

# **Survey of Dispensing Costs of Pharmaceuticals in the State of Oregon**

Prepared for the  
Oregon Department of Human Services

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# Table of Contents

<b>CHAPTER 1: EXECUTIVE SUMMARY .....</b>	<b>4</b>
INTRODUCTION.....	4
SUMMARY OF FINDINGS.....	4
<i>Table 1.1 Dispensing Cost Per Prescription – Excluding Specialty Pharmacies .....</i>	<i>5</i>
CONCLUSIONS .....	5
<b>CHAPTER 2: PROGRAM OVERVIEW .....</b>	<b>7</b>
OREGON HEALTH PLAN PHARMACY PROGRAM OVERVIEW .....	7
PROGRAM UTILIZATION.....	8
<i>Table 2.1 Summary of Oregon Health Plan Fee-For-Service Pharmacy Program Utilization .....</i>	<i>10</i>
<b>CHAPTER 3: DISPENSING COST SURVEY .....</b>	<b>11</b>
METHODOLOGY OF THE DISPENSING COST SURVEY .....	12
<i>Survey Distribution.....</i>	<i>12</i>
<i>Table 3.1 Pharmacies Responding to Dispensing Cost Survey.....</i>	<i>13</i>
<i>Tests for Reporting Bias.....</i>	<i>13</i>
<i>Receipt and Review Procedures .....</i>	<i>14</i>
<i>Field Examination Procedures .....</i>	<i>14</i>
COST FINDING PROCEDURES .....	14
<i>Overhead Costs.....</i>	<i>15</i>
<i>Labor Costs.....</i>	<i>18</i>
<i>Owner Compensation Issues.....</i>	<i>18</i>
<i>Determining Compensation Allowances for Owner Pharmacists.....</i>	<i>19</i>
<i>Determining Compensation Allowances for Owner Non-Pharmacists .....</i>	<i>20</i>
<i>Sensitivity Analysis of Owner Compensation Limits.....</i>	<i>20</i>
<i>Overall Labor Cost Constraints .....</i>	<i>20</i>
<i>Inflation Factors .....</i>	<i>21</i>
DISPENSING COST ANALYSIS AND FINDINGS .....	21
<i>Table 3.2 Dispensing Cost Per Prescription – All Responding Pharmacies.....</i>	<i>22</i>
<i>Table 3.3 Dispensing Cost Per Prescription - Specialty Versus Other Pharmacies.....</i>	<i>23</i>
<i>Table 3.4 Dispensing Cost Per Prescription – Excluding Specialty Pharmacies .....</i>	<i>24</i>
<i>Table 3.5 Dispensing Cost by Pharmacy Total Annual Prescription Volume<sup>A</sup>.....</i>	<i>24</i>
<i>Table 3.6 Statistics for Pharmacy Total Annual Prescription Volume<sup>A</sup>.....</i>	<i>25</i>
COMPONENTS OF DISPENSING COST .....	25
<i>Table 3.7 Components of Prescription Dispensing Cost<sup>A</sup>.....</i>	<i>26</i>
EXPENSES NOT ALLOCATED TO THE COST OF DISPENSING.....	26
<i>Table 3.8 Non-Allocated Expenses Per Prescription<sup>A</sup> .....</i>	<i>27</i>

## EXHIBITS

- Exhibit 1 Oregon Health Plan Pharmacy Cost Report
- Exhibit 2 Oregon Health Plan Pharmacy Cost Report Instructions
- Exhibit 3 Letter from the Oregon Department of Human Services Regarding Pharmacy Dispensing Cost Survey
- Exhibit 4a Initial Letter from Myers and Stauffer for Dispensing Cost Survey (Independent Pharmacies)
- Exhibit 4b Initial Letter from Myers and Stauffer for Dispensing Cost Survey (Chain Pharmacies)
- Exhibit 5a Second Letter from Myers and Stauffer for Dispensing Cost Survey (Independent Pharmacies)
- Exhibit 5b Second Letter from Myers and Stauffer for Dispensing Cost Survey (Chain Pharmacies)
- Exhibit 6a Third Letter from Myers and Stauffer for Dispensing Cost Survey (Independent Pharmacies)
- Exhibit 6b Third Letter from Myers and Stauffer for Dispensing Cost Survey (Chain Pharmacies)
- Exhibit 7a Field Examination Notification Letter from Myers and Stauffer
- Exhibit 7b Field Examination Confirmation Letter from Myers and Stauffer
- Exhibit 7c Field Examination "Thank You" Letter from Myers and Stauffer
- Exhibit 8 Summary of Field Examination Findings
- Exhibit 9 Construction and Application of Owner Pharmacist Salary Limits
- Exhibit 10 Table of Inflation Factors for Dispensing Cost Survey
- Exhibit 11 Histogram of Pharmacy Dispensing Cost
- Exhibit 12 Pharmacy Dispensing Cost Survey Data - Statistical Summary
- Exhibit 13 Table of Zip Codes, Counties and Metropolitan / Micropolitan / Rural Locations
- Exhibit 14 Charts Relating to Pharmacy Total Prescription Volume:
  - A: Histogram of Pharmacy Total Prescription Volume
  - B: Scatter-Plot of Relationship Between Dispensing Cost per Prescription and Total Prescription Volume
- Exhibit 15 Summary of Pharmacy Attributes
- Exhibit 16 Chart of Components of Dispensing Cost per Prescription

# Chapter 1: Executive Summary

## ***Introduction***

Under contract to the Oregon Department of Human Services, Myers and Stauffer LC performed a study of pharmacy dispensing cost. The dispensing study followed the methodology and used a survey instrument similar to those used by Myers and Stauffer in Medicaid pharmacy engagements in several other states.

There were 723 pharmacy providers enrolled in the fee-for-service pharmacy program of the Oregon Health Plan with paid claims between July 1, 2008 to June 30, 2009. All 723 of these pharmacies were requested to submit survey information for this study.

Myers and Stauffer performed desk review procedures to test completeness and accuracy for all dispensing cost surveys submitted. Additionally, on-site field visits were performed at 13 pharmacies to validate reported costs.

There were 265 pharmacies that filed cost surveys that could be included in this analysis. Data from these surveys was used to calculate the average cost of dispensing at each pharmacy and results from these pharmacies were tabulated and subjected to statistical analysis.

## ***Summary of Findings***

Per the survey of pharmacy dispensing cost for pharmacies participating in the Oregon Health plan pharmacy program, the statewide average (mean) cost of dispensing, weighted by Oregon Health Plan volume, was \$10.72 per prescription. This figure excludes three specialty pharmacies, which exhibited a significantly different cost structure.

**Table 1.1 Dispensing Cost Per Prescription – Excluding Specialty Pharmacies**

Pharmacies Included in Analysis <sup>B</sup>	262
Unweighted Average (Mean) <sup>A</sup>	\$11.15
Weighted Average (Mean) <sup>A, C</sup>	\$10.72
Unweighted Median <sup>A</sup>	\$10.50
Weighted Median <sup>A, C</sup>	\$10.65

<sup>A</sup> Inflated to common point of December 31, 2009 (midpoint of state fiscal year ending June 30, 2010) using the Employment Cost Index (ECI) (all civilian, all workers; seasonally adjusted) as published by the Bureau of Labor Statistics.

<sup>B</sup> Excludes three specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or blood factor prescriptions constituted 10% or more of their volume of prescription sales dollars.

<sup>C</sup> Weighted by Oregon Health Plan volume.

## **Conclusions**

There are several factors that should be considered in determining an appropriate Medicaid pharmacy reimbursement formula besides dispensing costs incurred by pharmacies. These factors include drug acquisition costs and market dynamics (e.g., the rates accepted from commercial third-party payers) balanced with the need to maintain sufficient access to services for Medicaid recipients throughout the state.

Perhaps the most important factor to consider is the need to maintain sufficient patient access to pharmacy services for Medicaid recipients throughout the state.<sup>1</sup> Medicaid pharmacy programs must be aware of the issue of accessibility of services and ensure that reimbursement levels are adequate to provide Medicaid recipients with reasonable levels of access to pharmacy services. One way to evaluate accessibility to services is to analyze pharmacy participation levels as well as any additional data sources available for tracking complaints about recipient access to services. A high level of pharmacy participation and low levels of complaints about access might suggest that there are not any problems regarding access to services under the current Oregon Health Plan reimbursement levels.

<sup>1</sup> Medicaid programs are required to address the issue of accessibility of services and ensure that reimbursement levels are adequate to provide recipients with reasonable levels of access to services. Federal statutes at 42 USC 1396a(a)(30)(A) (and corresponding regulations at 42 CFR 447.204) state that the Medicaid program must "assure that payments are consistent with efficiency, economy, and quality of care and are sufficient to enlist enough providers so that care and services are available under the plan at least to the extent that such care and services are available to the general population in the geographic area."

An analysis of market dynamics, including the payment rates accepted by pharmacies from other payers, should also be a key component of the assessment of Medicaid dispensing fees. One recent survey of pharmacy reimbursement rates from third-party payers reported an average dispensing fee to retail pharmacies for brand name drugs of \$1.57 and average ingredient reimbursement of AWP minus 16.4%.<sup>2</sup>

Cost of providing services is also a consideration for the evaluation of the adequacy of Medicaid pharmacy dispensing and ingredient reimbursement rates. A comparison of current pharmacy reimbursement rates with provider cost should consider findings related to dispensing cost in conjunction with ingredient reimbursement rates and the cost pharmacies incur to acquire prescription medications. The Department's current pharmacy dispensing fee is lower than the average cost of dispensing prescriptions. However, Myers and Stauffer estimates that pharmacies realize positive net margins, on the average, for Medicaid prescriptions due to margins on drug ingredient cost.

In view of current market dynamics for pharmacy reimbursement and the level of access of Medicaid recipients to pharmacy services, it may be reasonable to consider a dispensing fee that is less than the average dispensing cost observed in the study. This is particularly the case if current levels of ingredient reimbursement are maintained. If an increase to the current pharmacy dispensing fee of \$3.50 per prescription for retail pharmacies and \$3.91 for institutional pharmacies were to be considered, such a change would be most appropriately combined with a decrease to pharmacy ingredient reimbursement.

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<sup>2</sup> See *2009-2010 Prescription Drug Benefit Cost and Plan Design Report*, Pharmacy Benefits Management Institute, Inc. and Takeda Pharmaceuticals North America, Inc.

# Chapter 2: Program Overview

## ***Oregon Health Plan Pharmacy Program Overview***

The Oregon Health Plan includes a benefit for prescription drugs. Approximately 80% of Oregon Health Plan clients receive health care services, including pharmacy benefits, through managed care companies. For the remaining clients, pharmacy services are provided through the fee-for-service program of the Oregon Health Plan.

Under the fee-for-service program of the Oregon Health Plan, reimbursement for pharmacy services is based on the lowest of the pharmacy's billed amount (i.e., usual and customary charge) or the Estimated Acquisition Cost (EAC) of the generic form, minus any applicable co-payments, plus a professional dispensing fee.<sup>3</sup>

The EAC is the lesser of:

- Federal Upper Limit (FUL) for multi-source drugs.
- The Oregon Maximum Allowable Cost (OMAC).
- Discounted Average Wholesale Price (AWP). The discounted AWP currently applied is
  - Retail pharmacies: 85% of AWP.
  - Institutional pharmacies: 89% of AWP (for long-term care clients in a nursing facility or community-based living facility).
  - Contracted mail order pharmacies:
    - 79% of AWP for single-source drugs
    - 32% of AWP for multiple-source drugs
    - 80% of AWP for injectable drugs

The current pharmacy dispensing fee for the Oregon Health Plan is \$3.50 for retail pharmacies and \$3.91 for institutional pharmacies. Compound prescriptions with two or more ingredients have a dispensing fee of \$7.50.

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<sup>3</sup> See Oregon Administrative Rules: OAR 410-121-0155 and OAR 410-121-0160.

FUL prices are set by CMS. FUL prices are currently based on 150% of the lowest wholesale price listed in any of the various published sources of cost information of drugs in accordance with 42 CFR 447.332.

Recent changes enacted by the Deficit Reduction Act of 2005 (DRA) will modify the methodology for calculating FUL prices. Per the DRA, beginning January 1, 2007, FUL prices are required to be based on 250% of the “average manufacturer price” (AMP).<sup>4</sup> The AMP was previously defined by Section 1927 of the Social Security Act as part of the Medicaid drug rebate program. Significant concern has existed among stakeholders in the pharmacy industry regarding the precise manner in which CMS will calculate FUL prices under the new statutory guidelines.<sup>5</sup>

Implementation of the AMP-based FUL prices did not begin on January 1, 2007 as specified in the DRA. Proposed regulations from CMS relating to the calculation of FUL prices based on the AMP were published in the *Federal Register* on December 22, 2006 and a final rule was published on July 17, 2007. These changes to the methodology to calculate FUL prices are codified at 42 CFR 447.514.<sup>6</sup> Most recently, implementation of the modified methodology to calculate FUL prices was delayed until October 2009 by Congress’ passage of Public Law 110-275, the *Medicare Improvements for Patients and Providers Act*, in July 2008. In August 2008, CMS announced that new FUL prices will continue to be calculated and published using the methodology established at 42 CFR 447.332 through September 2009. To date, CMS has yet to issue new FUL prices that are based on AMP.

In accordance with the Oregon Administrative Rules (see OAR 410-121-0320), OMAC prices are determined by a Pharmacy Benefits Manager under contract to the Division of Medical Assistance Programs of the Department of Human Services.

## **Program Utilization**

Myers and Stauffer received a pharmacy provider file from the Department Human Services. This file included all pharmacies receiving Oregon Health Plan fee-for-service reimbursement during the time period of July 1, 2008 to June 30, 2009.

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<sup>4</sup> See Public Law 109-171, Section 6001(a)(2).

<sup>5</sup> See, for example, Office of the Inspector General report A-06-06-00063, “Determining Average Manufacturer Prices for Prescription Drugs Under the Deficit Reduction Act of 2005”, May 2006 and Government Accountability Office report GAO-07-239R, “Estimated 2007 Federal Upper Limits for Reimbursement Compared with Retail Pharmacy Acquisition Costs”, December 2006.

<sup>6</sup> See “Medicaid Program; Prescription Drugs; Final Rule.” *Federal Register*, 72: 136 (17 July 2007).

Based on the information in the provider file, for the twelve month time period of data summarized, the fee-for service pharmacy program of the Oregon Health Plan reimbursed:

- Approximately 2.0 million prescriptions.
- Approximately \$145.5 million for prescription drug products.

Based on the data in the provider file, approximately 723 pharmacy providers participate in the Oregon Health Plan pharmacy program. Approximately 67% of the pharmacies in the provider file were chain-affiliated, and 33% were independently-owned stores. Chain-affiliated pharmacies were responsible for approximately 57% of the Oregon Health Plan prescription volume.

The mean Oregon Health Plan volume for enrolled pharmacies was 2,746 prescriptions. The median Oregon Health Plan volume for enrolled pharmacies was 1,748 prescriptions.

Myers and Stauffer also obtained a drug utilization summary file for the Oregon Health Plan fee-for-service program from the web site of the Centers for Medicare and Medicaid Services (CMS).<sup>7</sup> This file summarized pharmacy claims processed for calendar year 2008. Information from this file indicates that the Oregon Health Plan fee-for service pharmacy program reimbursed:

- Approximately 12,300 unique NDCs.
- 1.74 million prescriptions.
- \$151.0 million for prescription drug products.

Approximately 16.2% of the 12,300 unique NDCs and 22.6% of the 1.74 million prescriptions were for single source products. However, these products account for 62.5% (\$94.4 million) of the expenditures.

Table 2.1 summarizes the Oregon Health Plan fee-for-service pharmacy program's expenditures for calendar year 2008 by single source and multi-source categories. The table also subdivides drug products based on whether the product has a Federal Upper Limit and/or an Oregon Maximum Allowable Cost.

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<sup>7</sup> See <http://www.cms.hhs.gov/MedicaidDrugRebateProgram/SDUD/list.asp>

**Table 2.1 Summary of Oregon Health Plan Fee-For-Service Pharmacy Program Utilization**

	Product Type <sup>1</sup>	Number of Drug Products <sup>2</sup>	Percent of Total Number of Drug Products	Number of Rxs	Percent of Total Number of Rxs	Amount Reimbursed	Percent of Program Expenditures
	Single Source Products	1,994	16.2%	0.39 million	22.6%	\$94.4 million	62.5%
Multi-Source Products	All Multi-Source Products	10,306	83.8%	1.35 million	77.4%	\$56.6 million	37.5%
	<i>Multi-Source Products with an FUL Price<sup>3</sup></i>	4,925	40.0%	0.83 million	47.6%	\$13.4 million	8.9%
	<i>Multi-Source Products with an OMAC Price<sup>4</sup></i>	7,179	58.4%	1.13 million	64.8%	\$42.0 million	27.8%
	<i>Multi-Source Products with neither an FUL nor OMAC Price<sup>3,4</sup></i>	2,149	17.5%	0.14 million	8.1%	\$13.2 million	8.8%
	<b>All Products</b>	<b>12,300</b>	<b>100.0%</b>	<b>1.74 million</b>	<b>100.0%</b>	<b>\$151.0 million</b>	<b>100.0%</b>

<sup>1</sup> Single source versus multi-source is primarily based on the First DataBank field "Multi-Source/Single Source Indicator (NDCG1)"

<sup>2</sup> Based on unique national drug code (NDC).

<sup>3</sup> Existence of FUL prices is based upon January 2009 prices published by First DataBank (may overlap products with an OMAC price).

<sup>4</sup> Existence of OMAC prices is based upon November 2009 prices published by the Oregon Department of Human Services (may overlap products with an FUL price).

Utilization figures were obtained from the Centers for Medicare and Medicaid Services and are for calendar year 2008.

Some totals may not sum due to rounding.

# Chapter 3: Dispensing Cost Survey

The Oregon Department of Human Services, engaged Myers and Stauffer LC to perform a study of costs incurred by pharmacies participating in the Oregon Health Plan to dispense prescription medications. There are two primary components related to the provision of prescription medications: dispensing cost and drug ingredient cost. Dispensing cost consists of the overhead and labor costs incurred by a pharmacy to fill prescription medications.

In its final rule to implement provisions of the Deficit Reduction Act of 2005 (DRA), the Centers for Medicare and Medicaid Services (CMS) have provided some basic guidelines for appropriate costs to be reimbursed via a Medicaid pharmacy dispensing fee. CMS guidelines state:

*“Dispensing fee means the fee which—*

*(1) Is incurred at the point of sale or service and pays for costs in excess of the ingredient cost of a covered outpatient drug each time a covered outpatient drug is dispensed;*

*(2) Includes only pharmacy costs associated with ensuring that possession of the appropriate covered outpatient drug is transferred to a Medicaid recipient. Pharmacy costs include, but are not limited to, reasonable costs associated with a pharmacist’s time in checking the computer for information about an individual’s coverage, performing drug utilization review and preferred drug list review activities, measurement or mixing of the covered outpatient drug, filling the container, beneficiary counseling, physically providing the completed prescription to the Medicaid beneficiary, delivery, special packaging, and overhead associated with maintaining the facility and equipment necessary to operate the pharmacy; and*

*(3) Does not include administrative costs incurred by the State in the operation of the covered outpatient drug benefit including systems costs for interfacing with pharmacies.”<sup>8</sup>*

In order to determine costs incurred to dispense pharmaceuticals to Medicaid recipients in the state of Oregon, Myers and Stauffer utilized a survey method consistent with CMS guidelines and the methodology of previous surveys conducted by Myers and Stauffer in several states.

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<sup>8</sup> See “Medicaid Program; Prescription Drugs; Final Rule.” Federal Register, 72: 136 (17 July 2007), p. 39240. These guidelines are codified at 42 CFR 47.502.

## **Methodology of the Dispensing Cost Survey**

### **Survey Distribution**

Myers and Stauffer obtained from the Department a list of pharmacy providers currently enrolled in the Medicaid program. There were 723 pharmacy providers enrolled in the Oregon Health Plan with paid claims between July 1, 2008 to June 30, 2009. All 723 of these pharmacies were requested to submit survey information for this study. Survey forms were initially distributed on January 13, 2010. Each pharmacy received a copy of the cost survey (Exhibit 1), a list of instructions (Exhibit 2), a letter of introduction from the Department of Human Services (Exhibit 3), and a letter of explanation from Myers and Stauffer (Exhibit 4a and Exhibit 4b).

Concerted efforts to encourage participation were made to enhance the survey response rate. Myers and Stauffer sent additional letters reminding pharmacies of the survey on February 8, 2010 (see Exhibits 5a and 5b) and February 24, 2010 (see Exhibits 6a and 6b). The survey forms, instructions and a letter of explanation from Myers and Stauffer offered pharmacy owners the option of having Myers and Stauffer complete certain sections of the survey form if copies of financial statements and/or tax returns were supplied. A toll-free telephone number was listed on the survey form, and pharmacists were urged to call to resolve any questions they had concerning completion of the survey form.

Providers were given instructions to report themselves as ineligible for the survey if they met certain criteria. Pharmacies were to be deemed ineligible if they had closed their pharmacy, had a change of ownership, or had less than six months of cost data available (e.g., due to a pharmacy that recently opened, or changed ownership). Of the 723 surveyed pharmacies, no pharmacies were determined to be ineligible to participate (based on the returned surveys).

Surveys were accepted through April 20, 2010. As indicated in Table 3.1, there were 265 pharmacies (out of 723 eligible pharmacies) that submitted a usable cost survey for this study, which is a response rate of 36.7%.

Some of the submitted cost surveys contained errors or did not include complete information necessary for full evaluation. For cost surveys with such errors or omissions, the pharmacy was contacted for clarification. There were some cases in which issues on the cost survey were not resolved in time for inclusion in the final analysis.<sup>9</sup>

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<sup>9</sup> There were five surveys received on or before April 20, 2010 that were eventually determined to be unusable because they were substantially incomplete or missing essential information. These issues could not be resolved in a timely manner with the submitting pharmacy.

The following table, 3.1, summarizes the cost survey response rate.

**Table 3.1 Pharmacies Responding to Dispensing Cost Survey**

Pharmacy Category	Total Medicaid Enrolled Pharmacies	Pharmacies Receiving Cost Surveys	Pharmacies Exempt or Ineligible from Filing	Eligible Pharmacies	Usable Cost Surveys Received	Response Rate
<i>By pharmacy chain or independent affiliation</i>						
Chain	493	493	0	493	219	44.4%
Independent	230	230	0	230	46	20.0%
<b>TOTAL</b>	<b>723</b>	<b>723</b>	<b>0</b>	<b>723</b>	<b>265</b>	<b>36.7%</b>
<i>By pharmacy location</i>						
Metropolitan	478	478	0	478	185	38.7%
Micropolitan	150	150	0	150	54	36.0%
Rural	33	33	0	33	18	54.5%
Out of State	62	62	0	62	8	12.9%
<b>TOTAL</b>	<b>723</b>	<b>723</b>	<b>0</b>	<b>723</b>	<b>265</b>	<b>36.7%</b>

### **Tests for Reporting Bias**

For the pharmacy traits of affiliation (i.e., chain or independent) and location (i.e., metropolitan, micropolitan, rural or out-of-state), the set of surveys included in the dispensing cost analysis was tested to determine if it was representative of the population of Medicaid provider pharmacies. Since the response rate of the sample pharmacies was less than 100 percent, the possibility of bias in the responding sample should be considered. To measure the likelihood of this possible bias, chi-square ( $\chi^2$ ) tests were performed. A  $\chi^2$  test evaluates differences between proportions for two or more groups in a data set.

Of the 265 usable cost surveys, 219 were from chain pharmacies and 46 were from independent pharmacies. There was a response rate of 44.4% for chain pharmacies compared to a response rate of 20.0% for independent pharmacies. The results of the  $\chi^2$  test indicated that difference in the response rates for chain and independent pharmacies was statistically significant.

Similarly, a  $\chi^2$  test was also performed with respect to the location of the pharmacy.<sup>10</sup> The results of the  $\chi^2$  test indicated that differences in the response rate associated with out-of-state pharmacy location was also statistically

<sup>10</sup> For measurements that refer to the location of a pharmacy, Myers and Stauffer used the pharmacies' zip code and tables from the U.S. Census Bureau to determine if the pharmacy was located in a metropolitan statistical area or a "micropolitan" statistical area. Pharmacies in neither a metropolitan or micropolitan statistical area were considered to be rural. Zip codes can overlap county lines; therefore the mapping of zip codes into counties and corresponding statistical areas should be considered an approximation. Pharmacies located outside of Oregon were not assigned into the metropolitan, micropolitan or rural categories.

significant. However, the differences in response rate associated with pharmacy location for in-state pharmacies were within sampling tolerances.

### ***Receipt and Review Procedures***

For confidentiality purposes, each pharmacy was randomly assigned a four-digit identification number and each cost survey was carefully examined. A desk review was performed for each survey received. This review identified incomplete cost surveys, and pharmacies submitting these cost surveys were contacted by telephone to obtain information necessary for completion.

### ***Field Examination Procedures***

In addition to the desk review procedures, 13 pharmacies were selected for an on-site field examination. The selection was primarily random, but geographic location was taken into consideration. A letter was sent to each selected pharmacy notifying them of selection for an on-site visit, the time period during which the field examination would take place, and the necessary data to have available (Exhibit 7a). Each pharmacy was then contacted by telephone for further explanation of the field examination and scheduling of a specific time and date. A second letter was sent to pharmacies confirming the time and date of the field examination with additional details regarding documentation to have available (Exhibit 7b). An examination file was prepared for each of the pharmacies containing a uniform field examination program, a copy of the completed reviewed cost survey and other necessary work papers.

Following the actual visit to the pharmacy, work papers were completed and reviewed for quality assurance. A follow-up letter was sent to each pharmacy visited expressing appreciation for the time and cooperation of pharmacy personnel (Exhibit 7c). Results of the field examinations showed no significant bias in overstating or understating costs reported on the cost survey (Exhibit 8).

### ***Cost Finding Procedures***

For all pharmacies, the basic formula used to determine the average dispensing cost per prescription was to calculate the total dispensing-related cost and divide it by the total number of prescriptions dispensed:

$$\text{Average Dispensing Cost} = \frac{\text{Total (Allowable) Dispensing Related Cost}}{\text{Total Number of Prescriptions Dispensed}}$$

Determining the result of this equation can be complex since not all costs are strictly related to the prescription dispensing function of the pharmacy. Most

pharmacies are also engaged in lines of business other than the dispensing of prescription drugs. For example, many pharmacies have a retail business with sales of over-the-counter (OTC) drugs and other non-medical merchandise. Some pharmacies are involved in the sale of durable medical equipment. The existence of these other lines of business necessitates that procedures be taken to isolate the costs involved in the prescription dispensing function of the pharmacy.

Cost finding is the process of recasting cost data using rules or formulas in order to accomplish an objective. In this study, the objective is to estimate the cost of dispensing prescriptions to Medicaid recipients. To accomplish this objective, some pharmacy costs must be allocated between the prescription dispensing function and other business activities. This process identified the reasonable and allowable costs necessary for prescription dispensing to Medicaid recipients.

Dispensing cost consists of two main components: overhead and labor. The cost finding rules employed to determine each of these components are described in the following sections.

### **Overhead Costs**

Overhead cost per prescription was calculated by summing the allocated overhead of each pharmacy and dividing this sum by the number of prescriptions dispensed. We allocated overhead expenses that were reported for the entire pharmacy to the prescription department based on one of the following allocation methods:

- Sales ratio – prescription sales divided by total sales.
- Area ratio – prescription department floor space (in square feet) divided by total floor space.
- All, or 100% – overhead costs that are entirely related to prescription functions.
- None, or 0% – overhead costs that are entirely related to non-prescription functions.

Overhead costs that were considered *entirely prescription-related* include:

- Prescription department licenses.
- Prescription delivery expense.
- Prescription computer expense.
- Prescription containers and labels (For many pharmacies the costs associated with prescription containers and labels is captured in their cost of goods. Subsequently, it was often the case that a pharmacy was unable to

report expenses for prescription containers and labels. In order to maintain consistency, a minimum allowance for prescription containers and labels was determined to use for pharmacies that did not report an expense amount for containers and labels. The allowance was set at the 95<sup>th</sup> percentile of prescription containers and labels expense per prescription for pharmacies that did report prescription containers and labels expense: \$0.4051 per prescription).

- Certain other expenses that were separately identified on Lines 22a through 22s<sup>11</sup> of the cost survey (Exhibit 1).

Overhead costs that were *not allocated as a prescription expense* include:

- Income taxes<sup>12</sup>
- Bad debts<sup>13</sup>
- Advertising<sup>14</sup>
- Charitable Contributions<sup>15</sup>

Certain costs reported on Lines 22a through 22s of the cost survey were occasionally excluded. An example is freight expense, which usually relates only to nonprescription purchases or cost of goods sold.

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<sup>11</sup> "Other" expenses were analyzed to determine the appropriate basis for allocation of each expense: sales ratio, area ratio, 100% related to dispensing cost or 0% (not allocated).

<sup>12</sup> Income taxes are not considered an operational cost because they are based upon the profit of the pharmacy operation. Although a separate line was provided for the state income taxes of corporate filers, these costs were not included in this study as a prescription cost. This provides equal treatment to each pharmacy, regardless of the type of ownership.

<sup>13</sup> The exclusion of bad debts from the calculation of dispensing costs is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub.15-1, Section 304. "The allowance of unrecovered costs attributable to such bad debts in the calculation of reimbursement by the Program results from the expressed intent of Congress that the costs of services covered by the Program will not be borne by individuals not covered, and the costs of services not covered by the Program will not be borne by the Program." It is recognized that some bad debts may be the result of Medicaid co-payments that were not collected. However, it was not possible to isolate the amount of bad debts attributable to uncollected Medicaid co-payments from the survey data. Additionally, there may be programmatic policy reasons to exclude uncollected Medicaid co-payments from the calculation of the cost of dispensing. Inclusion of cost for uncollected co-payments in the dispensing fee might serve to remove incentives for pharmacies to collect Medicaid co-payments when applicable. Given that co-payments were established to bring about some measure of cost containment, it may not be in the best interest of a Medicaid pharmacy program to allow uncollected co-payments to essentially be recaptured in a pharmacy dispensing fee.

<sup>14</sup> The exclusion of most types of advertising expense is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15.1, Section 2136.2. "Costs of advertising to the general public which seeks to increase patient utilization of the provider's facilities are not allowable."

<sup>15</sup> Individual proprietors and partners are not allowed to deduct charitable contributions as a business expense for federal income tax purposes. Any contributions made by their business are deducted along with personal contributions as itemized deductions. However, corporations are allowed to deduct contributions as a business expense for federal income tax purposes. Thus, while Line 14 on the cost report recorded the business contributions of a corporation, none of these costs were allocated as a prescription expense. This provides equal treatment for each type of ownership.

The remaining expenses were assumed to be related to *both prescription and nonprescription sales*. Joint cost allocation is necessary to avoid understating or overstating the cost of filling a prescription.

Those overhead costs allocated on the *area ratio* (as previously defined) include:

- Depreciation
- Real estate taxes
- Rent <sup>16</sup>
- Repairs
- Utilities

The costs in these categories were considered a function of floor space.<sup>17</sup> The floor space ratio was increased by 50% from that reported on the original cost survey to allow for waiting and counseling areas for patients and prescription department office area. The resulting ratio was adjusted downward, when necessary, not to exceed the sales ratio (in order to avoid allocating 100% of these costs in the instance where the prescription department occupies the majority of the area of the store).

Overhead costs allocated using the *sales ratio* include:

- Personal property taxes
- Other taxes
- Insurance
- Interest
- Accounting and legal fees
- Telephone and supplies
- Dues and publications

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<sup>16</sup> The survey instrument included these special instructions for reporting rent: "Overhead costs reported on the cost report must be resulting from arms-length transactions between non-related parties. Related parties include, but are not limited to, those related by family, by business or financial association, and by common ownership or control. The most common non-arms-length transaction involves rental of property between related parties. The only allowable expense of such transactions for cost determination purposes would be the actual costs of ownership (depreciation, taxes, interest, etc., for the store area only)." This treatment of related-party expenses is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15-2, Section 3614: "Cost applicable to home office costs, services, facilities, and supplies furnished to you by organizations related to you by common ownership or control are includable in your allowable cost at the cost to the related organizations. However, such cost must not exceed the amount a prudent and cost conscious buyer pays for comparable services, facilities, or supplies that are purchased elsewhere."

<sup>17</sup> Allocation of certain expenses using a ratio based on square footage is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15-2, Section 3617.

## **Labor Costs**

Labor costs are calculated by allocating total salaries, payroll taxes, and benefits based on the percent of time spent in the prescription department. The allocations for each labor category were summed and then divided by the number of prescriptions dispensed to calculate labor cost per prescription. There are various classifications of salaries and wages requested on the cost survey (Lines 24 through 27) due to the different cost treatment given to each labor classification.

Although some employee pharmacists spent a portion of their time performing nonprescription duties, it was assumed in this study that their economic productivity when performing nonprescription functions was less than their productivity when performing prescription duties. The total salaries, payroll taxes, and benefits of employee pharmacists (Lines 25a through 25j of the cost survey) were multiplied by a factor based upon the percent of prescription time. Therefore, a higher percentage of salaries, payroll taxes, and benefits was allocated to prescription labor costs than would have been allocated if a simple percent of time allocation were utilized. Specifically, the percent of prescription time indicated was adjusted by the following formula:<sup>18</sup>

$$\frac{(2)(\% Rx Time)}{(1 + (\% Rx Time))}$$

The allocation of salaries, payroll taxes, and benefits for all other prescription employees (Lines 26a through 26h) was based directly upon the percentage of time spent in the prescription department as indicated on the individual cost survey. For example, if the reported percentage of prescription time was 75 percent and total salaries were \$10,000, then the allocated prescription cost would be \$7,500.

## **Owner Compensation Issues**

Since compensation reported for pharmacy owners are not costs that have arisen from arm's length negotiations, they are not similar to other costs. A pharmacy owner has a different approach toward other expenses than toward his/her own salary. In fact, owners often pay themselves above the market costs of securing the services of an employee to perform similar services. This excess effectively

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<sup>18</sup> Example: An employee pharmacist spends 90 percent of his/her time in the prescription department. The 90 percent factor would be modified to 95 percent:  $(2)(0.9)/(1+0.9) = 0.95$ . Thus, 95 percent of the reported salaries, payroll taxes, and benefits would be allocated to the prescription department. It should be noted that most employee pharmacists spent 100 percent of their time in the prescription department.

represents a withdrawal of business profits, not a cost of dispensing. Some owners may underpay themselves for business reasons, which would also misrepresent the true dispensing cost.

For purposes of calculating a cost of dispensing that was not distorted by salaries that did not result from arm's-length transactions, Myers and Stauffer applied upper and lower limits to owner salaries. The limits were applied differently for owners that were pharmacists and owners that were not pharmacists.

### **Determining Compensation Allowances for Owner Pharmacists**

For owners that were pharmacists, the allocation of salaries, payroll taxes, and benefits (Lines 24a through 24e) was based upon the same modified percentage as that used for employee pharmacists. However, limitations were placed upon the allocated salaries, payroll taxes, and benefits of owner pharmacists. A factor considered in determining the allocation of owner's salaries was the variability in productivity. For example, one owner pharmacist may dispense 30,000 prescriptions per year while another may dispense 5,000. Those owner pharmacists who dispensed a greater number of prescriptions were allowed a higher salary than were owner pharmacists who dispensed a smaller number of prescriptions. Since variance is not nearly as great with respect to employee pharmacists, the owner pharmacist's salary was subjected to limits based upon employee pharmacists' salaries per prescription.

To estimate the cost that would have been incurred had an employee been hired to perform the prescription-related functions actually performed by the owner, a statistical regression technique was used. A bivariate plot shows the correlation between an independent (predictor) variable and a dependent (predicted) variable (Exhibit 9). The upper and lower limits on owner pharmacist salary were determined from a bivariate regression.<sup>19</sup> In order to accurately reflect the trend of decreasing marginal costs with increasing volume, a regression technique that fit the bivariate data to a logarithmic curve was used. The resulting regression equation to predict pharmacist labor cost at varying amounts of work performed is:

$$\text{Labor cost} = 45,710 \times \ln(\text{number of prescriptions dispensed})^{20} - 348,118$$

(where  $\ln$  represents the natural logarithm function)

This equation was used to establish limits for allocating owner pharmacist costs. There was variation in actual employee salaries both above and below this regression line. This variation is measured by the equation's *standard error of the*

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<sup>19</sup> Employee pharmacist salary per prescription was used to set limitations on owner pharmacist salary estimates due to the "arm's length" nature and lack of variance in employee productivity compared with owner productivity.

<sup>20</sup> The number of prescriptions filled by the owner pharmacist was determined by multiplying the percent of owner-filled prescriptions (Lines 24a through 24e of the cost report) by the total number of prescriptions dispensed (Line a).

estimate, \$25,299. The standard error of the estimate was used to construct upper and lower limits of owner pharmacist labor cost:

$$\begin{aligned} \text{Upper Limit} &= 45,710 \times \ln(\text{number of prescriptions dispensed}) - 306,505 \\ \text{Lower Limit} &= 45,710 \times \ln(\text{number of prescriptions dispensed}) - 361,385 \end{aligned}$$

These two constraints effectively set upper and lower thresholds at approximately the 30<sup>th</sup> and 95<sup>th</sup> percentiles of volume adjusted employee salaries. Additionally, absolute constraints were set at a \$167,283 maximum salary and a \$10,000 minimum salary. These amounts were set at the 30<sup>th</sup> and 95<sup>th</sup> percentile of volume adjusted employee salaries.

### **Determining Compensation Allowances for Owner Non-Pharmacists**

Salary limits were also applied to owner non-pharmacists, but were applied in a different manner. As with other owners, the amount shown for salaries, payroll taxes, and benefits was not a result of arm's length negotiations. Therefore, an upper limit of \$83,200 and a lower limit of \$31,200 were placed upon these labor costs. These limits were based on an analysis of salaries of employee pharmacists and were adjusted based on the reported time worked by the owner non-pharmacist.

### **Sensitivity Analysis of Owner Compensation Limits**

A sensitivity analysis of the owner labor limits was performed in order to determine the impact of the limits on the overall analysis of pharmacy dispensing cost. Of the 265 pharmacies in the cost analysis, owner limits impacted 30 pharmacies, or approximately 11%. Of these, 5 pharmacies had cost reduced as a result of application of these limits (on the basis that a portion of owner salary "cost" appeared to represent a withdrawal of profits from the business), and 25 pharmacies had cost increased as a result of the limits (on the basis that owner salaries appeared to be below their market value). In total, the final estimate of average pharmacy dispensing cost per prescription was *increased* by approximately \$0.03 as a result of the owner salary limits.

### **Overall Labor Cost Constraints**

An overall constraint was placed on the proportion of total reported labor that could be allocated as prescription labor. The constraint assumes that a functional relationship exists between the proportion of allocated prescription labor to total labor and the proportion of prescription sales to total sales. It is also assumed that a higher input of labor costs is necessary to generate prescription sales than nonprescription sales, within limits.

The parameters of the applied labor constraint are based upon an examination of data submitted by all pharmacies. These parameters are set in such a way that any resulting adjustment affects only those pharmacies with a percentage of

prescription labor deemed unreasonable. For instance, the constraint would come into play for an operation that reported 75 percent pharmacy sales and 100 percent pharmacy labor (obviously, some labor must be devoted to generating the 25 percent nonprescription sales).

To determine the maximum percentage of total labor allowed, the following calculation was made:

$$\frac{0.3(\text{Sales Ratio})}{0.1 + (0.2)(\text{Sales Ratio})}$$

A sensitivity analysis of the labor cost restraint was performed in order to determine the impact of the limit on the overall analysis of pharmacy cost. The analysis indicates that of the 265 pharmacies included in the dispensing cost analysis, this limit was applied to 3 pharmacies. The final estimate of average pharmacy dispensing cost per prescription was *decreased* by a negligible amount of less than \$0.01 as a result of this limit.

### ***Inflation Factors***

All allocated costs for overhead and labor were totaled and multiplied by an inflation factor. Inflation factors are intended to reflect cost changes from the middle of the reporting period of a particular pharmacy to a common fiscal period ending June 30, 2010 (specifically from the *midpoint* of the pharmacy's fiscal year to the *midpoint* of the common fiscal period, December 31, 2009). The midpoint and terminal month indices used were taken from the Employment Cost Index (ECI) (all civilian, all workers; seasonally adjusted) as published by the Bureau of Labor Statistics (see Exhibit 10). The use of inflation factors allows pharmacy cost data from various fiscal years to be compared uniformly.

## ***Dispensing Cost Analysis and Findings***

The dispensing costs for all pharmacies in the sample are summarized in the following tables and paragraphs. Findings for all pharmacies in the sample are presented collectively, and additionally are presented for subsets of the sample based on pharmacy characteristics. There are several statistical measurements that may be used to express the central tendency of a distribution, the most common of which are the average, or mean, and the median. Findings are presented in the forms of means and medians, both raw and weighted.<sup>21</sup>

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<sup>21</sup> **Different Measures of Central Tendency:**  
**Unweighted mean:** the arithmetic average cost for all pharmacies.

As is typically the case with dispensing cost surveys, statistical “outliers” are a common occurrence. These outlier pharmacies have dispensing costs that are not typical of the majority of pharmacies. Medians are sometimes preferred to averages (i.e., the arithmetic mean) in situations where the magnitude of outlier values results in an average that does not represent what is thought of as “average” or normal in the common sense.

For all pharmacies in the sample, findings are presented in Table 3.2.

**Table 3.2 Dispensing Cost Per Prescription – All Responding Pharmacies**

	Dispensing Cost
Unweighted Average (Mean)	\$15.81
Average (Mean) Weighted by Medicaid Volume	\$12.70
Unweighted Median	\$10.53
Median Weighted by Medicaid Volume	\$10.65

*(Dispensing Costs have been inflated to the common point of December 31, 2009)*

See Exhibit 11 for a histogram of the dispensing cost for all pharmacies in the sample. There was a large range between the highest and the lowest dispensing cost observed for pharmacies in the sample. However, the majority of pharmacies (80%) had dispensing costs between \$6.55 and \$16.73.

Several pharmacies included in the cost analysis were identified as specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion, or blood factor prescriptions constituted 10% or more of their volume of prescription sales dollars. The analysis revealed significantly higher cost of dispensing associated with three pharmacies in the sample that provided significant levels of these services.<sup>22</sup>

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**Weighted mean:** the average cost of all prescriptions dispensed by pharmacies included in the sample, weighted by prescription volume. The resulting number is the average cost for all prescriptions, rather than the average for all pharmacies as in the unweighted mean. This implies that low volume pharmacies have a smaller impact on the weighted average than high volume pharmacies. This approach, in effect, sums all costs in the sample and divides that sum by the total of all prescriptions in the sample. The weighting factor can be either total prescription volume or Medicaid prescription volume.

**Median:** the value that divides a set of observations (such as dispensing cost) in half. In the case of this survey, the median is the dispensing cost such that the cost of one half of the pharmacies in the set are less than or equal to the median and the dispensing costs of the other half are greater than or equal to the median.

**Weighted Median:** this is determined by finding the pharmacy observation that encompasses the middle value prescription. The implication is that one half of the prescriptions were dispensed at a cost of the weighted median or less, and one half were dispensed at the cost of the weighted median or more. Suppose, for example, that there were 1,000,000 Medicaid prescriptions dispensed by the pharmacies in the sample. If the pharmacies were arrayed in order of dispensing cost, the median weighted by Medicaid volume, is the dispensing cost of the pharmacy that dispensed the middle, or 500,000<sup>th</sup> prescription.

<sup>22</sup> In every pharmacy dispensing study where information on intravenous solution, home infusion and blood factor product dispensing activity has been collected by Myers and Stauffer, such activity has been found to be associated with higher dispensing costs. Discussions with pharmacists providing these services indicate that the activities and costs involved in these specialty prescriptions are significantly different from the costs incurred by the traditional retail or institutional pharmacy. The reasons for this difference include:

The difference in dispensing costs that were observed for providers of specialty services compared to those pharmacies that did not offer these specialty services is summarized in Table 3.3.

**Table 3.3 Dispensing Cost Per Prescription - Specialty Versus Other Pharmacies**

Type of Pharmacy	Number of Pharmacies	Unweighted Average (Mean) Dispensing Cost	Standard Deviation
Specialty Pharmacies (e.g., I.V. or infusion)	3	\$422.22	\$359.58
Other Pharmacies	262	\$11.15	\$5.06

*(Dispensing Costs have been inflated to the common point of December 31, 2009)*

Pharmacies that dispense specialty prescriptions as a significant part of their business often have dispensing costs far in excess of those found in a traditional pharmacy. The analyses summarized in Tables 3.4 and 3.5 below exclude the three specialty pharmacy providers. In making this exclusion, no representation is made that the cost structure of those pharmacies is not important to understand. However, it is reasonable to address issues relevant to those pharmacies separately from the cost structure of the vast majority of Oregon Health Plan pharmacy providers that provide “traditional” pharmacy services.

Table 3.4 restates the measurements noted in Table 3.2 excluding pharmacies that dispensed significant volumes of specialty prescriptions.

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- Costs of special equipment for mixing and storage of specialty products.
  - Higher direct labor costs because most specialty prescriptions must be prepared in the pharmacy, whereas the manual activities to fill traditional prescription are mainly limited to counting pills (or vials, etc.) and printing and affixing the label.
  - There is often inconsistency in the manner in which prescriptions are counted in specialty pharmacies. A specialty pharmacy may mix and deliver many “dispensings” of a daily intravenous, home infusion or blood factor product from a single prescription, counting it in their records as only one prescription. This results in dispensing costs being spread over a number of prescriptions that is smaller than if the pharmacy had counted each refill as an additional prescription.

This latter factor, in particular, can have a dramatic impact on increasing a pharmacy’s calculated cost per prescription.

**Table 3.4 Dispensing Cost Per Prescription – Excluding Specialty Pharmacies**

	Dispensing Cost
Unweighted Average (Mean)	\$11.15
Average (Mean) Weighted by Medicaid Volume	\$10.72
Unweighted Median	\$10.50
Median Weighted by Medicaid Volume	\$10.65

*(Dispensing Costs have been inflated to the common point of December 31, 2009)*

Additional statistical measures of pharmacy dispensing cost are provided in Exhibit 12. For measurements that refer to the location of a pharmacy, Myers and Stauffer used the pharmacies' zip code and tables from the U.S. Census Bureau to determine if the pharmacy was located in a metropolitan statistical area or a "micropolitan" statistical area. Pharmacies in neither a metropolitan or micropolitan statistical area were considered to be rural. A table of Oregon zip codes and their designation as metropolitan, micropolitan or rural is included at Exhibit 13.

The relationship between total prescription volume and dispensing cost was especially pronounced. Pharmacies were classified into meaningful groups based upon their differences in total prescription volume. Dispensing costs were analyzed based upon these volume classifications.

**Table 3.5 Dispensing Cost by Pharmacy Total Annual Prescription Volume<sup>A</sup>**

Total Annual Prescription Volume of Pharmacy	Number of Stores	Unweighted Average (Mean) Dispensing Cost	Average (Mean) Weighted by Medicaid Volume
0 to 49,999	108	\$13.73	\$14.01
50,000 to 69,999	82	\$9.97	\$10.14
70,000 and Higher	72	\$8.63	\$9.68

<sup>A</sup> Excludes three specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

There is a significant correlation between a pharmacy's total prescription volume and the dispensing cost per prescription. This result is not surprising because many of the costs associated with a business operation, including the dispensing of prescriptions, have a fixed component that does not vary significantly with increased volume. For stores with a higher total prescription volume, these fixed costs are spread over a greater number of prescriptions resulting in lower costs per prescription. A number of relatively low volume pharmacies in the survey skew the distribution of dispensing cost and increase the measurement of the unweighted average (mean) cost of dispensing.

**Table 3.6 Statistics for Pharmacy Total Annual Prescription Volume<sup>A</sup>**

Statistic	Value
Mean	67,734
Standard Deviation	87,706
10 <sup>th</sup> Percentile	25,249
25 <sup>th</sup> Percentile	39,465
Median	55,586
75 <sup>th</sup> Percentile	72,683
90 <sup>th</sup> Percentile	91,564

<sup>A</sup> Excludes three specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

A histogram of pharmacy total annual prescription volume and a scatter-plot of the relationship between dispensing cost per prescription and total prescription volume are included in Exhibit 14.

Several pharmacy attributes were collected on the cost survey. A summary of these attributes is provided at Exhibit 15.

## ***Components of Dispensing Cost***

The dispensing cost of the surveyed pharmacies was broken down into the various components of overhead and labor related costs. Table 3.7 displays the means of the various cost components for pharmacies in the sample. Labor-related expenses accounted for approximately 65% of overall prescription dispensing costs.

Expenses in Table 3.7 are classified as follows:

- Owner professional labor – owner’s labor costs were subject to constraints in recognition of its special circumstances as previously noted.
- Employee professional labor consists of employee pharmacists. Other labor includes the cost of delivery persons, interns, technicians, clerks and any other employee with time spent performing the prescription dispensing function of the pharmacy.
- Building and equipment expense includes depreciation, rent, building ownership costs, repairs, utilities and any other expenses related to building and equipment.
- Prescription-specific expense includes pharmacist-related dues and subscriptions, prescription containers and labels, prescription-specific computer expenses, prescription-specific delivery expenses (other than direct

labor costs) and any other expenses that are specific to the prescription dispensing function of the pharmacy.

- Other overhead expenses consist of all other expenses that were allocated to the prescription dispensing function of the pharmacy including interest, insurance, telephone, and legal and professional fees.

**Table 3.7 Components of Prescription Dispensing Cost<sup>A</sup>**

Type of Expense	Unweighted Average (Mean) Dispensing Cost	Average (Mean) Weighted by Medicaid Volume
Owner Professional Labor	\$0.443	\$0.295
Employee Professional and Other Labor	\$7.337	\$6.646
Building and Equipment	\$0.689	\$0.795
Prescription Specific Expenses (incl. delivery)	\$1.115	\$1.329
Other Overhead Expenses	\$1.567	\$1.653
<b>Total</b>	<b>\$11.151</b>	<b>\$10.718</b>

<sup>A</sup> Excludes three specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

A pie chart of the components of prescription dispensing cost is provided in Exhibit 16.

### ***Expenses Not Allocated to the Cost of Dispensing***

In the following Table 3.8, measurements are provided for certain expenses that were not included in the cost of dispensing. Reasons for not including these costs were discussed previously. For all of the expenses below, average cost per prescription was calculated using a sales ratio as the basis for allocation.

**Table 3.8 Non-Allocated Expenses Per Prescription<sup>A</sup>**

Expense Category	Unweighted Average (Mean) Cost	Average (Mean) Weighted by Medicaid Volume
Bad Debts	\$0.159	\$0.124
Charitable Contributions	\$0.004	\$0.006
Advertising	\$0.596	\$0.459

<sup>A</sup> Excludes three specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

**Exhibit 1**  
**Oregon Health Plan**  
**Pharmacy Cost Report**

## Oregon Health Plan Pharmacy Cost of Dispensing Survey

Prov. No. (NPI)

Return Completed Forms to:  
Myers and Stauffer LC  
11440 Tomahawk Creek Parkway  
Leawood, Kansas 66211

# 2010

Under Contract with the Oregon Department of Human Services Division of Medical Assistance Programs

ROUND ALL AMOUNTS TO NEAREST DOLLAR OR WHOLE NUMBER

Complete and return by **February 26, 2010**

Instructions are enclosed. Call toll free (800) 374-6858 if you have any questions.

Name of Pharmacy _____	Telephone No. ( ) _____
Street Address _____	Fax No. ( ) _____
City _____ County _____	State _____ Zip Code _____

### DECLARATION BY OWNER AND PREPARER

I declare that I have examined this cost report including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, complete, and in agreement with the related financial statements or federal income tax return, except as explained in the reconciliation. Declaration of preparer (other than owner) is based on all information of which preparer has any knowledge.

Your Signature	Print/Type Name	Title/Position	Date
Preparer's Signature (other than owner)		Title/Position	Date
Preparer's Street Address		City and State	Zip Phone Number

### SECTION IA -- PHARMACY ATTRIBUTES

**All Pharmacies should complete lines (a) through (h).**

List the total number of all prescriptions dispensed during the fiscal year as follows:

<b>(a)</b>	1. New _____	2. Refill _____	3. Total _____
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<b>(b)</b>	What is the approximate percentage of prescriptions dispensed for the following classifications?			
	1. Medicaid Fee for Service _____%	2. Medicaid Managed Care _____%		
	3. Other 3rd Party _____%	4. Cash _____%		
	What is the approximate percentage of payments received from the following classifications?			
	1. Medicaid Fee for Service _____%	2. Medicaid Managed Care _____%		
	3. Other 3rd Party _____%	4. Cash _____%		
<b>(c)</b>	Ownership Affiliation			
	1. <input type="checkbox"/> Independent (1 to 3 units)	2. <input type="checkbox"/> Chain (4 or more units nationally)		
	3. <input type="checkbox"/> Institutional (service to LTC facilities only)	4. <input type="checkbox"/> Other (specify) _____		
<b>(d)</b>	Type of Ownership			
	1. <input type="checkbox"/> Individual	2. <input type="checkbox"/> Corporation	3. <input type="checkbox"/> Partnership	4. <input type="checkbox"/> Other (specify) _____
<b>(e)</b>	Location			
	1. <input type="checkbox"/> Medical Office Building	2. <input type="checkbox"/> Shopping Center		
	3. <input type="checkbox"/> Separate or downtown	4. <input type="checkbox"/> Grocery Store / Mass Merchant		
	5. <input type="checkbox"/> Other (specify) _____			

(f)	Do you own your building or lease from a related party (i.e., yourself, family member, or related corporation)? If so, 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No
(g)	How many hours per week is your pharmacy open? _____ Hours
(h)	How many years has a pharmacy operated at this location? _____ Years
(i)	Do you provide 24-hour emergency services for pharmaceuticals? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No

**If your pharmacy dispenses prescriptions to long-term care facilities including adult foster care or assisted living facilities, complete lines (j) through (l).**

(j)	What is the approximate percent of your prescriptions dispensed to long-term care facilities (including adult foster care or assisted living facilities)? _____ %
(k)	Do you dispense in anything other than traditional packaging to long-term care facilities? If yes, indicate how: 1. <input type="checkbox"/> Unit Dose 2. <input type="checkbox"/> Modified Unit Dose (Bingo cards/blister packs) 3. <input type="checkbox"/> Both 4. <input type="checkbox"/> No Unit Dose What is the approximate percent of all prescriptions dispensed in unit dose packaging? _____ %
(l)	If you checked box 1, 2, or 3 of (k), what percent of unit dose packaging is: 1. Purchased from manufacturers _____ % 2. Prepared in the pharmacy _____ %

**If your pharmacy provides delivery, mail order, MTM, specialty or compounding services, complete lines (m) through (r) as applicable.**

(m)	What percent of total prescriptions filled are delivered? _____ %
(n)	What percent of Medicaid prescriptions filled are delivered? _____ %
(o)	Does your pharmacy dispense prescriptions by mail? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No If yes, what is the approximate percentage of the total number of prescriptions that are dispensed by mail? _____ %
(p)	Does your pharmacy provide Medication Therapy Management (MTM) Services? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No If yes, what is the approximate number of claims for MTM services submitted during the fiscal year? _____ Please estimate the average number of minutes spent providing MTM services per claim: _____ <i>(Note: For purposes of this survey, time associated with the performance of Medication Therapy Management (MTM) activities should not be considered "dispensing related duties". you should not report time spent rendering MTM as "Rx Dispensing Related Duties" on Page 5.</i>
(q)	Are you presently providing any of the following specialty products or services: IV, infusion, enteral nutrition and/or blood factors or derivatives? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No If yes, what is the dollar amount of your sales for IV / infusion Rxs \$ _____, enteral nutrition Rxs \$ _____ and blood factors or derivatives \$ _____
(r)	What is the approximate percent of your prescriptions dispensed that are compounded? _____ % For prescriptions that are compounded, what is the average number of minutes spent preparing a prescription? _____

**SECTION IB -- OTHER INFORMATION**

List any additional information you feel contributes significantly to your cost of filling a prescription. Also, if you have a significant amount of non-retail sales of drugs at cost, please note the amount and if it is included in line (1), column (1) on page 3.

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Round all amounts to nearest dollar or whole number.

**SECTION IIA -- SALES AND FLOOR SPACE**

	<b>Prescription Drugs Only</b>	<b>Total Store Including Prescription Drugs</b>	<b>Line No.</b>
Sales (Excluding Sales Tax)	_____	_____	(1)
Cost of Goods Sold	_____	_____	(2)
Floor Space (Retail area only). Measure. Do not estimate.	_____ Sq. Ft	_____ Sq. Ft.	(3)

**SECTION IIB -- OVERHEAD EXPENSES**

Complete this section using your internal financial statement or tax return. If you are using a tax return, please refer to the line numbers in the left columns that correspond to federal income tax return lines.

The following information is from fiscal / tax year ending..... \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_ (4)

**2008 Tax Form Number**

				<b>Total Expense</b>	<b>Myers and Stauffer Use Only</b>	<b>Line No.</b>
<b>1040C</b>	<b>1065</b>	<b>1120</b>	<b>1120S</b>			
13	16a	20	14	Depreciation (this fiscal year only - not accumulated).....	_____	(5)
23	14	17	12	Taxes (a) Personal Property Taxes Paid.....	_____	(6a)
				(b) Real Estate Taxes.....	_____	(6b)
				(c) Payroll Taxes.....	_____	(6c)
				(d) State Income Tax (Corporations Only).....	_____	(6d)
				(e) Any other taxes (specify each type and amount).....	_____	(6e)
20b	13	16	11	Rent (a) Building Rent (See Instructions).....	_____	(7a)
20a	13	16	11	(b) Equipment and Other.....	_____	(7b)
21	11	14	9	Repairs.....	_____	(8)
15	20	26	19	Insurance (a) Workers Comp. and Employee Medical.....	_____	(9a)
15	20	26	19	(b) Other.....	_____	(9b)
16a&b	15	18	13	Interest.....	_____	(10)
17	20	26	19	Legal and Professional Fees.....	_____	(11)
27	20	26	19	Dues and Publications.....	_____	(12)
27	12	15	10	Bad Debts (this fiscal year only - not accumulated).....	_____	(13)
			19	Charitable Contributions (Corporations Only)	_____	(14)
25	20	26	19	Utilities (a) Telephone .....	_____	(15)
25	20	26	19	(b) Heat, Water, Lights, Sewer, Trash and other Utilities .....	_____	(16)
				Operating and Office Supplies (Exclude Rx containers and labels)		
18&22	20	26	19	.....	_____	(17)
8	20	22	16	Advertising .....	_____	(18)
27	20	26	19	Computer Expenses .....	_____	(19)
9,27	20	26	19	Rx Delivery Expenses .....	_____	(20)
27	20	26	19	Rx Containers and Labels (See Instructions)	_____	(21)

**Other non-labor expenses not included elsewhere**

*Examples: security expense, janitorial expense, bank fees, credit card fees, franchise fees, switching fees, postage, etc.  
Specify each item and corresponding amount. Note that labor expenses are reported on Page 5.*

	Total Expense	Myers and Stauffer Use Only	Line No.
(a) _____	_____	_____	(22a)
(b) _____	_____	_____	(22b)
(c) _____	_____	_____	(22c)
(d) _____	_____	_____	(22d)
(e) _____	_____	_____	(22e)
(f) _____	_____	_____	(22f)
(g) _____	_____	_____	(22g)
(h) _____	_____	_____	(22h)
(i) _____	_____	_____	(22i)
(j) _____	_____	_____	(22j)
(k) _____	_____	_____	(22k)
(l) _____	_____	_____	(22l)
(m) _____	_____	_____	(22m)
(n) _____	_____	_____	(22n)
(o) _____	_____	_____	(22o)
(p) _____	_____	_____	(22p)
(q) _____	_____	_____	(22q)
(r) _____	_____	_____	(22r)
(s) _____	_____	_____	(22s)
Total Overhead Expenses [Add Line (5) through Line (22)]	_____	_____	(23)

**SECTION IIC -- PERSONNEL COSTS** -- List each person separately (except Line 44). Attach schedule if necessary.

	Check if RPh	Estimate Percent of Rxs Dispensed by Each RPh	Annual Salaries, Bonuses and/or Drawings	Myers and Stauffer USE ONLY	Average Weekly Hours		Line No.
					No. Weeks Employed This Fiscal Year	Total Store Including Rx Dept. Rx Dispensing Related Duties Only*	
Owners, Individual Proprietors, Partners, and Stockholders	(a) _____	_____	_____		_____	_____	(24a)
	(b) _____	_____	_____		_____	_____	(24b)
	(c) _____	_____	_____		_____	_____	(24c)
	(d) _____	_____	_____		_____	_____	(24d)
	(e) _____	_____	_____		_____	_____	(24e)
Employee and Relief Pharmacists	(a) _____	_____	_____		_____	_____	(25a)
	(b) _____	_____	_____		_____	_____	(25b)
	(c) _____	_____	_____		_____	_____	(25c)
	(d) _____	_____	_____		_____	_____	(25d)
	(e) _____	_____	_____		_____	_____	(25e)
	(f) _____	_____	_____		_____	_____	(25f)
	(g) _____	_____	_____		_____	_____	(25g)
	(h) _____	_____	_____		_____	_____	(25h)
	(i) _____	_____	_____		_____	_____	(25i)
	(j) _____	_____	_____		_____	_____	(25j)
Subtotal:		100%	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX (25k)
Other Employees with Time in Rx Dept. (Including Technicians, Delivery, etc.	(a) XXX	XXXXXXXXXX	_____		_____	_____	(26a)
	(b) XXX	XXXXXXXXXX	_____		_____	_____	(26b)
	(c) XXX	XXXXXXXXXX	_____		_____	_____	(26c)
	(d) XXX	XXXXXXXXXX	_____		_____	_____	(26d)
	(e) XXX	XXXXXXXXXX	_____		_____	_____	(26e)
	(f) XXX	XXXXXXXXXX	_____		_____	_____	(26f)
	(g) XXX	XXXXXXXXXX	_____		_____	_____	(26g)
	(h) XXX	XXXXXXXXXX	_____		_____	_____	(26h)
All Non-Rx Employee Salaries		_____	_____				(27)
Pension, Profit-sharing etc.		_____	_____				(28)
Other Employee Benefits		_____	_____				(29)
<b>TOTAL - Salaries and Benefits</b>		=====	=====				(30)

\* For purposes of this survey, time associated with the performance of Medication Therapy Management (MTM) activities should not be considered "dispensing related duties".

**SECTION II D -- RECONCILIATION WITH FINANCIAL STATEMENT OR TAX RETURN**

2008 Tax Form Number			
1040C	1065	1120	1120S

Column 1	Column 2
Cost Survey Amounts	Financial Statement or Tax Return Amounts

28	21	27	20	Total Expenses per Financial Statement or Tax Return		(31)
				Enter Amount from Line (23)	_____	(32)
				Enter Amount from Line (30)	_____	(33)
				Total Expenses per Cost Survey [Add Lines (32) and (33)]	_____	(34)
				Specify Items with Amounts that are on Cost Survey but not on Financial Statement or Tax Return		
				(a) _____	_____	(35a)
				(b) _____	_____	(35b)
				(c) _____	_____	(35c)
				(d) _____	_____	(35d)
				(e) _____	_____	(35e)
				Specify Items with Amounts that are on Financial Statement or Tax Return but not on this Cost Survey		
				(a) _____	_____	(36a)
				(b) _____	_____	(36b)
				(c) _____	_____	(36c)
				(d) _____	_____	(36d)
				(e) _____	_____	(36e)
				Total [Add Lines (30) to (36e)] Column Totals Must be Equal	=====	(37)

**Exhibit 2**  
**Oregon Health Plan**  
**Pharmacy Cost Report**  
**Instructions**

# Oregon Health Plan Pharmacy Cost of Dispensing Survey

## Instructions

### Survey Forms by

**Myers and Stauffer LC**  
**Certified Public Accountants**  
**11440 Tomahawk Creek Parkway**  
**Leawood, Kansas 66211**  
**800-374-6858**

**PURPOSE:** The purpose of this survey is to determine the approximate cost of dispensing prescriptions in the State of Oregon.

### WHO MUST FILE THIS FORM

Except for the following, all Oregon Health Plan pharmacies should file this cost survey:

- New pharmacies that were in business less than six months during the reporting period
- Pharmacies with a change of ownership that resulted in less than six months in business during the reporting period

If your pharmacy meets either of the two exceptions listed above, check the box next to the explanation describing your business, write your pharmacy name and provider number (NPI), provide a contact telephone number, sign your name and return only this page to the address above.

Prov. No. (NPI)	Name of Pharmacy
Phone No.	Signature/Title

### GENERAL INSTRUCTIONS

If any assistance is needed in completing this survey, call toll-free (800) 374-6858. Complete these forms using your most recently completed fiscal year for which financial records are available and complete (e.g., December 31, 2009 or December 31, 2008 if 2009 records are not yet complete) and **return them by February 26, 2010**. Most retail pharmacies can complete the survey form by using their most recent annual financial statement or federal income tax return. If you are using an income tax return, most expense line items can be transferred directly from a line on a tax return to a line on the cost survey. Line reference numbers of four tax forms are listed on the left side of the cost survey. Simply locate the column for your tax form.

If you prefer, send us a copy of your financial statements or income tax return (Form 1065, 1120, 1120S, or Schedule C of Form 1040 including supporting schedules) and we will complete the overhead expenses, Section IIB, Page 3 and Section IID, Page 4, for you. **You will still need to fill in the remaining sections of the cost survey.** If

## Oregon Health Plan Pharmacy Cost Survey – Instructions

you send a copy of your financial statement or tax return, identify any expenses that are 100% Rx-Department expenses such as continuing education, and identify any expenses that are 100% non-Rx Department expenses.

Round all amounts to the nearest dollar or whole number.

### Multiple Location/Chain Pharmacies

Central administration expenses incurred by multiple location and/or chain pharmacies should be reported on lines (22a)-(22s). Report the expense allocated to each store. Methods of allocation must be reasonable and conform to generally accepted accounting principles. Warehousing expense must be separately identified and entered on lines (22a)-(22s).

### SECTION IA --- PHARMACY ATTRIBUTES

The information gathered from your answers to these questions will be analyzed to determine its relationship to your cost of dispensing a prescription. It may be necessary to provide estimates for some answers; estimate as carefully and accurately as possible.

**Line (a)**      **“Prescriptions Dispensed.”** Report the total number of all prescriptions filled **during the fiscal year** of the costs reported on pages 3 and 4 of this cost survey. This information may be kept on a daily or monthly log or on your computer.

### SECTION IIA --- SALES AND FLOOR SPACE

**Line (1)**      **List total store sales excluding sales tax.** Total store sales and cost of goods sold are shown on the federal income tax return. If there is no separate record of prescription drug sales, estimate it as accurately as possible. Sales of prescription drug items should NOT include nonprescription OTC's, durable medical equipment, or other nonprescription items. One method to estimate sales of prescription drug items is to use a sales tax return. If Rx cost of goods sold is not readily available, leave that line blank.

**Line (3)**      Since **floor space** will be used in allocating certain expenses, accuracy is important. When measuring the total store, include only the retail area and exclude any storage area, i.e., basement, attic, off-the-premises areas, or freight in-out areas. When measuring the Prescription Department, exclude patient waiting area and prescription-related office. These must be included in total store area. A factor is added to the Prescription Department area to account for both waiting and office space.

### SECTION IIB --- OVERHEAD EXPENSES

#### [FINANCIAL STATEMENT OR TAX RETURN CAN BE SUBSTITUTED]

Overhead costs reported on the cost survey must be resulting from arms-length transactions between non-related parties. Related parties include, but are not limited to, those related by family, by business or financial association, and by common ownership or control. **The most common non-arms-length transaction involves rental of property between related parties. The only allowable expense of such transactions for cost determination purposes would be the actual costs of ownership (depreciation, taxes, interest, etc., for the store area only). The rental amount will be disallowed. Show this as a reconciling item in Section IID.**

## Oregon Health Plan Pharmacy Cost Survey – Instructions

- Line (6a) & (6b)** Include only personal property taxes or real estate taxes paid on property used in this pharmacy's business.
- Line (6c)** Include the employer's share of FICA and Medicare taxes, and state and federal unemployment taxes.
- Line (7a)** Include only rent that applies to the store. **Report only rental expense incurred by transactions between non-related parties. See the first paragraph of this section for expenses allowed in lieu of rent paid to a related party.**
- Line (17)** Include office and operating supplies. If prescription containers and labels are included in your supplies, exclude them from this line and show them on line (21).
- Line (20)** **Rx Delivery Expenses.** If you deliver Rx items only, include expenses paid for your delivery vehicle here, including expenses paid to a delivery service for delivery of Rx items. These expenses should not be duplicated on any other line. If your delivery vehicle is used by other departments of the pharmacy or for miscellaneous purposes, do not enter anything on this line and enter delivery expenses on line (22a)-(22s).
- Line (21)** **Rx Containers and Labels.** The cost of prescription containers and labels should be included here if separately identified on your financial statement or as "other deductions" on your federal income tax return. If this expense is included in cost of goods sold on your federal income tax return and if your accounting records are such that this figure is difficult to determine, leave this line blank. An allowance will be made for Rx containers and labels.
- Lines (22a)-(22s)** On these lines identify any non-labor expenses not already included on your cost survey but listed on your financial statement or as other deductions on your federal income tax return. **Identify each item and the amount, rather than labeling all such expenses as "miscellaneous."** If you wish, you can simply attach a schedule that lists these expenses. Clearly label any items that are 100% Rx-related or that are 100% non-Rx-related.

### **SECTION IIC --- PERSONNEL COSTS [LINES (24a)-(30)]**

- Lines (24a)-(25j) "Percent of Prescriptions Dispensed."** Provide your best estimate of the percentage of prescriptions dispensed by each pharmacist. Notice: This column must total line 25k (100%).
- Lines (24a)-(26h) "Average Weekly Hours."** You may not have detailed records of where each employee worked; however, provide your best estimate of an average or "typical" week. Column 6 should show average number of hours the employee worked per week. Column 7 should show the average number of hours per week spent performing Rx-related duties. Rx-related duties are defined as time spent filling prescriptions as well as doing the related administrative work (e.g. third party reimbursement claims management), including ordering and stocking prescription ingredients, taking inventory, maintaining prescription files and delivering prescriptions. For purposes of this survey, time associated with the performance of Medication Therapy Management (MTM) activities should not be considered "dispensing related duties". Pharmacists providing consultation to long-term care facilities must be identified and listed separately. Any revenue received for those consultation services should be noted in Section IB, page 2.

## Oregon Health Plan Pharmacy Cost Survey – Instructions

**Lines (24a)-(24e) “Owners.”** For purposes of this study, an employee who is a stockholder in the pharmacy is considered an “Owner.” All individual proprietors, partners, or stockholders should list their total drawings and/or salaries for the year. Do not show net profit as the owner’s salary but **only actual drawings or salary**. For those owners who took no salary or drawings, show zero to indicate you have not overlooked this line – a salary will be imputed based on time worked and/or prescriptions dispensed.

**Lines (26a)-(26h)** Rx Technicians, nonprofessional, clerical, and delivery personnel who perform Rx-related duties should be listed.

**Line (27)** **“All Non-Rx Employees.”** List total salaries for all employees who spend no time in Rx-related duties.

**Lines (28)&(29)** **“Pension, profit sharing etc.” & “Other employee benefits”** List total expenses associated with pension plans, retirement plans and other employee benefits not reported elsewhere. These amounts will be allocated to employees.

### SECTION IID --- RECONCILIATION WITH FINANCIAL STATEMENT OR FEDERAL INCOME TAX RETURN

The purpose of this reconciliation is to ensure that all expenses have been included and that none have been duplicated. For example, pharmacies operating as sole proprietors will normally need to list owner’s salaries, drawings, and benefits as a reconciling item. Other examples of reconciling items are the 50% meals deduction, rent paid to related party, etc.

**Exhibit 3**  
**Letter from the**  
**Oregon Department of**  
**Human Services**  
**Regarding Pharmacy**  
**Dispensing Cost Survey**

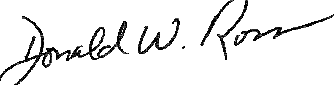


# Oregon

Theodore R. Kulongoski, Governor

**Department of Human Services**  
*Division of Medical Assistance Programs*  
500 Summer Street NE, E35  
Salem, OR 97301-1079  
**Voice (503) 945-5772**  
**Fax (503) 947-5359**  
**TTY (503) 378-6791**

January 13, 2010

To: Pharmacy Providers   
From: Donald Ross, Manager, Policy and Planning  
Division of Medical Assistance Programs (DMAP)



Subject: **2010 Dispensing Cost Survey**

## **Background:**

DMAP has contracted with the firm of Myers and Stauffer, LC, Certified Public Accountants, to conduct a comprehensive study to determine the true cost of dispensing prescriptions to OHP fee-for-service clients and for drugs currently “carved out” of Oregon Health Plan (OHP) Managed Care contracts.

DMAP commissioned this study as part of our commitment to review and evaluate all potential pricing methodologies to replace average wholesale price (AWP) methodology that is scheduled to be discontinued by September 2011.

## **Survey:**

Please complete the enclosed survey as quickly and accurately as possible. Your participation will help to assure a statistically valid and defensible analysis of your dispensing costs. Both DMAP and Myers and Stauffer guarantee confidentiality of your survey responses.

Please return the completed survey, in the prepaid envelope going directly to Myers and Stauffer, **no later than February 26, 2010.**

## **Contacts:**

The enclosed instructions include a toll-free number to assist you in completing the survey. If you have questions or concern that Myers and Stauffer is unable to answer, call Ralph Magrish, Pharmacy Program Manager at (503) 945-6291 or email: [Ralph.M.Magrish@state.or.us](mailto:Ralph.M.Magrish@state.or.us)

Thank you for your cooperation and continued support of the Oregon Health Plan.

*“Assisting People to Become Independent, Healthy and Safe”*  
An Equal Opportunity Employer

**Exhibit 4a**  
**Initial Letter from**  
**Myers and Stauffer for**  
**Dispensing Cost Survey**  
**(Independent Pharmacies)**



**Sample  
Independent  
Pharmacies**

January 13, 2010

«prov\_no» / «random»  
«prov\_name»  
ATTENTION: OWNER OR MANAGER  
«address»  
«city», «state» «zip»

Dear Pharmacy Owner or Manager:

The Oregon Department of Human Services has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey. All pharmacy providers are requested to participate in the survey according to the following directions:

1. Complete and return the enclosed “Oregon Health Plan Pharmacy Cost Survey.” Please review the survey instructions.
2. We recommend that you retain a copy of the completed survey forms for your records.
3. For your convenience, we will complete a portion of the survey for you upon receipt of your business federal income tax return (Forms 1065, 1120, 1120S or Schedule C of Form 1040 and accompanying schedules). If you choose this option, you will still need to complete the following sections of the cost survey prior to submission:
  - a. Pages 1 and 2 – Pharmacy attributes and other information
  - b. Page 3 – Line 1 (column 1) – prescription sales, and line 3 (columns 1 and 2) – prescription area and total store area.
  - c. Page 5 – Personnel costs – complete lines 24-27, all columns
4. If your financial statements or tax return have not been completed for your most current fiscal year, please file a cost report using your prior year's financial statements (or tax return) and the corresponding prescription data for that year. The data will be adjusted accordingly.

**Pharmacies are encouraged to return the requested information as soon as possible, but no later than February 26, 2010.**

Please send completed forms to:

Myers and Stauffer LC  
Certified Public Accountants  
11440 Tomahawk Creek Parkway  
Leawood, Kansas 66211

Return the survey using the enclosed Business Reply Label with any envelope. Postage will be paid by Myers and Stauffer.

It is very important that pharmacies respond with accurate information. All submitted surveys must be reviewed and validated by staff at Myers and Stauffer. If our review yields the need for additional inquiries, Myers and Stauffer staff will contact you. Additionally, Myers and Stauffer staff will be performing on-site field examinations at a limited number of pharmacies to validate survey responses. If your pharmacy is selected for additional procedures, you will be contacted by Myers and Stauffer.

If you have any questions, please call toll free at 1-800-374-6858. Your cooperation in providing the information for this survey is greatly appreciated.

Sincerely,



T. Allan Hansen  
Project Manager

**Exhibit 4b**  
**Initial Letter from**  
**Myers and Stauffer for**  
**Dispensing Cost Survey**  
**(Chain Pharmacies)**



January 14, 2010

«Chain\_Name»  
ATTN: «Corporate\_Contact\_Person»  
«Address\_1»  
«City», «State» «Zip»

Re: Pharmacy Cost of Dispensing Survey

To: Oregon Chain Pharmacy Providers:

The Oregon Department of Human Services has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey. All Oregon Health Plan pharmacy providers are requested to participate in the survey.

Enclosed are several copies of the "Oregon Health Plan Pharmacy Cost Survey." Please review the survey instructions. You may respond to the survey with either a paper or electronic format. In past surveys performed by Myers and Stauffer, many pharmacy chains have preferred to respond to the survey in an electronic format.

We have also enclosed a listing of the names and addresses of your pharmacies that participate in the Oregon Health Plan. Pharmacy information is presented as shown in records from the Oregon Department of Human Services. If this list is inaccurate, please notify Myers and Stauffer.

**If you prefer to respond in a paper format:** You must submit a completed survey for each store on the attached list. If you will require additional survey forms, please contact Myers and Stauffer for forms or make additional copies as needed. Please send completed forms to:

Myers and Stauffer LC  
Certified Public Accountants  
11440 Tomahawk Creek Parkway  
Leawood, Kansas 66211

You may return the surveys using the enclosed Business Reply Label with any envelope. Postage will be paid by Myers and Stauffer.

**If you prefer to respond in an electronic format:** You will still be required to submit survey data for each store on the attached list using an Excel spreadsheet template provided by Myers and Stauffer. To obtain the Excel spreadsheet, send a request by e-mail or telephone to Myers and Stauffer (contact information below). Surveys that are completed electronically may be submitted via e-mail.

Whether you complete the survey in either a paper or electronic format, we recommend that you retain a copy of the completed survey forms for your records. Also, please describe any cost

allocations used in preparing the income statement such as administrative expense, etc.  
Warehousing and distribution costs should be shown in cost of goods sold or listed separately.

**Pharmacies are encouraged to return the requested information as soon as possible, but no later than February 26, 2010.**

It is very important that pharmacies respond with accurate information. All submitted surveys must be reviewed and validated by staff at Myers and Stauffer. If our review yields the need for additional inquiries, Myers and Stauffer staff will contact you. Additionally, Myers and Stauffer staff will be performing on-site field examinations at a limited number of pharmacies to validate survey responses. If any of your pharmacies are selected for additional procedures, you will be contacted by Myers and Stauffer.

If you have any questions, please contact Myers and Stauffer:

Shelly Schmitz  
mschmitz@mslc.com  
(913) 234-1861

Allan Hansen  
ahansen@mslc.com  
(913) 234-1038

Your cooperation in providing the information for this survey is greatly appreciated.

Sincerely,



T. Allan Hansen  
Project Manager  
Phone: (913) 234-1038  
E-mail: ahansen@mslc.com

**Exhibit 5a**  
**Second Letter from**  
**Myers and Stauffer for**  
**Dispensing Cost Survey**  
**(Independent Pharmacies)**



**Sample  
Independent  
Pharmacies**

February 8, 2010

«prov\_no» / «random»  
«prov\_name»  
ATTENTION: OWNER OR MANAGER  
«address»  
«city», «state» «zip»

**Re: Reminder of Request for Participation in Pharmacy Cost of Dispensing Study**

Dear Pharmacy Owner or Manager:

The Oregon Department of Human Services has contracted with Myers and Stauffer LC to conduct a pharmacy cost of dispensing survey. All pharmacy providers have been requested to participate in the survey. The information provided in response to this survey will be used by Myers and Stauffer and the Department of Human Services to evaluate the pharmacy reimbursement rates of the Oregon Health Plan.

In the past few weeks, you should have received a copy of the dispensing cost survey form and instructions. If you have not received a survey form, have misplaced your survey form or if you have any questions, please contact Myers and Stauffer at 1-800-374-6858. An electronic copy of the survey form and instructions may also be requested via e-mail to Shelly Schmitz at mschmitz@mslc.com or Allan Hansen at ahansen@mslc.com.

Your prompt response to the survey is very important to meeting the survey schedule set by the Department of Human Services. The survey due date of February 26, 2010 is rapidly approaching. You are encouraged to submit a completed survey as soon as possible. Limited extensions to the survey due date are possible. If you require additional time to complete the survey, please contact Myers and Stauffer.

Your cooperation with this survey process is greatly appreciated.

Sincerely,

T. Allan Hansen  
Project Manager  
[ahansen@mslc.com](mailto:ahansen@mslc.com)

**Exhibit 5b**  
**Second Letter from**  
**Myers and Stauffer for**  
**Dispensing Cost Survey**  
**(Chain Pharmacies)**



Sample  
Chain Pharmacies

February 8, 2010

«Chain\_Name»  
ATTN: «Corporate\_Contact\_Person»  
«Address\_1»  
«City», «State» «Zip»

**Re: Reminder of Request for Participation in Pharmacy Cost of Dispensing Study**

To: Oregon Chain Pharmacy Providers:

The Oregon Department of Human Services has contracted with Myers and Stauffer LC to conduct a pharmacy cost of dispensing survey. All pharmacy providers have been requested to participate in the survey. The information provided in response to this survey will be used by Myers and Stauffer and the Department of Human Services to evaluate the pharmacy reimbursement rates of the Oregon Health Plan.

In the past few weeks, you should have received copies of the dispensing cost survey form and instructions. Myers and Stauffer also prepared a listing of the names and addresses of pharmacies in your chain that participate in the Oregon Health Plan. If you have not received the survey forms, have misplaced your survey forms or if you have any questions, please contact Myers and Stauffer at 1-800-374-6858. Survey forms and instructions may also be requested via e-mail to Shelly Schmitz or Allan Hansen (see contact information below). You may also request an Excel template of the survey form if you prefer to respond in an electronic format.

Your prompt response to the survey is very important to meeting the survey schedule set by the Department of Human Services. The survey due date of February 26, 2010 is rapidly approaching. You are encouraged to submit a completed survey as soon as possible. Limited extensions to the survey due date are possible. If you require additional time to complete the survey, please contact Myers and Stauffer.

If you have any questions, please contact Myers and Stauffer:

Shelly Schmitz  
mschmitz@mslc.com  
(913) 234-1861

Allan Hansen  
ahansen@mslc.com  
(913) 234-1038

Your cooperation with this survey process is greatly appreciated.

Sincerely,

T. Allan Hansen  
Project Manager  
Phone: (913) 234-1038  
E-mail: ahansen@mslc.com

**Exhibit 6a**  
**Third Letter from**  
**Myers and Stauffer for**  
**Dispensing Cost Survey**  
**(Independent Pharmacies)**



**Sample  
Independent  
Pharmacies**

February 24, 2010

«prov\_no» / «random»  
«prov\_name»  
ATTENTION: OWNER OR MANAGER  
«address»  
«city», «state» «zip»

**Re: Urgent Request for Participation in Pharmacy Cost of Dispensing Study**

Dear Pharmacy Owner or Manager:

The Oregon Department of Human Services has contracted with Myers and Stauffer LC to conduct a pharmacy cost of dispensing survey. All pharmacy providers have been requested to participate in the survey. The information provided in response to this survey will be used by Myers and Stauffer and the Department of Human Services to evaluate the pharmacy reimbursement rates of the Oregon Health Plan.

In the past few weeks, you should have received a copy of the dispensing cost survey form and instructions. If you have not received a survey form, have misplaced your survey form or if you have any questions, please contact Myers and Stauffer at 1-800-374-6858. An electronic copy of the survey form and instructions may also be requested via e-mail to Shelly Schmitz at mschmitz@mslc.com or Allan Hansen at ahansen@mslc.com.

**Your participation in the pharmacy cost survey is very important. In order to allow more pharmacies time to respond to the dispensing cost survey, Myers and Stauffer will continue to accept surveys through Friday, March 12, 2010.**

Your cooperation with this survey process is greatly appreciated.

Sincerely,

T. Allan Hansen  
Project Manager  
[ahansen@mslc.com](mailto:ahansen@mslc.com)

**Exhibit 6b**  
**Third Letter from**  
**Myers and Stauffer for**  
**Dispensing Cost Survey**  
**(Chain Pharmacies)**



**Sample  
Chain Pharmacies**

February 24, 2010

«Chain\_Name»  
ATTN: «Corporate\_Contact\_Person»  
«Address\_1»  
«City», «State» «Zip»

**Re: Urgent Request for Participation in Pharmacy Cost of Dispensing Study**

To: Oregon Chain Pharmacy Providers:

The Oregon Department of Human Services has contracted with Myers and Stauffer LC to conduct a pharmacy cost of dispensing survey. All pharmacy providers have been requested to participate in the survey. The information provided in response to this survey will be used by Myers and Stauffer and the Department of Human Services to evaluate the pharmacy reimbursement rates of the Oregon Health Plan.

In the past few weeks, you should have received copies of the dispensing cost survey form and instructions. Myers and Stauffer also prepared a listing of the names and addresses of pharmacies in your chain that participate in the Oregon Health Plan. If you have not received the survey forms, have misplaced your survey forms or if you have any questions, please contact Myers and Stauffer at 1-800-374-6858. Survey forms and instructions may also be requested via e-mail to Shelly Schmitz or Allan Hansen (see contact information below). You may also request an Excel template of the survey form if you prefer to respond in an electronic format.

**Your participation in the pharmacy cost survey is very important. In order to allow more pharmacies time to respond to the dispensing cost survey, Myers and Stauffer will continue to accept surveys through Friday, March 12, 2010.**

If you have any questions, please contact Myers and Stauffer:

Shelly Schmitz  
mschmitz@mslc.com  
(913) 234-1861

Allan Hansen  
ahansen@mslc.com  
(913) 234-1038

Your cooperation with this survey process is greatly appreciated.

Sincerely,

T. Allan Hansen  
Project Manager  
Phone: (913) 234-1038  
E-mail: ahansen@mslc.com

**Exhibit 7a**  
**Field Examination**  
**Notification Letter from**  
**Myers and Stauffer**



March 12, 2010

«prov\_no» / «random»  
«prov\_name»  
ATTENTION: OWNER OR MANAGER  
«address»  
«city», «state» «zip»

**Re: Oregon Health Plan Pharmacy Cost of Dispensing Study:  
On Site Visits to Validate Surveys**

Dear Pharmacy Owner or Manager:

The Oregon Department of Human Services has contracted with Myers and Stauffer LC to conduct a pharmacy cost of dispensing survey. This survey will be used by the Department of Human Services to evaluate the pharmacy reimbursement rates of the Oregon Health Plan. Myers and Stauffer recently received a survey from your pharmacy and we thank you for your participation in the survey process.

It is very important that accurate information is reported to the Department of Human Services. Accordingly, Myers and Stauffer is required to review and validate all surveys received. You may have previously been contacted by telephone by Myers and Stauffer with follow-up questions regarding your submitted survey.

Additionally, in accordance with our contract with the Department of Human Services, Myers and Stauffer will be performing on-site field visits to selected pharmacies to perform further validation procedures. The purpose of these visits is to further verify the accuracy of data submitted on the cost survey.

**Your pharmacy has been selected for an on-site field visit. The on-site field visits will occur between April 6 and April 9, 2010.**

Our on-site field visit program has been designed so as to minimize any inconvenience to you. The records that will be needed during the validation visit are the following items that were used to prepare the Oregon Health Plan Pharmacy Cost of Dispensing Survey:

- Financial statements and/or tax returns for the fiscal year reported on the survey.
- Prescription records corresponding to the fiscal year reported on the survey.
- Any other work papers you relied upon to complete the cost of dispensing survey.

The visit will take from one to three hours, however we will make every attempt to minimize the

time spent with you or your pharmacist. A member of our staff will contact you by telephone to arrange the specific time, date, and location of the visit.

If you have any questions concerning the proposed field visit, please contact Myers and Stauffer:

Allan Hansen		Shelly Schmitz
ahansen@mslc.com	or	mschmitz@mslc.com
(913) 234-1038		(913) 234-1861

Thank you for your assistance and cooperation.

Sincerely,



T. Allan Hansen  
Project Manager

**Exhibit 7b**  
**Field Examination**  
**Confirmation Letter from**  
**Myers and Stauffer**



---

**Myers and Stauffer**<sub>LC</sub>

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Certified Public Accountants

March 23, 2010

«Provider\_Number\_NPI» / «Random\_ID»  
«Provider\_Name»  
ATTENTION: «Contact\_Name\_\_Upper\_case»  
«address»  
«city», «state» «Zip»

**Re: Oregon Health Plan Pharmacy Cost of Dispensing Study:  
On Site Visit to Validate Survey**

Dear «Salutation»:

The Oregon Department of Human Services has contracted with Myers and Stauffer LC to conduct a pharmacy cost of dispensing survey. This survey will be used by the Department of Human Services to evaluate the pharmacy reimbursement rates of the Oregon Health Plan. Myers and Stauffer recently received a survey from your pharmacy and contacted you regarding an on-site field visit. The purpose of this visit is to verify the accuracy of data submitted on the cost survey. This letter confirms the date, time and location for the field visit and provides additional information regarding the documentation that will be reviewed by Myers and Stauffer staff.

<b>Date / Time:</b>	«Date__Time»
<b>Location for on-site visit:</b>	«Location»
<b>Pharmacy/Pharmacies included in review:</b>	«Pharmacies_Included»
<b>Survey covers fiscal year ending:</b>	«Pharmacy_FYE»



**Exhibit 7c**  
**Field Examination**  
**“Thank You” Letter from**  
**Myers and Stauffer**



April 12, 2010

«Provider\_Number\_NPI» / «Random\_ID»  
«Provider\_Name»  
ATTENTION: «Contact\_Name\_\_Upper\_case»  
«address»  
«city», «state» «Zip»

**Re: Oregon Health Plan Pharmacy Cost of Dispensing Study:  
On Site Visit to Validate Survey**

Dear «Salutation»:

A representative from Myers and Stauffer recently visited your store as part of the firm's engagement with the Oregon Department of Human Services to perform a cost of dispensing survey. This visit to your store and visits to other stores that participate in the Oregon Health Plan will help Myers and Stauffer to provide the Department of Human Services with an evaluation of the accuracy of data submitted on the cost survey. We would like to thank you for your participation in this important project and for the hospitality extended during the recent on-site field examination.

If you have any further questions about the field examination or about the survey, please feel free to contact me.

Sincerely,

T. Allan Hansen  
Project Manager  
ahansen@mslc.com  
(913) 234-1038

**Exhibit 8**  
**Summary of**  
**Field Examination Findings**

**Summary of Field Examination Findings**  
**Oregon Department of Human Services**

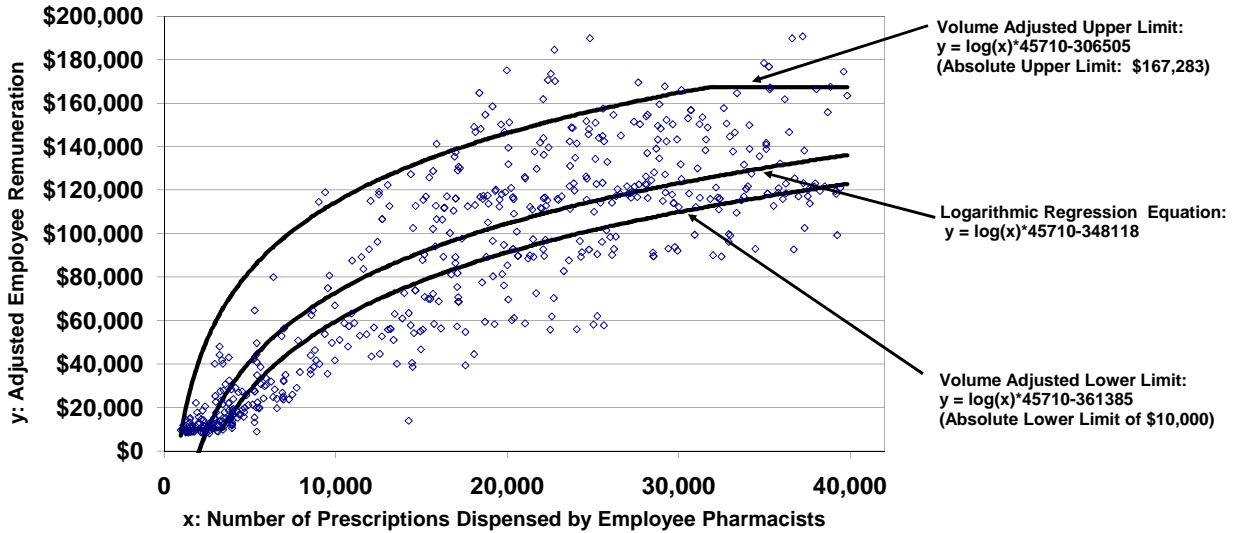
Assigned Number	Exceptions and Comments	Dispensing Cost per Prescription (Increase / Decrease)		
		Original	Revised	
0629	Area ratio, revised count of prescriptions	\$8.67	\$9.18	\$0.51
0718	Revised count of prescriptions, sales ratio, area ratio, adjust miscellaneous overhead expenses to tax return	\$12.01	\$12.06	\$0.05
1761	Revise count of prescriptions, adjust miscellaneous overhead expenses to tax return; adjust salaries to tax return	\$12.52	\$12.00	(\$0.52)
2462	Area ratio; adjust miscellaneous overhead expenses to tax return	\$8.41	\$8.80	\$0.39
2939	Area ratio; sales ratio; various labor allocations	\$11.46	\$11.00	(\$0.46)
2961	Revise count of prescriptions, sales ratio, adjust miscellaneous overhead expenses to tax return	\$12.21	\$12.38	\$0.17
3019	Revise count of prescriptions to correct fiscal year; area ratio; add miscellaneous expenses not included on survey; adjust salaries to tax return	\$6.79	\$6.51	(\$0.28)
3130	Revised count of prescriptions, sales ratio, adjust miscellaneous overhead expenses to tax return	\$16.97	\$18.36	\$1.39
3797	Revise count of prescriptions to correct fiscal year; area ratio	\$7.10	\$6.62	(\$0.48)
8478	Area ratio, sales ratio, revised count of prescriptions	\$11.28	\$11.36	\$0.08
9059	Area ratio; adjust miscellaneous overhead expenses to tax return; adjust salaries to tax return	\$7.29	\$10.11	\$2.82
9597	Area ratio; adjust miscellaneous overhead expenses to tax return	\$7.93	\$7.77	(\$0.16)
9957	Revise count of prescriptions, sales ratio, area ratio, adjust miscellaneous overhead expenses to tax return; adjust salaries to tax return	\$12.29	\$12.13	(\$0.16)
	Mean Change per Pharmacy			\$0.26
	Standard Deviation			\$0.93
	Number of Pharmacies			13
	95% Confidence Interval for Mean Change Due to On-Site Field Visit			
	Lower Bound			(\$0.25)
	Upper Bound			\$0.76

**Exhibit 9**  
**Construction and Application**  
**of Owner Pharmacist Salary Limits**

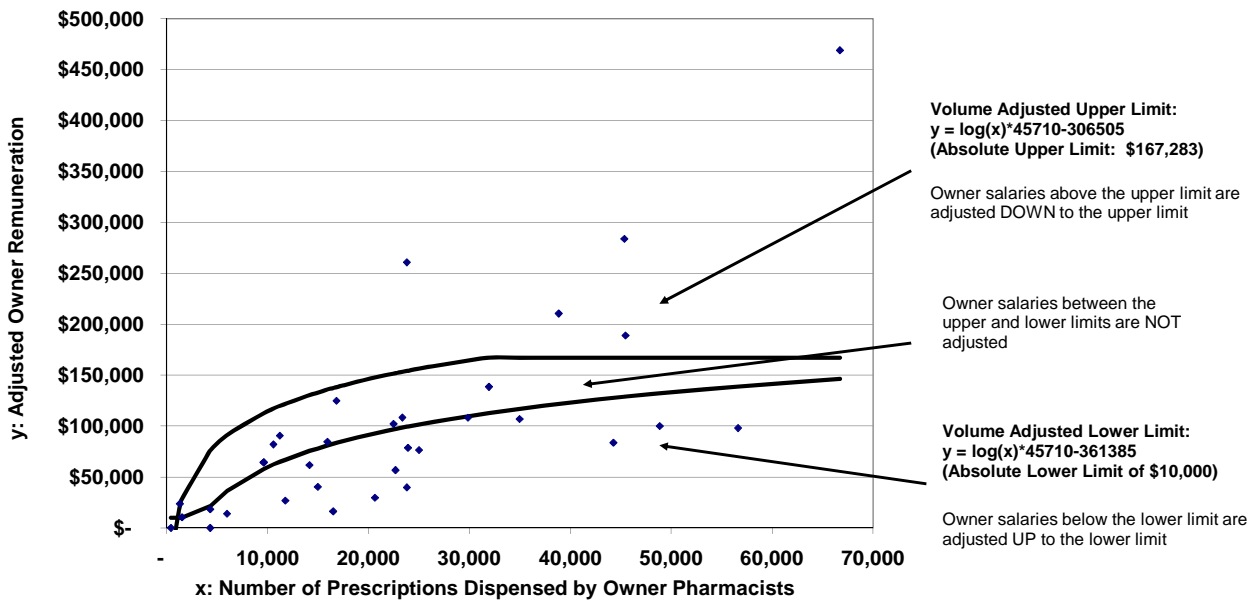
# Construction and Application of Owner Pharmacist Salary Limits

Oregon Department of Human Services

## Construction of Owner Pharmacist Salary Limits Based on Employee Pharmacist Salaries



## Application of Owner Pharmacist Salary Limits



**Exhibit 10**  
**Table of Inflation Factors**  
**for Dispensing Cost Survey**

**Table of Inflation Factors for Dispensing Cost Survey  
Oregon Department of Human Services**

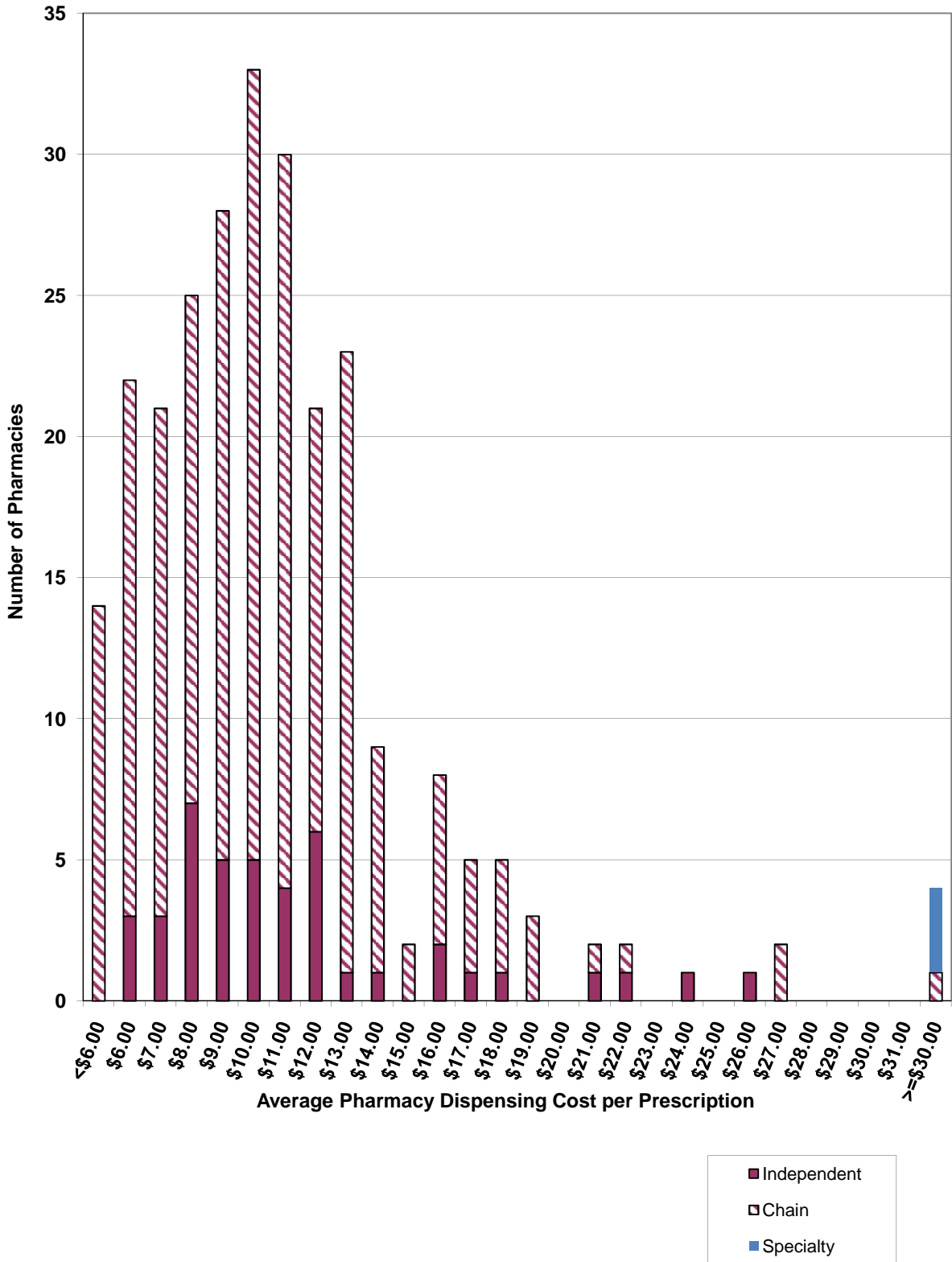
Fiscal Year End Date	Midpoint Date	Terminal Month		Inflation Factor	Number of Stores with Year End Date
		Midpoint Index <sub>1</sub>	Index (FYE 6/30/2010) <sub>1</sub>		
9/30/2008	3/31/2009	107.6	111.2	1.033	1
10/31/2008	4/30/2009	107.8	111.2	1.032	0
11/30/2008	5/31/2009	108.1	111.2	1.029	0
12/31/2008	6/30/2009	108.3	111.2	1.027	10
1/31/2009	7/31/2009	108.5	111.2	1.025	0
2/28/2009	8/31/2009	108.8	111.2	1.022	108
3/31/2009	9/30/2009	109.0	111.2	1.020	2
4/30/2009	10/31/2009	109.2	111.2	1.018	0
5/31/2009	11/30/2009	109.4	111.2	1.016	1
6/30/2009	12/31/2009	109.6	111.2	1.015	16
7/31/2009	1/31/2010	109.7	111.2	1.014	2
8/31/2009	2/28/2010	109.8	111.2	1.013	1
9/30/2009	3/31/2010	109.9	111.2	1.012	5
10/31/2009	4/30/2010	110.0	111.2	1.011	0
11/30/2009	5/31/2010	110.2	111.2	1.009	0
12/31/2009	6/30/2010	110.3	111.2	1.008	119
1/31/2010	7/31/2010	110.4	111.2	1.007	0
2/28/2010	8/31/2010	110.6	111.2	1.005	0
3/31/2010	9/30/2010	110.7	111.2	1.005	0

<b>Total Number of Stores</b>	<b>265</b>
-------------------------------	------------

<sup>1</sup> Midpoint and terminal month indices were obtained from the Employment Cost Index, (all civilian, all workers; seasonally adjusted) as published by the Bureau of Labor Statistics (BLS). Quarterly indices published by BLS were applied to last month in each quarter; indices for other months are estimated by linear interpolation.

**Exhibit 11**  
**Histogram of**  
**Pharmacy Dispensing Cost**

**Histogram of Pharmacy Dispensing Cost  
(Non-Specialty Pharmacies)**



**Exhibit 12**  
**Pharmacy Dispensing**  
**Cost Survey Data**  
**Statistical Summary**

**Pharmacy Cost of Dispensing Survey  
Statistical Summary  
Oregon Department of Human Services**

Pharmacy Dispensing Cost per Prescription <sup>1</sup>											
Characteristic	n: Number of Pharmacies	Measurements of Central Tendency						Other Statistics			
		Means			Medians			Standard Deviation	95% Confidence Interval for Mean (based on Student t)		
		Mean	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume	Median	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume		Lower Bound	Upper Bound	t Value (with n-1 degrees of freedom)
<b>All Pharmacies in Sample</b>	265	\$15.81	\$10.82	\$12.70	\$10.53	\$10.15	\$10.65	\$53.88	\$9.29	\$22.32	1.97
<b>Non Specialty Pharmacies <sup>2</sup></b>	262	\$11.15	\$10.22	\$10.72	\$10.50	\$10.15	\$10.65	\$5.06	\$10.54	\$11.77	1.97
<b>Specialty Pharmacies <sup>2</sup></b>	3	\$422.22	\$395.18	\$540.88				\$359.58			
<b><u>Non Specialty Pharmacies Only</u></b>											
<b>Affiliation:</b>											
Chain	219	\$11.00	\$9.94	\$10.29	\$10.51	\$9.98	\$10.40	\$5.11	\$10.32	\$11.68	1.97
Independent	43	\$11.93	\$10.98	\$11.46	\$10.33	\$10.54	\$10.58	\$4.76	\$10.47	\$13.40	2.02
<b>Location: <sup>3</sup></b>											
Metropolitan	183	\$11.27	\$10.33	\$10.85	\$10.50	\$10.38	\$10.65	\$5.36	\$10.49	\$12.06	1.97
Micropolitan	54	\$10.59	\$9.46	\$9.97	\$10.13	\$9.26	\$9.99	\$4.43	\$9.39	\$11.80	2.01
Rural	18	\$11.33	\$10.17	\$10.81	\$9.61	\$8.43	\$9.86	\$4.66	\$9.01	\$13.65	2.11
Out of State	7	\$11.82	\$11.16	\$11.71	\$12.14	\$9.99	\$10.91	\$1.31	\$10.60	\$13.03	2.45
<b>Institutional vs. Retail:</b>											
LTC Institutional Pharmacies <sup>4</sup>	10	\$11.95	\$10.68	\$10.70	\$11.39	\$10.23	\$10.34	\$4.21	\$8.93	\$14.96	2.26
Retail	252	\$11.12	\$10.13	\$10.72	\$10.48	\$9.99	\$10.53	\$5.10	\$10.49	\$11.75	1.97
<b>Unit Dose:</b>											
Does not dispense unit dose	206	\$11.09	\$10.20	\$10.80	\$10.40	\$9.99	\$10.64	\$5.23	\$10.38	\$11.81	1.97
Does dispense unit dose	56	\$11.36	\$10.27	\$10.60	\$10.93	\$10.56	\$10.59	\$4.42	\$10.18	\$12.55	2.00

**Pharmacy Cost of Dispensing Survey  
Statistical Summary  
Oregon Department of Human Services**

Pharmacy Dispensing Cost per Prescription <sup>1</sup>											
Characteristic	n: Number of Pharmacies	Measurements of Central Tendency						Other Statistics			
		Means			Medians			Standard Deviation	95% Confidence Interval for Mean (based on Student t)		
		Mean	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume	Median	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume		Lower Bound	Upper Bound	t Value (with n-1 degrees of freedom)
<b>Annual Rx Volume:</b>											
0 to 49,999	108	\$13.73	\$12.66	\$14.01	\$13.01	\$12.69	\$13.57	\$6.44	\$12.50	\$14.96	1.98
50,000 to 69,999	82	\$9.97	\$9.94	\$10.14	\$10.50	\$10.46	\$10.56	\$2.69	\$9.38	\$10.56	1.99
70,000 and Higher	72	\$8.63	\$9.38	\$9.68	\$8.99	\$9.99	\$10.12	\$2.27	\$8.10	\$9.16	1.99
<b>Annual Medicaid Rx Volume: <sup>5</sup></b>											
0 to 1,499	108	\$12.46	\$11.23	\$11.82	\$11.39	\$10.50	\$11.27	\$6.21	\$11.27	\$13.64	1.98
1,500 to 2,999	81	\$9.68	\$9.06	\$9.64	\$9.62	\$9.13	\$9.61	\$3.56	\$8.89	\$10.46	1.99
3,000 and Higher	73	\$10.86	\$10.29	\$10.89	\$10.80	\$10.64	\$10.65	\$4.04	\$9.91	\$11.80	1.99
<b>Medicaid Utilization Ratio: <sup>5</sup></b>											
0.0% to 2.99%	111	\$10.75	\$10.07	\$9.69	\$10.13	\$9.99	\$9.75	\$3.91	\$10.01	\$11.48	1.98
3.0% to 4.99%	79	\$10.09	\$9.31	\$9.30	\$9.97	\$9.13	\$9.29	\$3.52	\$9.30	\$10.87	1.99
5.0% and Higher	72	\$12.95	\$11.12	\$11.45	\$11.38	\$10.65	\$10.66	\$7.22	\$11.25	\$14.64	1.99
<b>Provision of Compounding Services</b>											
Provides compounding (>=5% of Rxs)	8	\$12.39	\$11.31	\$11.66	\$10.75	\$10.38	\$10.79	\$3.94	\$9.09	\$15.69	2.36
Compounding <=5% of Rxs	254	\$11.11	\$10.20	\$10.69	\$10.50	\$10.14	\$10.65	\$5.09	\$10.48	\$11.74	1.97
<b>Provision of Mail Order Services</b>											
Provides mail order (>=5% of Rxs)	13	\$12.74	\$11.40	\$12.16	\$10.58	\$10.58	\$10.61	\$5.47	\$9.43	\$16.04	2.18
Mail order <=5% of Rxs	249	\$11.07	\$10.01	\$10.36	\$10.49	\$10.03	\$10.16	\$5.04	\$10.44	\$11.70	1.97
<b>340B Pharmacy Status</b>											
340B Pharmacies	5	\$12.78	\$11.67	\$12.02	\$11.92	\$10.35	\$10.99	\$3.42	\$8.54	\$17.03	2.78
Other	257	\$11.12	\$10.20	\$10.68	\$10.49	\$10.14	\$10.65	\$5.09	\$10.50	\$11.75	1.97

**Notes:**

- 1) All pharmacy dispensing costs are inflated to the common point of 12/31/2009 (i.e., midpoint of state fiscal year ending 6/30/2010).
- 2) For purposes of this report a "specialty pharmacy" is one that reported sales for intravenous, home infusion, enteral nutrition and/or blood factor services of 10% or more of total prescription sales.
- 3) Myers and Stauffer used the pharmacies' zip code and tables from the U.S. Census Bureau to determine if the pharmacy was located in a Metropolitan Statistical Area or a Micropolitan Statistical Area. Pharmacies not in either a Metropolitan or Micropolitan Statistical Area are considered "rural" for purposes of this report.
- 4) Designation as an "LTC pharmacy" is based on either a) pharmacies that dispensed 50% or more of their Medicaid prescriptions to recipients in a long-term care setting (based on MMIS data indicating that pharmacies claimed the LTC dispensing fee) or b) designation of the pharmacy in Department records as specialty code "402" - "nursing facility".
- 5) Medicaid volume is based on Oregon Health Plan fee-for-service claims data for the time period of July 1, 2008 to June 30, 2009.

**Exhibit 13**  
**Table of Zip Codes, Counties and**  
**Metropolitan / Micropolitan / Rural**  
**Locations**

**Table of Zip Codes, Counties  
and Metropolitan / Micropolitan / Rural Locations  
Oregon Department of Human Services**

Zip Code	County	Census Status <sup>2,3</sup>
97005	WASHINGTON	METRO
97006	WASHINGTON	METRO
97007	WASHINGTON	METRO
97008	WASHINGTON	METRO
97009	CLACKAMAS	METRO
97013	CLACKAMAS	METRO
97015	CLACKAMAS	METRO
97016	COLUMBIA	METRO
97023	CLACKAMAS	METRO
97024	MULTNOMAH	METRO
97027	CLACKAMAS	METRO
97030	MULTNOMAH	METRO
97031	HOOD RIVER	MICRO
97034	CLACKAMAS	METRO
97035	CLACKAMAS	METRO
97038	CLACKAMAS	METRO
97045	CLACKAMAS	METRO
97051	COLUMBIA	METRO
97055	CLACKAMAS	METRO
97056	COLUMBIA	METRO
97058	WASCO	MICRO
97060	MULTNOMAH	METRO
97062	WASHINGTON	METRO
97064	COLUMBIA	METRO
97068	CLACKAMAS	METRO
97070	CLACKAMAS	METRO
97071	MARION	METRO
97080	MULTNOMAH	METRO
97086	MULTNOMAH	METRO
97089	CLACKAMAS	METRO
97103	CLATSOP	MICRO
97106	WASHINGTON	METRO
97112	TILLAMOOK	RURAL
97113	WASHINGTON	METRO
97116	WASHINGTON	METRO
97118	TILLAMOOK	RURAL
97123	WASHINGTON	METRO
97124	WASHINGTON	METRO
97128	YAMHILL	METRO
97132	YAMHILL	METRO
97138	CLATSOP	MICRO
97140	WASHINGTON	METRO
97141	TILLAMOOK	RURAL
97146	CLATSOP	MICRO
97147	TILLAMOOK	RURAL
97201	MULTNOMAH	METRO
97202	MULTNOMAH	METRO
97203	MULTNOMAH	METRO
97204	MULTNOMAH	METRO
97205	MULTNOMAH	METRO

Zip Code	County	Census Status <sup>2,3</sup>
97206	MULTNOMAH	METRO
97209	MULTNOMAH	METRO
97210	MULTNOMAH	METRO
97211	MULTNOMAH	METRO
97212	MULTNOMAH	METRO
97213	MULTNOMAH	METRO
97214	MULTNOMAH	METRO
97215	MULTNOMAH	METRO
97216	MULTNOMAH	METRO
97217	MULTNOMAH	METRO
97218	MULTNOMAH	METRO
97219	MULTNOMAH	METRO
97220	MULTNOMAH	METRO
97221	MULTNOMAH	METRO
97222	CLACKAMAS	METRO
97223	WASHINGTON	METRO
97224	WASHINGTON	METRO
97225	WASHINGTON	METRO
97227	MULTNOMAH	METRO
97229	WASHINGTON	METRO
97230	MULTNOMAH	METRO
97232	MULTNOMAH	METRO
97233	MULTNOMAH	METRO
97236	MULTNOMAH	METRO
97239	MULTNOMAH	METRO
97266	MULTNOMAH	METRO
97267	CLACKAMAS	METRO
97301	MARION	METRO
97302	MARION	METRO
97303	MARION	METRO
97304	POLK	METRO
97305	MARION	METRO
97306	MARION	METRO
97317	MARION	METRO
97321	LINN	MICRO
97322	LINN	MICRO
97327	LINN	MICRO
97330	BENTON	METRO
97331	BENTON	METRO
97333	BENTON	METRO
97338	POLK	METRO
97347	POLK	METRO
97351	POLK	METRO
97355	LINN	METRO
97355	LINN	MICRO
97360	LINN	MICRO
97361	POLK	METRO
97362	MARION	METRO
97365	LINCOLN	RURAL
97367	LINCOLN	RURAL

**Table of Zip Codes, Counties  
and Metropolitan / Micropolitan / Rural Locations  
Oregon Department of Human Services**

Zip Code	County	Census Status <sup>2,3</sup>
97378	YAMHILL	METRO
97380	LINCOLN	RURAL
97381	MARION	METRO
97383	MARION	METRO
97386	LINN	MICRO
97394	LINCOLN	RURAL
97396	YAMHILL	METRO
97401	LANE	METRO
97402	LANE	METRO
97403	LANE	METRO
97404	LANE	METRO
97405	LANE	METRO
97408	LANE	METRO
97411	COOS	MICRO
97415	CURRY	MICRO
97417	DOUGLAS	MICRO
97420	COOS	MICRO
97423	COOS	MICRO
97424	LANE	METRO
97426	LANE	METRO
97439	LANE	METRO
97444	CURRY	MICRO
97446	LINN	MICRO
97448	LANE	METRO
97457	DOUGLAS	MICRO
97458	COOS	MICRO
97459	COOS	MICRO
97463	LANE	METRO
97467	DOUGLAS	MICRO
97469	DOUGLAS	MICRO
97470	DOUGLAS	MICRO
97471	DOUGLAS	MICRO
97477	LANE	METRO
97478	LANE	METRO
97479	DOUGLAS	MICRO
97487	LANE	METRO
97496	DOUGLAS	MICRO
97501	JACKSON	METRO
97502	JACKSON	METRO
97503	JACKSON	METRO
97504	JACKSON	METRO
97520	JACKSON	METRO
97523	JOSEPHINE	MICRO
97524	JACKSON	METRO
97525	JACKSON	METRO
97526	JOSEPHINE	MICRO
97527	JOSEPHINE	MICRO
97530	JACKSON	METRO
97535	JACKSON	METRO
97539	JACKSON	METRO

Zip Code	County	Census Status <sup>2,3</sup>
97540	JACKSON	METRO
97601	KLAMATH	MICRO
97603	KLAMATH	MICRO
97624	KLAMATH	MICRO
97630	LAKE	RURAL
97633	KLAMATH	MICRO
97701	DESCHUTES	METRO
97702	DESCHUTES	METRO
97720	HARNEY	RURAL
97738	HARNEY	RURAL
97739	DESCHUTES	METRO
97741	JEFFERSON	RURAL
97754	CROOK	MICRO
97756	DESCHUTES	METRO
97761	JEFFERSON	RURAL
97801	UMATILLA	MICRO
97814	BAKER	RURAL
97818	MORROW	MICRO
97823	GILLIAM	RURAL
97828	WALLOWA	RURAL
97836	MORROW	MICRO
97838	UMATILLA	MICRO
97845	GRANT	RURAL
97850	UNION	MICRO
97862	UMATILLA	MICRO
97882	UMATILLA	MICRO
97883	UNION	MICRO
97913	MALHEUR	MICRO
97914	MALHEUR	MICRO
97918	MALHEUR	MICRO

**Notes:**

1) Table is limited to pharmacies located within the state of Oregon. Pharmacies located outside of Oregon were given a general "out-of-state" location designation.

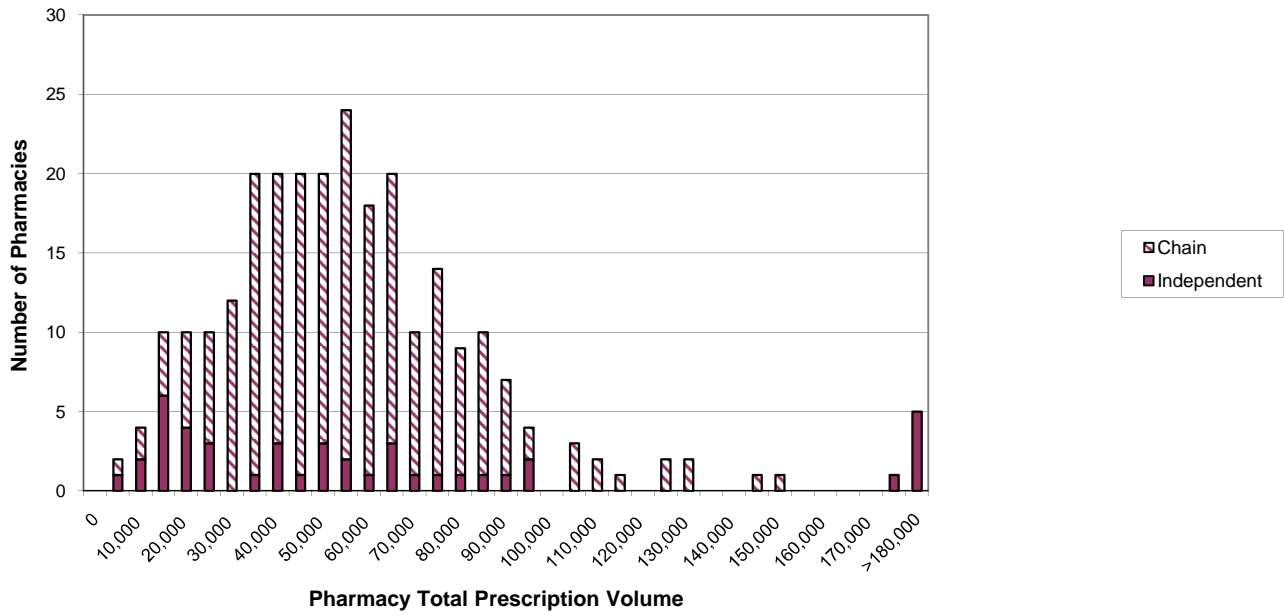
2) Census status refers to the U.S. Bureau of the Census designation for a county as being in a metropolitan statistical area or micropolitan statistical area (per December 2007 definitions, obtained from <http://www.census.gov>).  
METRO = The county is located in a metropolitan statistical area.  
MICRO = The county is located in a micropolitan statistical area.

3) For purposes of the pharmacy dispensing cost survey, pharmacies not located in metropolitan or micropolitan statistical areas are considered to have a "rural" location.

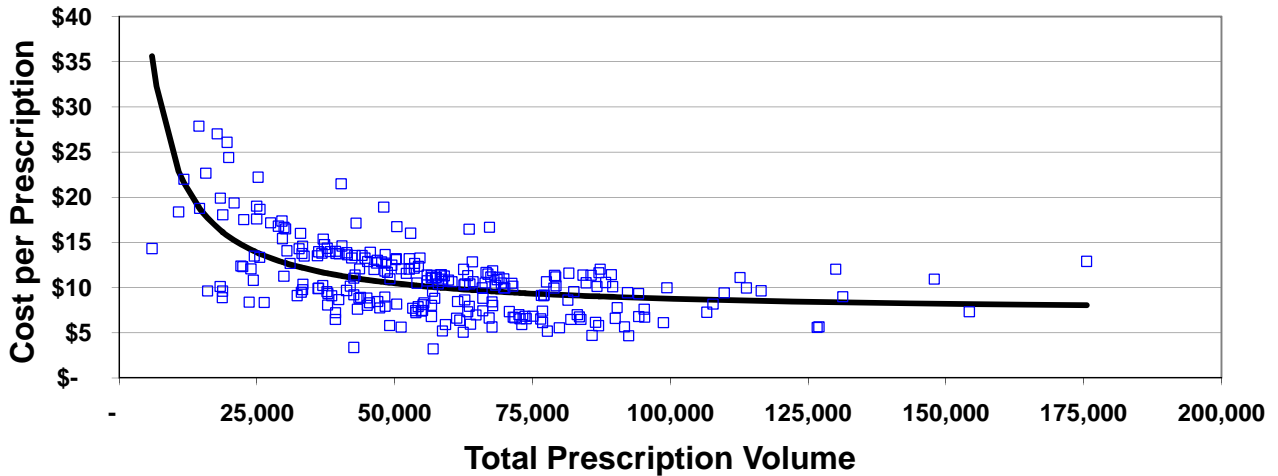
**Exhibit 14**  
**Charts Relating to Pharmacy Total  
Prescription Volume:**

- A: Histogram of Pharmacy Total Prescription Volume**
- B: Scatter-Plot of Relationship Between Dispensing  
Cost per Prescription and Total Prescription  
Volume**

### Histogram of Pharmacy Total Prescription Volume (Non-Specialty Pharmacies)



### Scatter Plot of Relationship Between Dispensing Cost per Prescription and Total Prescription Volume (Non-Specialty Pharmacies; Volume < 200,000 prescriptions)



**Exhibit 15**  
**Summary of Pharmacy Attributes**

**Summary of Pharmacy Attributes**  
Oregon Department of Human Services

Attribute	Number of Pharmacies Responding	Statistics for Responding Pharmacies		
		Response	Count	Percent
Payer Type: percent of prescriptions (averages)	260	Medicaid fee for service	N/A	5.9%
		Medicaid managed care (see Note 1)	N/A	4.5%
		Other third party (see Note 1)	N/A	78.3%
		Cash	N/A	11.3%
		Total	N/A	100.0%
Payer Type: percent of payments (averages)	255	Medicaid fee for service	N/A	6.5%
		Medicaid managed care	N/A	4.8%
		Other third party	N/A	81.0%
		Cash	N/A	7.7%
		Total	N/A	100.0%
Type of ownership	264	Individual	4	1.5%
		Corporation	248	93.9%
		Partnership	3	1.1%
		Other	9	3.4%
		Total	264	100.0%
Location	265	Medical office building	6	2.3%
		Shopping center	59	22.3%
		Downtown or individual building	58	21.9%
		Grocery store / mass merchant	129	48.7%
		Other	13	4.9%
		Total	265	100.0%
Building ownership (or rented from related party)	264	Yes, (own building or rent from related party)	127	48.1%
		No	137	51.9%
		Total	264	100.0%
Hours open per week	264	71.8 hours	N/A	N/A
Years pharmacy has operated at current location	252	16.3 years	N/A	N/A
Provision of 24 hour emergency services	265	Yes	99	37.4%
		No	166	62.6%
		Total	265	100.0%
Percent of prescriptions to long-term care facilities (including adult foster care and assisted living facilities)	265	5.7% for all pharmacies; (23.0% for 65 pharmacies reporting > 0%)	N/A	N/A
Provision of unit dose services	265	Yes (average of 12.8% of prescriptions for pharmacies indicating provision of unit dose prescriptions. Nearly 100% of unit dose prescriptions were reported as prepared in the pharmacy with 0% reported as purchased already prepared from a manufacturer)	58	21.9%
		No	207	78.1%
		Total	265	100.0%
Percent of total prescriptions delivered	265	5.7% for all pharmacies; (24.0% for 63 pharmacies reporting > 0%)	N/A	N/A
Percent of Medicaid prescriptions delivered	265	5.7% for all pharmacies; (28.9% for 52 pharmacies reporting > 0%)	N/A	N/A
Percent of prescriptions dispensed by mail	265	1.2% for all pharmacies; (8.8% for 36 pharmacies reporting >0% percent of prescriptions dispensed by mail)	N/A	N/A
Provision of medication therapy management services (MTM)	260	Yes (average number of MTM claims per year: 20.7; average of 34 minutes per MTM claim spent rendering MTM services for pharmacies)	37	14.2%
		No	223	85.8%
		Total	260	100.0%
Provision of specialty products or service (e.g., intravenous or home infusion, enteral nutrition, blood factor or derivatives prescriptions)	265	Yes	8	3.0%
		No	257	97.0%
		Total	265	100.0%
Percent of prescriptions compounded	265	0.9% for all pharmacies; (5.5% for 43 pharmacies reporting >0 compounded Rx's; for 41 pharmacies that reported the average minutes spent compounding a prescription, the average time was 15.7 minutes)	N/A	N/A

**Notes:**

1) Several pharmacies reported to Myers and Stauffer that distinguishing between Medicaid managed care and other third party payers was not always possible within their reporting systems. Several pharmacies indicated that Medicaid managed care prescriptions and payments were included in "other third party".

**Exhibit 16**  
**Chart of Components**  
**of Dispensing Cost**  
**per Prescription**

**Chart of Components of Dispensing Cost per Prescription**

