Section 1. Section 280-a of the public health law is REPEALED and a  
2 new section 280-a is added to read as follows:

3 § 280-a. Pharmacy benefit managers. 1. Definitions. As used in this  
4 section, the following terms shall have the following meanings:

5 (a) "Health plan or provider" means an entity for which a pharmacy  
6 benefit manager provides pharmacy benefit management including, but not  
7 limited to: (i) a health benefit plan or other entity that approves,  
8 provides, arranges for, or pays for health care items or services, under  
9 which prescription drugs for beneficiaries of the entity are purchased  
10 or which provides or arranges reimbursement in whole or in part for the  
11 purchase of prescription drugs; or (ii) a health care provider or  
12 professional, including a state or local government entity, that  
13 acquires prescription drugs to use or dispense in providing health care  
14 to patients.

15 (b) "Pharmacy benefit management" means the service provided to a  
16 health plan or provider, directly or through another entity, and regard-  
17 less of whether the pharmacy benefit manager and the health plan or  
18 provider are related, or associated by ownership, common ownership,  
19 organization or otherwise; including the procurement of prescription  
20 drugs to be dispensed to patients, or the administration or management  
21 of prescription drug benefits, including but not limited to, any of the  
22 following:

23 (i) mail service pharmacy;

24 (ii) claims processing, retail network management, or payment of  
25 claims to pharmacies for dispensing prescription drugs;

26 (iii) clinical or other formulary or preferred drug list development  
27 or management;

EXPLANATION--Matter in *italics* (underscored) is new; matter in brackets  
[-] is old law to be omitted.

1 (iv) negotiation or administration of rebates, discounts, payment  
2 differentials, or other incentives, for the inclusion of particular  
3 prescription drugs in a particular category or to promote the purchase  
4 of particular prescription drugs;

5 (v) patient compliance, therapeutic intervention, or generic substi-  
6 tution programs; and

7 (vi) disease management.

8 (c) "Pharmacy benefit manager" means any entity that performs pharmacy  
9 benefit management for a health plan or provider.

10 (d) "Maximum allowable cost price" means a maximum reimbursement  
11 amount set by the pharmacy benefit manager for therapeutically equiv-  
12 alent multiple source generic drugs.

13 (e) "Controlling person" means any person or other entity who or which  
14 directly or indirectly has the power to direct or cause to be directed  
15 the management, control or activities of a pharmacy benefit manager.

16 (f) "Covered individual" means a member, participant, enrollee,  
17 contract holder or policy holder or beneficiary of a health plan or  
18 provider.

19 (g) "License" means a license to be a pharmacy benefit manager, under  
20 subdivision seven of this section.

21 2. Duty, accountability and transparency. (a) The pharmacy benefit  
22 manager shall have a fiduciary relationship with and obligation to the  
23 health plan or provider, and shall perform pharmacy benefit management  
24 with care, skill, prudence, diligence, and professionalism.

25 (b) All funds received by the pharmacy benefit manager in relation to  
26 providing pharmacy benefit management shall be received by the pharmacy  
27 benefit manager in trust for the health plan or provider and shall be  
28 used or distributed only pursuant to the pharmacy benefit manager's  
29 contract, or other terms in the absence of a contract, with the health  
30 plan or provider or applicable law; except for any fee or payment  
31 expressly provided for in the contract, or other terms in the absence of  
32 a contract, between the pharmacy benefit manager and the health plan or  
33 provider to compensate the pharmacy benefit manager for its services.

34 (c) The pharmacy benefit manager shall periodically account to the  
35 health plan or provider for all funds received by the pharmacy benefit  
36 manager. The health plan or provider shall have access to all financial  
37 and utilization information of the pharmacy benefit manager in relation  
38 to pharmacy benefit management provided to the health plan or provider.

39 (d) The pharmacy benefit manager shall disclose in writing to the  
40 health plan or provider the terms and conditions of any contract or  
41 arrangement between the pharmacy benefit manager and any party relating  
42 to pharmacy benefit management provided to the health plan or provider.

43 (e) The pharmacy benefit manager shall disclose in writing to the  
44 health plan or provider any activity, policy, practice, contract or  
45 arrangement of the pharmacy benefit manager that directly or indirectly  
46 presents any conflict of interest with the pharmacy benefit manager's  
47 relationship with or obligation to the health plan or provider.

48 (f) Any information required to be disclosed by a pharmacy benefit  
49 manager to a health plan or provider under this section that is reason-  
50 ably designated by the pharmacy benefit manager as proprietary or trade  
51 secret information shall be kept confidential by the health plan or  
52 provider, except as required or permitted by law, including disclosure  
53 necessary to prosecute or defend any legitimate legal claim or cause of  
54 action.

55 (g) The commissioner shall establish, by regulation, minimum standards  
56 for pharmacy benefit management services which shall address the elimi-

1 nation of conflicts of interest between pharmacy benefit managers and  
2 health insurers, plans and providers; and the elimination of deceptive  
3 practices, anti-competitive practices, and unfair claims practices.

4 3. Prescriptions. A pharmacy benefit manager may not substitute or  
5 cause the substituting of one prescription drug for another in dispens-  
6 ing a prescription, or alter or cause the altering of the terms of a  
7 prescription, except with the approval of the prescriber or as explicit-  
8 ly required or permitted by law.

9 4. Appeals. A pharmacy benefit manager shall, with respect to  
10 contracts between a pharmacy benefit manager and a pharmacy or, alterna-  
11 tively, a pharmacy benefit manager and a pharmacy's contracting agent,  
12 such as a pharmacy services administrative organization, include a  
13 reasonable process to appeal, investigate and resolve disputes regarding  
14 multi-source generic drug pricing. The appeals process shall include the  
15 following provisions:

16 (a) the right to appeal by the pharmacy and/or the pharmacy's  
17 contracting agent shall be limited to thirty days following the initial  
18 claim submitted for payment;

19 (b) a telephone number through which a network pharmacy may contact  
20 the pharmacy benefit manager for the purpose of filing an appeal and an  
21 electronic mail address of the individual who is responsible for proc-  
22 essing appeals;

23 (c) the pharmacy benefit manager shall send an electronic mail message  
24 acknowledging receipt of the appeal. The pharmacy benefit manager shall  
25 respond in an electronic message to the pharmacy and/or the pharmacy's  
26 contracting agent filing the appeal within seven business days indicat-  
27 ing its determination. If the appeal is determined to be valid, the  
28 maximum allowable cost for the drug shall be adjusted for the appealing  
29 pharmacy effective as of the date of the original claim for payment. The  
30 pharmacy benefit manager shall require the appealing pharmacy to reverse  
31 and rebill the claim in question in order to obtain the corrected  
32 reimbursement;

33 (d) if an update to the maximum allowable cost is warranted, the phar-  
34 macy benefit manager or covered entity shall adjust the maximum allow-  
35 able cost of the drug effective for all similarly situated pharmacies in  
36 its network in the state on the date the appeal was determined to be  
37 valid; and

38 (e) if an appeal is denied, the pharmacy benefit manager shall identi-  
39 fy the national drug code of a therapeutically equivalent drug, as  
40 determined by the federal Food and Drug Administration, that is avail-  
41 able for purchase by pharmacies in this state from wholesalers regis-  
42 tered pursuant to subdivision four of section sixty-eight hundred eight  
43 of the education law at a price which is equal to or less than the maxi-  
44 mum allowable cost for that drug as determined by the pharmacy benefit  
45 manager.

46 5. Contract provisions. No pharmacy benefit manager shall, with  
47 respect to contracts between such pharmacy benefit manager and a pharma-  
48 cy or, alternatively, such pharmacy benefit manager and a pharmacy's  
49 contracting agent, such as a pharmacy services administrative organiza-  
50 tion:

51 (a) prohibit or penalize a pharmacist or pharmacy from disclosing to  
52 an individual purchasing a prescription medication information regard-  
53 ing:

54 (1) the cost of the prescription medication to the individual, or

1 (2) the availability of any therapeutically equivalent alternative  
2 medications or alternative methods of purchasing the prescription medi-  
3 cation, including but not limited to, paying a cash price; or

4 (b) charge or collect from an individual a copayment that exceeds the  
5 total submitted charges by the pharmacy for which the pharmacy is paid.  
6 If an individual pays a copayment, the pharmacy shall retain the adjudi-  
7 cated costs and the pharmacy benefit manager shall not redact or recoup  
8 the adjudicated cost.

9 6. Acting without a license. (a) No person or entity may act as a  
10 pharmacy benefit manager on or after January first, two thousand twenty  
11 without having a currently valid license under this section. However, a  
12 pharmacy benefit manager providing pharmacy benefit management on and  
13 before that date may continue to do so without a license under this  
14 section for a period of one hundred eighty days.

15 (b) No health plan or provider may pay any fee or other compensation  
16 for pharmacy benefit management to any person or entity acting in  
17 violation of this subdivision.

18 (c) Any person or entity that violates this section shall be subject  
19 to penalties under sections twelve and twelve-b of this chapter.

20 7. Licensing of pharmacy benefit managers. (a) The commissioner may  
21 issue a pharmacy benefit manager license to any person or entity who or  
22 that applies for a license and has complied with the requirements of  
23 this section. The commissioner may establish, by regulation, minimum  
24 standards for the issuance of a license to a pharmacy benefit manager.  
25 The term of each license shall be a period of five years and may be  
26 renewed by the commissioner.

27 (b) (1) Before a pharmacy benefit manager's license shall be issued or  
28 renewed, the prospective licensee shall file a written application in  
29 such form or forms and supplements as the commissioner may require, and  
30 pay a fee of ten thousand dollars.

31 (2) Every license issued pursuant to this section may be renewed by  
32 filing the application and paying the fees at least sixty days prior to  
33 the expiration of the license, upon which the license shall continue in  
34 full force and effect until either (A) the issuance by the commissioner  
35 of the renewed license or (B) five business days after the commissioner  
36 shall have given notice to the applicant that the commissioner has  
37 rejected the renewal.

38 (c) The commissioner may refuse to issue or renew a pharmacy benefit  
39 manager's license if, in the commissioner's judgment, the applicant or  
40 any member, principal, officer or director of the applicant, is not  
41 trustworthy or competent to act as a pharmacy benefit manager, or if the  
42 commissioner is aware of cause for revocation or suspension of such  
43 license. The commissioner shall notify the licensee of a determination  
44 to reject the application for the license or renewal and an explanation  
45 of the cause for rejection, and shall provide a reasonable opportunity  
46 for the licensee to be heard under subdivision eight of this section.

47 (d) Licensees shall be subject to examination at any time by the  
48 commissioner.

49 8. Revocation or suspension of a license. (a) The commissioner, upon  
50 his or her own investigation or complaint from another party, may  
51 revoke, suspend or refuse to renew a license if, after notice and hear-  
52 ing, the commissioner determines that the licensee, has, in relation to  
53 pharmacy benefit management or the operation of the pharmacy benefit  
54 manager:

55 (1) violated any law, regulation, subpoena or order of the commission-  
56 er, or of another state that would constitute a violation in New York;

- 1 (2) provided materially incorrect, materially misleading, materially  
2 incomplete or materially untrue information in a license application;  
3 (3) obtained or attempted to obtain a license through misrepresen-  
4 tation or fraud;  
5 (4) used fraudulent, coercive or dishonest practices;  
6 (5) demonstrated incompetence;  
7 (6) demonstrated untrustworthiness;  
8 (7) demonstrated financial irresponsibility in the conduct of the  
9 business;  
10 (8) improperly withheld, misappropriated or converted any monies or  
11 properties;  
12 (9) intentionally misrepresented the terms of an actual or proposed  
13 contract with any party;  
14 (10) been convicted of a felony;  
15 (11) had a pharmacy benefit manager license, or its equivalent,  
16 denied, suspended or revoked in any other state, province, district or  
17 territory; or  
18 (12) ceased to meet the requirements for licensure under this section.

19 (b) Before revoking, suspending or refusing to renew a license, the  
20 commissioner shall give notice to the licensee and shall hold, or cause  
21 to be held, a hearing as provided under section twelve-a of this chap-  
22 ter. The commissioner shall also give notice to health plans and provid-  
23 ers under contract with the pharmacy benefit manager, to the extent  
24 known to the commissioner.

25 (c) If a license is revoked or suspended, the commissioner shall give  
26 notice to the licensee and health plans and providers under contract  
27 with the pharmacy benefit manager to the extent known to the commission-  
28 er.

29 9. Change of address. A registrant or licensee under this section  
30 shall inform the commissioner by a means acceptable to the commissioner  
31 of a change of address within thirty days of the change.

32 10. Violations. Any provision of a contract that violates the  
33 provisions of this section shall be deemed to be void and unenforceable.

34 § 2. Severability. If any provision of this act, or any application  
35 of any provision of this act, is held to be invalid, or ruled by any  
36 federal agency to violate or be inconsistent with any applicable federal  
37 law or regulation, that shall not affect the validity or effectiveness  
38 of any other provision of this act, or of any other application of any  
39 provision of this act.

40 § 3. This act shall take effect on the ninetieth day after it shall  
41 become a law and shall apply to any contract for providing pharmacy  
42 benefit management made or renewed on or after that date. Effective  
43 immediately, the commissioner of health shall make regulations and take  
44 other actions reasonably necessary to implement this act on that date.

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**NEW YORK STATE ASSEMBLY**  
**MEMORANDUM IN SUPPORT OF LEGISLATION**  
**submitted in accordance with Assembly Rule III, Sec 1(f)**

**BILL NUMBER:** A10985

**SPONSOR:** Gottfried

**TITLE OF BILL:** An act to amend the public health law, in relation to pharmacy benefit managers; and to repeal certain provisions of such law relating thereto

**PURPOSE OR GENERAL IDEA OF BILL:**

This bill requires licensure for pharmacy benefit managers (PBMs) and specifies their duties and obligations as service providers.

**SUMMARY OF SPECIFIC PROVISIONS:**

The bill amends Public Health Law § 280-a to provide that PBMs have a fiduciary relationship with health plan or health care provider clients, require that funds they receive belong to the client except for fees for services specifically provided for by contract, require full disclosure to clients, and bars the substitution of prescribed drugs (subdivisions 1-3).

Subdivision 4 is current subdivision 2 renumbered, and subdivision 5 renumbers a provision that was added as part of the 2018 state budget.

Subdivisions 6 through 9 require PBMs to be licensed, renewable every five years, with a fee of \$10,000. The bill establishes grounds and procedure for suspension, revocation or refusal to grant or renew a license. Existing PBMs are provided an additional 180 days to comply with the initial licensure. Grounds for disciplinary action include fraudulent applications or practices, incompetence, financial irresponsibility, and felony conviction, with appropriate notice and opportunity for a PBM to be heard and defend against the charges.

**JUSTIFICATION:**

PBMs are companies that manage prescription drug benefit programs for health plans. PBMs promote themselves as saving money for health plans and their members, but in reality, their negotiations and the discounts or rebates they get from drug companies are very secretive. PBMs commonly pocket payments from drug manufacturers that ought to be used to lower drug prices, and they accept payments in exchange for giving preference to more expensive drugs. Like a real estate broker or a lawyer, they ought to be required to act in the best interests of the client (i.e., fiduciary relationship). This bill would require that PBMs be licensed by the Health Department and conform to standards established by the Department.

**PRIOR LEGISLATIVE HISTORY:**

New bill

**FISCAL IMPLICATIONS:**

None

**EFFECTIVE DATE:**

90 days after it shall become law.