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# Survey of the Average Cost of Dispensing a Medicaid Prescription in the State of Ohio

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Prepared for the  
Ohio Department of Medicaid

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## EXHIBITS

- Exhibit 1 Ohio Medicaid Pharmacy Cost of Dispensing Survey – Survey Form
- Exhibit 2 Informational Letter from the Ohio Department of Medicaid Regarding Pharmacy Dispensing Cost Survey
- Exhibit 3a Letter from Myers and Stauffer LC Regarding Pharmacy Dispensing Cost Survey (Independent Pharmacies)
- Exhibit 3b Letter from Myers and Stauffer LC Regarding Pharmacy Dispensing Cost Survey (Chain Pharmacies)
- Exhibit 4 Informational Meeting Flyer
- Exhibit 5a First Survey Reminder Letter (Independent Pharmacies)
- Exhibit 5b First Survey Reminder Letter (Chain Pharmacies)
- Exhibit 6a Second Survey Reminder / Extension Letter (Independent Pharmacies)
- Exhibit 6b Second Survey Reminder / Extension Letter (Chain Pharmacies)
- Exhibit 7a Enhanced Desk Review Notification Letter (Independent Pharmacies)
- Exhibit 7b Enhanced Desk Review Notification Letter (Chain Pharmacies)
- Exhibit 8 Summary of Enhanced Desk Review Findings
- Exhibit 9 Table of Inflation Factors for Dispensing Cost Survey
- Exhibit 10 Histogram of Pharmacy Dispensing Cost
- Exhibit 11 Pharmacy Cost of Dispensing Survey Data - Statistical Summary
- Exhibit 12 Table of Counties and Urban / Rural Locations for Ohio Pharmacies
- Exhibit 13 Charts Relating to Pharmacy Prescription Volume:
  - A: Histogram of Pharmacy Total Prescription Volume
  - B: Scatter-Plot of Relationship between Dispensing Cost per Prescription and Total Prescription Volume
- Exhibit 14 Chart of Components of Cost of Dispensing per Prescription
- Exhibit 15 Summary of Pharmacy Attributes

# Chapter 1: Executive Summary

## Introduction

Under contract to the Ohio Department of Medicaid (ODM), 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. The methodology was consistent with guidelines from the Centers for Medicare and Medicaid Services (CMS) regarding the components of pharmacy cost that are appropriately reimbursed by the pharmacy dispensing fee of a state Medicaid program.

Myers and Stauffer obtained from ODM a list of pharmacy providers currently enrolled in the Ohio Medicaid pharmacy program. According to the provider list, there were 3,042 pharmacy providers that were enrolled in the Ohio Medicaid program. All 3,042 enrolled pharmacies were requested to submit survey information for this study.

Myers and Stauffer performed basic desk review procedures to test completeness and accuracy of all dispensing cost surveys submitted. Additionally, expanded desk review procedures which required the submission of supporting documentation from the sample pharmacies were performed for 16 pharmacies to validate reported costs.

There were 1,983 pharmacies that filed cost surveys that could be included in this analysis. Data from these surveys, in conjunction with pharmacy-specific cost-finding algorithms, were used to calculate the average cost of dispensing at each pharmacy and results from these pharmacies were subjected to statistical analysis.

## Summary of Findings

Per the survey of pharmacy dispensing cost for pharmacies participating in the Ohio Medicaid program, the mean cost of dispensing, weighted by Medicaid volume, was \$11.31 per prescription for all pharmacies including specialty pharmacies<sup>1</sup>. For non-specialty pharmacies only, the mean cost of dispensing, weighted by Medicaid volume, was \$9.22 per prescription.

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<sup>1</sup> For purposes of this report, "specialty" pharmacies are those pharmacies that reported sales for intravenous, home infusion, blood factor and/or other specialty services of 10% or more of total prescription sales.

**Table 1.1 Dispensing Cost for Ohio Medicaid Pharmacies**

	<b>All Pharmacies Inclusive of Specialty</b>	<b>Non-specialty Pharmacies Only</b>
Pharmacies Included in Analysis	1,983	1,919
Unweighted Mean (Average) <sup>A</sup>	\$14.98	\$10.68
Weighted Mean (Average) <sup>A,B</sup>	\$11.31	\$9.22
Unweighted Median <sup>A</sup>	\$9.55	\$9.45
Weighted Median <sup>A, B</sup>	\$8.80	\$8.76

<sup>A</sup> Inflated to common point of June 30, 2014.

<sup>B</sup> Weighted by Medicaid volume.

It was noted that the survey response rate for chain pharmacies was higher than the response rate for independent pharmacies (80.8% and 33.0% respectively). It was also noted that the difference in the unweighted mean cost of dispensing for non-specialty chain and independent pharmacies was statistically significant at the 5% confidence level. The unweighted mean cost of dispensing for non-specialty chain and independent pharmacies was \$10.17 and \$13.77, respectively. This relationship implies that the overall average dispensing cost observed from the survey data for non-specialty pharmacies, inclusive of both chain and independent pharmacies, may be understated compared to the results that may have been observed had the response rate for independent pharmacies been higher. Adjustments to the means can be made by weighting the mean values observed for chain and independent pharmacies with compensating factors derived from the survey response rates. If the mean weighted by Medicaid prescription volume is adjusted to account for the difference in chain and independent pharmacy response rates, the adjusted value was determined to be \$9.47 as compared to the unadjusted value of \$9.22. Similarly, if the mean weighted by total prescription volume is adjusted to account for the difference in chain and independent pharmacy response rates, the adjusted value was determined to be \$9.66 as compared to the unadjusted value of \$9.30.

## Conclusions

Changes in the Medicaid pharmacy reimbursement formula should consider both the dispensing and ingredient components of the payment structure. Rates should take into consideration the proposed rule regarding Medicaid pharmacy services published by CMS on February 2, 2012. This proposed rule, if finalized in its present state, would require state Medicaid programs to change the current basis for ingredient reimbursement from the currently defined “estimated

acquisition cost” (EAC) to the concept of “actual acquisition cost” (AAC). The proposed rule from CMS reiterated the importance of the pharmacy dispensing fee. CMS indicates that state Medicaid programs that make the switch to an AAC methodology will be required to also implement a professional dispensing fee that reflects the pharmacist’s professional services and costs associated with the dispensing of drug products to Medicaid members.

Based on the results of the study of pharmacy dispensing cost, a single dispensing fee of \$9.22 would reimburse the weighted average cost of dispensing prescriptions to Ohio Medicaid members at non-specialty pharmacies.

The use of a single dispensing fee for all pharmacies represents the simplest reimbursement option and is the most widely used methodology for pharmacy dispensing fees among state Medicaid programs. Despite indications that the cost of dispensing in specialty pharmacies varies from the cost of dispensing in non-specialty pharmacies, the use of a differential dispensing fee for specialty pharmacies is relatively infrequent among state Medicaid programs. Several states have set dispensing fees based on the cost of dispensing observed at non-specialty pharmacies.

## Chapter 2: Dispensing Cost Survey and Analysis

The Ohio Department of Medicaid (ODM) engaged Myers and Stauffer LC to perform a study of costs incurred by pharmacies participating in the Ohio Medicaid pharmacy program 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) has 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>2</sup>*

Further guidance from CMS regarding pharmacy dispensing came in a proposed rule published on February 2, 2012.<sup>3</sup> In this proposed rule, CMS did not

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<sup>2</sup> See “Medicaid Program; Prescription Drugs; Final Rule.” Federal Register, 72: 136 (17 July 2007), p. 39,240. These guidelines are codified at 42 CFR 47.502. Note that the proposed rule included within “Medicaid Program: Covered Outpatient Drugs” Federal Register, 77:22 (2 Feb. 2012), p. 5361, would modify this definition, but only by modifying the term “dispensing fee” to be “professional dispensing fee” stating that “Professional dispensing fee means the professional fee which—...” Otherwise, the modified definition for a dispensing fee would remain the same.

<sup>3</sup> See “Medicaid Program; Covered Outpatient Drugs.” Federal Register, 77: 22 (2 February 2012) p 5318.

fundamentally alter the definition for the components of the dispensing fee, as currently codified at 42 CFR 447.502, other than to replace the terminology of “dispensing fee” with “professional dispensing fee”. However, the importance of the pharmacy dispensing fee was highlighted in this proposed rule in conjunction with a proposed change in the basis for ingredient reimbursement from the currently defined “estimated acquisition cost” (EAC)<sup>4</sup> to “actual acquisition cost” (AAC).<sup>5</sup> The requirement that state Medicaid agencies should more closely match their ingredient reimbursement to actual acquisition cost highlights the importance of the professional dispensing fee. CMS states in the proposed rule:

*...we feel that this change from “dispensing fee” to “professional dispensing fee” reinforces our position that once the reimbursement for the drug is properly determined, the dispensing fee should reflect the pharmacist’s professional services and costs associated with ensuring that possession of the appropriate covered outpatient drug is transferred to a Medicaid beneficiary. Therefore, as States change their payment for ingredient cost, we also propose to require States to reconsider the dispensing fee methodology consistent with the revised requirements. (p. 5326)*

Currently, state Medicaid agencies use a wide variety of reimbursement rates in their pharmacy programs. Pharmacy dispensing fees in Medicaid programs vary from under \$2 to over \$18. Private third party payers generally reimburse for dispensing fees and drug ingredients at rates less than those paid by most Medicaid programs. On average, dispensing fees paid by private third party payers are less than the dispensing cost of most pharmacies. One recent survey of pharmacy reimbursement rates from third-party payers reported an average dispensing fee to retail pharmacies for brand name drugs of \$1.87 for prescriptions with a 30 day supply and \$1.52 for prescriptions with a 90 day supply.<sup>6</sup> National studies also indicate that in recent years, private payer pharmacy dispensing fees have declined.

## Methodology of the Dispensing Cost Survey

In order to determine costs incurred to dispense pharmaceuticals to members of the Ohio Medicaid pharmacy program, Myers and Stauffer utilized a survey method consistent with CMS guidelines for the components of a pharmacy dispensing fee in 42 CFR 447.502 and the methodology of previous surveys conducted by Myers and Stauffer in several states.

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<sup>4</sup> See 42 CFR 447.502 for definition of the EAC (“the agency’s best estimate of the price generally and currently paid by providers for a drug marketed or sold by a particular manufacturer or labeler in the package size of drug most frequently purchased by providers”) and 42 CFR 447.512 for upper limits of payment that incorporate the current EAC requirement.

<sup>5</sup> In the proposed rule, AAC is defined as “...the agency’s determination of the pharmacy providers’ actual prices paid to acquire drug products marketed or sold by specific manufacturers.” (p. 5359).

<sup>6</sup> See *2014-2015 Prescription Drug Benefit Cost and Plan Design Report*, Pharmacy Benefits Management Institute, LP and Takeda Pharmaceuticals North America, Inc.



## Survey Distribution

Myers and Stauffer obtained from ODM a list of pharmacy providers currently enrolled in the Ohio Medicaid pharmacy program. According to the provider list, there were 3,042 pharmacy providers enrolled in the program. Surveys were mailed to all 3,042 pharmacy providers on October 3, 2014. Each surveyed pharmacy received a copy of the cost survey (Exhibit 1), a letter of explanation from ODM (Exhibit 2) and a letter of explanation from Myers and Stauffer (Exhibit 3a and Exhibit 3b) and a notice of informational meetings to discuss the survey process (Exhibit 4).

Concerted efforts to encourage participation were made to enhance the survey response rate. Informational meetings were available for providers to learn more about the survey process (Exhibit 4). A survey help desk was provided by Myers and Stauffer. A toll-free telephone number and email address were listed on the survey form and pharmacists were instructed to call or email to resolve any questions they had concerning completion of the survey form. The letter of explanation offered pharmacy owners the option of having Myers and Stauffer complete certain sections of the survey for those that were willing to submit copies of financial statements and/or tax returns. For convenience in completing the cost of dispensing survey, the survey forms were also made available in electronic formats. Pharmacies were provided with options to report data using Excel spreadsheets.

Reminder letters were sent on October 28, 2014 to surveyed pharmacies (Exhibits 5a and 5b). Additional letters were sent on November 7, 2014 with a further reminder and an extension of the original due date of November 7, 2014 to November 21, 2014 (Exhibits 6a and 6b).

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 3,042 surveyed pharmacies, 29 pharmacies were determined to be ineligible to participate (based on the returned surveys).

Surveys were accepted through December 31, 2014. As indicated in Table 2.1, 1,983 surveyed pharmacies submitted a usable cost survey for this study resulting in a response rate of 65.8%.

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 limited

instances in which issues on the cost survey were not resolved in time for inclusion in the final analysis.<sup>7</sup>

The following table, 2.1, summarizes the dispensing cost survey response rate.

**Table 2.1 Dispensing Cost Survey Response Rate**

Pharmacy Category	Medicaid Enrolled Pharmacies	Pharmacies Exempt or Ineligible from Filing	Eligible Pharmacies	Usable Cost Surveys Received	Response Rate
Chain <sup>8</sup>	2,071	4	2,067	1,671	80.8%
Non-chain	971	25	946	312	33.0%
<b>TOTAL</b>	<b>3,042</b>	<b>29</b>	<b>3,013</b>	<b>1,983</b>	<b>65.8%</b>
In-State Urban <sup>9</sup>	2,102	27	2,075	1,539	74.2%
In-State Rural	497	2	495	363	73.3%
Out-of-State	443	0	443	81	18.3%
<b>TOTAL</b>	<b>3,042</b>	<b>29</b>	<b>3,013</b>	<b>1,983</b>	<b>65.8%</b>

### Tests for Reporting Bias

For the pharmacy traits of affiliation (i.e., chain or independent) and location (i.e., urban or rural), the submitted surveys were tested to determine if it was representative of the population of Medicaid provider pharmacies. Since the response rate of the surveyed pharmacies was less than 100 percent, the possibility of bias in the response rate 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 1,983 usable cost surveys, 1,671 were from chain pharmacies and 312 were from non-chain pharmacies. There was a response rate of 80.8% for chain pharmacies compared to a response rate of 33.0% for independent pharmacies.

<sup>7</sup> There were 7 incomplete surveys received on or before December 31, 2014 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. These 7 incomplete surveys are not included in the count of 1,983 usable surveys received.

<sup>8</sup> For purposes of this survey, a chain was defined as an organization having four or more pharmacies under common ownership or control on a national level.

<sup>9</sup> For measurements that refer to the urban or rural location of a pharmacy, Myers and Stauffer used the county of the pharmacy's location and tables from the U.S. Census Bureau to determine if the pharmacy was located in a Metropolitan Statistical Area (MSA). Pharmacies in an MSA were assigned an "urban" location flag; other pharmacies were assigned a "rural" location flag.

The results of the  $\chi^2$  test indicated that the difference in response rate between chain and independent pharmacies was statistically significant at the 5% confidence level.

A  $\chi^2$  test was also performed with respect to the urban versus rural location for responding pharmacies that were located in the state of Ohio.<sup>10</sup> Of the 2,570 non-exempt pharmacies located in the state of Ohio, 2,075 pharmacies (or 80.7%) were located in an urban area. The remaining 495 pharmacies (or 19.3%) were located in a rural area. The number of pharmacies that returned a completed survey from an urban location was 1,539 (a response rate of 74.2%) and the number of pharmacies that returned a completed survey from a rural location was 363 (a response rate of 73.3%). The results of the  $\chi^2$  test indicated that the difference in response rate between urban and rural pharmacy locations (within the state) was not statistically significant at the 5% confidence level.

## Review Procedures

A desk review was performed for 100% of surveys received. This review identified incomplete cost surveys and pharmacies submitting these incomplete cost surveys were contacted by telephone and/or email to obtain information necessary for completion. The desk review process also incorporated a number of tests to determine the reasonableness of the reported data. In many instances, pharmacies were contacted to correct or provide confirmation of reported survey data that was indicated for review as a result of these tests for reasonableness.

## Enhanced Desk Review Procedures

In addition to the desk review procedures, a random sample of 35 pharmacies that responded to the cost of dispensing survey were sent a request for supporting documentation to verify the survey data submitted (Exhibit 7a and Exhibit 7b). These pharmacies were requested to submit financial statements or a tax return to verify reported expenses, a prescription dispensing report to verify the total number of prescriptions dispensed for the fiscal year and a store diagram or blueprint to verify the pharmacy's reported square footage. Of the 35 randomly sampled pharmacies, responses with the requested information were received from 16 pharmacies.<sup>11</sup> A table with the results from the enhanced desk review is included in Exhibit 8. Several changes were made to the sampled surveys, and the overall change to the calculated cost of dispensing was found to be statistically significant at the 5% confidence level. However, for the 16

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<sup>10</sup> For measurements that refer to the urban or rural location of a pharmacy, Myers and Stauffer used the county of the pharmacies' location and tables from the U.S. Census Bureau to determine if the pharmacy was located in a Metropolitan Statistical Area (MSA). Pharmacies in an MSA were assigned an "urban" location flag; other pharmacies were assigned a "rural" location flag.

<sup>11</sup> Responses to the request for documentation for the enhanced desk review procedures were accepted through January 28, 2015.

pharmacies that participated in the enhanced desk review procedures, the average difference in the calculated cost of dispensing was only \$0.21, or 1.35%. Given the response rate for participation in the enhanced desk review procedures and the small difference observed in the calculated cost of dispensing based on application of the enhanced desk review procedures, Myers and Stauffer is not proposing to adjust the cost of dispensing data obtained from pharmacies that were not included in the enhanced desk review process.

## 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 reported costs were 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 items. 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 members. 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 members.

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. Overhead expenses that were reported for the entire pharmacy were allocated to the prescription department based on one of the following 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 are captured in their cost of goods sold. 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: \$0.54 per prescription).
- Certain other expenses that were separately identified on Lines 1 through 30 of Page 4 <sup>12</sup> of the cost survey (Exhibit 1).

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

- Income taxes <sup>13</sup>
- Bad debts <sup>14</sup>

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<sup>12</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>13</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.

- Advertising <sup>15</sup>
- Charitable Contributions <sup>16</sup>
- Certain costs reported on Lines 1 through 30 of Page 4 of the cost survey (Exhibit 1) were occasionally excluded if the expense was not related to the dispensing of prescription drugs.

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>17</sup>
- Repairs
- Utilities

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<sup>14</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>15</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>16</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 13 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.

<sup>17</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."

The costs in these categories were considered a function of floor space.<sup>18</sup> The floor space ratio was increased by a factor of 2.0 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

## 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 1 to 11 of Page 6 of the cost survey – Exhibit 1) 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 (Line 2 of Page 6 of the cost survey – Exhibit 1) were multiplied by a factor based upon the percent of prescription time. Therefore, a higher percentage of salaries, payroll taxes and benefits were 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>19</sup>

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<sup>18</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.

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

The allocation of salaries, payroll taxes, and benefits for all other prescription employees (Lines 3 to 10 of Page 6 of the cost survey – Exhibit 1) 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 owners are not costs that have arisen from arm's length negotiations, they are not similar to other costs. Accordingly, limitations were placed upon the allocated salaries, payroll taxes and benefits of owners. 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. Owners who pay themselves above market cost effectively represent a withdrawal of business profits, not a cost of dispensing. However, owners who underpay themselves for business reasons also misrepresent the true dispensing cost.

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, upper and lower limits were imposed on owner salaries. For purposes of setting owner's compensation limits, owners who are pharmacists were considered separately from owners who are not pharmacists. Constraints for owners were set using upper and lower thresholds for hourly compensation that represented approximately the 95<sup>th</sup> and 40<sup>th</sup> percentiles of employee salaries for pharmacists and non-pharmacists (adjusted by reported FTEs to estimate hourly wages). These thresholds allow for a conservative adjustment to owner salaries.

The limits established for owners are presented in Table 2.2.

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<sup>19</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.



**Table 2.2 Hourly Wage Limits for Owners**

Owner Type	Lower Limit (Hourly)	Upper Limit (Hourly)
Pharmacist	\$50.30	\$82.97
Non-Pharmacist	\$13.00	\$37.26

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 1,983 pharmacies in the cost analysis, owner limits impacted 114 pharmacies, or 5.7%. Of these, 54 pharmacies had costs 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 60 pharmacies had costs increased as a result of the limits (on the basis that owner salaries appeared to be below their market value). Although the cost of dispensing calculated for individual stores was adjusted by this process, the overall change to the final estimate of average pharmacy dispensing cost per prescription for all stores from applying owner salary limits was negligible. In total, the final estimate of average pharmacy dispensing cost per prescription was decreased by approximately \$0.01 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 1,983 pharmacies included in the dispensing cost analysis, this limit was applied to 130 pharmacies. In total, the final estimate of average pharmacy dispensing cost per prescription was decreased by approximately \$0.03 as a result of the labor cost restraint.

## 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 December 31, 2014 (specifically from the *midpoint* of the pharmacy's fiscal year to June 30, 2014 which is the *midpoint* of the fiscal period ending December 31, 2014). The midpoint and terminal month indices used were taken from the Employment Cost Index, (all civilian, all workers; seasonally adjusted) published by the Bureau of Labor Statistics (BLS) (Exhibit 9). The use of inflation factors is preferred in order for pharmacy cost data from various fiscal years to be compared uniformly. The majority of submitted cost surveys were based on a fiscal year which ended December 31, 2013.

## Dispensing Cost Analysis and Findings

The dispensing costs for surveyed pharmacies are summarized in the following tables and paragraphs. Findings for pharmacies are presented collectively, and additionally are presented for subsets of the surveyed population 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 mean and the median. Findings are presented in the forms of means and medians, both weighted and unweighted.

The measures of central tendency used in this report include the following:

**Unweighted mean:** the arithmetic average cost for all pharmacies.

**Weighted mean:** the average cost of all prescriptions dispensed by surveyed pharmacies, 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 from surveyed pharmacies and divides that sum by the total of all prescriptions from surveyed pharmacies. 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 surveyed pharmacies. 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.

For both weighted means and weighted medians, the use of Medicaid prescription volume as the weighting factor is particularly meaningful for consideration in determining appropriate reimbursement since it emphasizes the cost of dispensing from those pharmacies that dispense more significant volumes of Medicaid prescriptions.

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, findings are presented in Table 2.3.

**Table 2.3 Dispensing Cost per Prescription – All Pharmacies**

	Dispensing Cost
Unweighted Mean	\$14.98
Mean Weighted by Medicaid Volume	\$11.31
Unweighted Median	\$9.55
Median Weighted by Medicaid Volume	\$8.80

*n=1,983 pharmacies*

*(Dispensing costs have been inflated to the common point of June 30, 2014)*

See Exhibit 10 for a histogram of the dispensing cost for all pharmacies. There was a large range between the highest and the lowest dispensing cost observed. However, the majority of pharmacies (approximately 90%) had average dispensing costs between \$5 and \$15.

Exhibit 11 includes a statistical summary with a wide variety of measures of pharmacy dispensing cost with breakdowns for many pharmacy attributes potentially of interest. For measurements that refer to the urban or rural location of a pharmacy, Myers and Stauffer used the county of the pharmacies' locations and tables from the U.S. Census Bureau to determine if the pharmacy was located in a Metropolitan Statistical Area (MSA). Pharmacies in an MSA were assigned an "urban" location flag; other pharmacies were assigned a "rural" location flag. A table of counties and their designation as urban or rural is included in Exhibit 12.

## Specialty Pharmacies

Several pharmacies included in the cost analysis were identified as specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, blood factor and/or other specialty services of 10% or more of total prescription sales. The analysis revealed significantly higher cost of dispensing associated with pharmacies that provided significant levels of these services.<sup>20</sup>

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 2.4.

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<sup>20</sup> In every pharmacy cost of dispensing study in which information on specialty, intravenous solution and home infusion 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 for specialty, intravenous and infusion prescriptions are significantly different from the costs incurred by other pharmacies. The reasons for this difference include:

- Costs of special equipment for mixing and storage of specialty, intravenous and infusion products.
- Costs of additional services relating to patient education, compliance programs, monitoring, reporting and other support for specialty, intravenous and infusion products.
- Higher direct labor costs because many specialty, intravenous and infusion prescriptions must be prepared in the pharmacy.
- There is often inconsistency in the manner in which prescriptions are counted for intravenous and infusion products. For these products, a pharmacy may mix and deliver many "dispensings" of a daily intravenous or home infusion 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.

**Table 2.4 Dispensing Cost per Prescription - Specialty versus Other Pharmacies**

Type of Pharmacy	Number of Pharmacies	Average Total Annual Prescription Volume (mean and median)	Average Medicaid Prescription Volume (mean and median)	Unweighted Mean	Mean Weighted by Medicaid Volume
Specialty Pharmacies	64	Mean: 121,304 Median: 40,334	Mean: 4,734 Median: 377	\$143.73	\$46.03
Other Pharmacies	1,919	Mean: 86,865 Median: 72,511	Mean: 2,632 Median: 1,409	\$10.68	\$9.22

*n= 1,983 pharmacies*

*(Dispensing costs have been inflated to the common point of June 30, 2014)*

Pharmacies that dispense specialty prescriptions as a significant part of their business often have dispensing costs in excess of those found in a traditional pharmacy. The analyses summarized in Tables 2.5 through 2.9 below exclude the 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 pharmacy providers that provide “traditional” pharmacy services.

Table 2.5 restates the measurements noted in Table 2.3 excluding pharmacies that dispensed significant volumes of specialty prescriptions.

**Table 2.5 Dispensing Cost per Prescription – Excluding Specialty Pharmacies**

Dispensing Cost	
Unweighted Mean	\$10.68
Mean Weighted by Medicaid Volume	\$9.22
Unweighted Median	\$9.45
Median Weighted by Medicaid Volume	\$8.76

*n= 1,919 pharmacies. Excludes specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, blood factor and/or other specialty services of 10% or more of total prescription sales.*

*(Dispensing costs have been inflated to the common point of June 30, 2014)*

#### Adjustments to Compensate for Response Rate Differences for Chain and Independent Non-Specialty Pharmacies

The unweighted mean cost of dispensing for non-specialty chain and independent pharmacies was \$10.17 and \$13.77, respectively. The difference between these means was found to be statistically significant at the 5%

confidence level. Given that the survey response rate for chain pharmacies was higher than the response rate for independent pharmacies (80.8% and 33.0% respectively), this relationship implies that the overall average dispensing cost observed from the survey data, inclusive of both chain and independent pharmacies, may be understated compared to the results that may have been observed had the response rate for independent pharmacies been higher. Adjustments to the means can be made by weighting the mean values observed for chain and independent pharmacies with compensating factors derived from the survey response rates. If the mean weighted by Medicaid prescription volume is adjusted to account for the difference in chain and independent pharmacy response rates, the adjusted value was determined to be \$9.47 as compared to the unadjusted value of \$9.22. Similarly, if the mean weighted by total prescription volume is adjusted to account for the difference in chain and independent pharmacy response rates, the adjusted value was determined to be \$9.66 as compared to the unadjusted value of \$9.30.

### Relationship of Dispensing Cost with Prescription Volume

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. Means and medians weighted by either Medicaid volume or total prescription volume may provide a more realistic measurement of typical dispensing cost.

Pharmacies were classified into meaningful groups based upon their differences in total prescription volume. Dispensing costs were then analyzed based upon these volume classifications. Table 2.6 displays the calculated cost of dispensing for non-specialty pharmacies arrayed into tiers based on total annual prescription volume. Table 2.7 provides statistics for pharmacy total annual prescription volume.

**Table 2.6 Dispensing Cost by Pharmacy Total Annual Prescription Volume**

Total Annual Prescription Volume of Pharmacy	Number of Pharmacies <sup>A</sup>	Unweighted Mean	Mean Weighted by Medicaid Volume
0 to 54,999	625	\$14.17	\$13.67
55,000 to 89,999	646	\$9.70	\$9.34
90,000 and Higher	648	\$8.30	\$8.34

*n*= 1,919 pharmacies

<sup>A</sup> Excludes specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, blood factor and/or other specialty services of 10% or more of total prescription sales.

(Dispensing costs have been inflated to the common point of June 30, 2014)

**Table 2.7 Statistics for Pharmacy Total Annual Prescription Volume**

Statistic	Value <sup>A</sup>
Mean	86,865
Standard Deviation	146,152
10 <sup>th</sup> Percentile	29,625
25 <sup>th</sup> Percentile	47,223
Median	72,511
75 <sup>th</sup> Percentile	104,036
90 <sup>th</sup> Percentile	139,393

*n*= 1,919 pharmacies

<sup>A</sup> Excludes specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, blood factor and/or other specialty services of 10% or more of total prescription sales.

(Dispensing costs have been inflated to the common point of June 30, 2014)

The distribution of total annual prescription volume was significantly different for pharmacies located in the state of Ohio and those located outside of the state of Ohio. The mean total annual prescription volume for non-specialty pharmacies in the state of Ohio was 84,811 prescriptions. For pharmacies that responded to the survey that were located outside of the state of Ohio, the mean total annual prescription volume for non-specialty pharmacies was 150,509 prescriptions. The out-of-state pharmacies included several very high volume pharmacies which predominantly provided mail-order prescriptions. In contrast, the average annual number of Ohio Medicaid prescriptions reimbursed at non-specialty pharmacies located outside of the state of Ohio was relatively low compared to pharmacies located in the state of Ohio (an annual average of 683 Ohio Medicaid prescriptions for non-specialty pharmacies located outside of the state of Ohio).

versus 2,695 Ohio Medicaid prescriptions for non-specialty pharmacies located in of the state of Ohio).

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 13.

As an alternative to a reimbursement methodology based on a single dispensing fee, several states have adopted a tiered dispensing fee methodology utilizing tiers that are based on the annual total dispensing volume of pharmacies. The study showed a strong association between annual total prescription volume and the cost of dispensing. Pharmacies with higher annual total prescription volume tended to have a lower cost of dispensing indicative of higher levels of efficiency. A tiered approach would have the advantage of setting dispensing fees that are better matched, on average, to an individual pharmacy's cost of dispensing. However, the use of a tiered dispensing fee methodology is more complex and potentially introduces the perception that pharmacies that tend to be more inefficient are being rewarded with higher dispensing fees. A reimbursement methodology that provides higher reimbursement for low volume pharmacies located in remote rural areas may be perceived as a positive enhancement for the pharmacy program since opportunities to increase efficiency through higher volume are inherently limited. However, low volume pharmacies can also occur in urban areas in conjunction with the opening of new stores in saturated markets. Higher dispensing fees for inefficient stores in such situations may not be conducive with program objectives.

#### Other Observations Associated with Dispensing Cost and Pharmacy Attributes

The dispensing cost of the surveyed pharmacies was broken down into the various components of overhead and labor related costs. Table 2.8 displays the means of the various cost components for surveyed pharmacies. Labor-related expenses accounted for approximately 65% of overall prescription dispensing costs.

Expenses in Table 2.8 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 2.8 Components of Prescription Dispensing Cost**

Type of Expense	Mean Weighted by Medicaid Volume <sup>A</sup>
Owner Professional Labor	\$0.264
Employee Professional and Other Labor	\$6.049
Building and Equipment	\$0.885
Prescription Specific Expenses (including delivery)	\$1.042
Other Overhead Expenses	\$0.985
<b>Total</b>	<b>\$9.225</b>

*n= 1,919 pharmacies*

<sup>A</sup> *Excludes specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, blood factor and/or other specialty services of 10% or more of total prescription sales.*

*(Dispensing costs have been inflated to the common point of June 30, 2014)*

A chart of the components of prescription dispensing cost is provided in Exhibit 14.

In addition to pharmacy dispensing cost data, several pharmacy attributes were collected on the cost survey. A summary of those attributes is provided at Exhibit 15.

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

In the following Table 2.9, measurements are provided for certain expenses that were not included in the cost of dispensing. Reasons for not including these costs were discussed previously in the report. For all of the expenses below, average cost per prescription was calculated using a sales ratio as the basis for allocation.

**Table 2.9 Non-Allocated Expenses per Prescription**

<b>Expense Category</b>	<b>Unweighted Mean <sup>A</sup></b>	<b>Mean Weighted by Medicaid Volume <sup>A</sup></b>
Bad Debts	\$0.031	\$0.128
Charitable Contributions	\$0.009	\$0.006
Advertising	\$0.266	\$0.173

*n*= 1,919 pharmacies

<sup>A</sup> Excludes specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, blood factor and/or other specialty services of 10% or more of total prescription sales.

(Dispensing costs have been inflated to the common point of June 30, 2014)

## Comparisons to Other Recent Cost of Dispensing Surveys

The findings of this cost of dispensing study is reasonably consistent with dispensing cost observed in other recent studies performed by Myers and Stauffer and other firms. Table 2.10 includes results from several recent cost of dispensing studies.

**Table 2.10 Results of Other Recent Pharmacy Cost of Dispensing Studies**

<b>State</b>	<b>Year of Report</b>	<b>Firm</b>	<b>Results (weighted mean cost of dispensing)</b>
Virginia	2014	Myers and Stauffer	\$10.65
Iowa	2014	Myers and Stauffer	\$11.53
Indiana	2013	Myers and Stauffer	\$9.56
Louisiana	2011	Myers and Stauffer	\$10.13
Maryland	2011	Myers and Stauffer	\$11.53
Idaho	2011	Myers and Stauffer	\$12.19
Mississippi	2011	Myers and Stauffer	\$10.65

**Exhibit 1**  
**Ohio Medicaid Pharmacy Cost of**  
**Dispensing Survey**

# Ohio Medicaid Pharmacy Cost of Dispensing Survey

Survey forms by Myers and Stauffer LC under contract with the Ohio Department of Medicaid

M&S Use Only

Prov. No. (NPI)

Return Completed Forms to:  
Myers and Stauffer LC  
11440 Tomahawk Creek Parkway  
Leawood, Kansas 66211  
or via email to:  
disp\_survey@mslc.com

ROUND ALL AMOUNTS TO NEAREST DOLLAR OR WHOLE NUMBER

Complete and return by **November 7, 2014**

**Call toll free (800) 374-6858 or email disp\_survey@mslc.com if you have any questions.**

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

## DECLARATION BY OWNER/MANAGER AND PREPARER

I declare that I have examined this cost survey 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 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		email address	

## DECLARATION OF EXEMPTION

All Ohio Medicaid pharmacies should complete all pages of this survey unless you meet the following criteria:

1. ☐ New pharmacies that were in business less than six months during the most recently completed reporting period.  
Date pharmacy opened \_\_\_\_\_
2. ☐ Pharmacies with a change in ownership that resulted in less than six months in business during the reporting period.  
Date pharmacy changed ownership \_\_\_\_\_

If your pharmacy meets either of the above criteria, check the box next to the explanation describing your situation and report the relevant date. Pharmacies which are considered "exempt" do not need to complete the remaining portions of the survey.

# Ohio Medicaid Pharmacy Cost of Dispensing Survey

## SECTION IA -- PHARMACY ATTRIBUTES

Page 2

Complete these forms using your most recently completed fiscal year for which financial records are available and complete (e.g., December 31, 2013, or December 31, 2012, if 2013 records are not yet complete).

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

<b>List the total number of all prescriptions dispensed during your most recently completed fiscal year as follows:</b>											
(a)	<b>1. New</b> _____ <b>2. Refill</b> _____ <b>3. Total</b> _____										
<p>"Prescriptions Dispensed." Report the total number of all prescriptions filled during the fiscal year being reported on this cost survey. This information may be kept on a daily or monthly log or on your computer.</p>											
(b)	<b>Sales and Floor Space</b>										
Sales (Excluding Sales Tax) Cost of Goods Sold Floor Space (see instructions below)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: center;">Pharmacy Department Only</th> <th style="width: 50%; text-align: center;">Total Store (Retail and Pharmacy Department)</th> </tr> </thead> <tbody> <tr> <td style="height: 20px;"></td> <td style="height: 20px;"></td> </tr> <tr> <td style="height: 20px;"></td> <td style="height: 20px;"></td> </tr> <tr> <td style="height: 20px;"></td> <td style="height: 20px;"></td> </tr> <tr> <td style="text-align: right;">Sq. Ft.</td> <td style="text-align: right;">Sq. Ft.</td> </tr> </tbody> </table>	Pharmacy Department Only	Total Store (Retail and Pharmacy Department)							Sq. Ft.	Sq. Ft.
Pharmacy Department Only	Total Store (Retail and Pharmacy Department)										
Sq. Ft.	Sq. Ft.										
<p><b>Store sales excluding sales tax.</b> Total store sales and cost of goods sold can usually be obtained from a financial statement or a federal income tax return (if the tax return only includes the store being surveyed). "Pharmacy Department" sales should only include sales of prescription drugs should not include non-prescription over the counter drugs, durable medical equipment or other nonprescription items.</p> <p><b>Cost of Goods Sold.</b> If pharmacy department cost of goods sold is not readily available, leave that line blank.</p> <p><b>Floor Space</b> Provide square footage for pharmacy department dispensing area only and total store square footage. 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 (e.g., basement, attic, off-the-premises areas or freight in-out areas). When measuring the prescription department, exclude patient waiting area, counseling area, prescription department office space and prescription department storage. These should be included in total store area. A factor will be added to the prescription department to account for waiting area, counseling area, prescription department office space and prescription department storage.</p>											
(c)	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 _____%										
(d)	<b>Ownership Affiliation</b> 1. <input type="checkbox"/> Independent (1 to 3 units)      2. <input type="checkbox"/> Chain (4 or more units) 3. <input type="checkbox"/> Institutional (service to LTC facilities only)      4. <input type="checkbox"/> Other (specify) _____										
(e)	<b>Type of Ownership</b> 1. <input type="checkbox"/> Individual      2. <input type="checkbox"/> Corporation      3. <input type="checkbox"/> Partnership      4. <input type="checkbox"/> Other (specify) _____										
(f)	<b>Location</b> 1. <input type="checkbox"/> Medical Office Building      2. <input type="checkbox"/> Shopping Center 3. <input type="checkbox"/> Stand Alone Building      4. <input type="checkbox"/> Grocery Store / Mass Merchant 5. <input type="checkbox"/> Outpatient Hospital      6. <input type="checkbox"/> Other (specify) _____										
(g)	Does your pharmacy purchase drugs through the 340B Drug Pricing Program or the Federal Supply Schedule (FSS)? 1. <input type="checkbox"/> Yes      2. <input type="checkbox"/> No If yes, are prescriptions dispensed to Ohio Medicaid members provided from 340B or FSS inventory? 1. <input type="checkbox"/> Yes      2. <input type="checkbox"/> No										
(h)	Do you own your building or lease from a related party (i.e., yourself, family member, or related corporation)? If so, mark yes and refer to special instructions for reporting building rent. 1. <input type="checkbox"/> Yes      2. <input type="checkbox"/> No										

# Ohio Medicaid Pharmacy Cost of Dispensing Survey

Page 3

## SECTION IA -- PHARMACY ATTRIBUTES, CONTINUED

(i)	How many hours per week is your pharmacy open? _____ Hours
(j)	How many years has a pharmacy operated at this location? _____ Years
(k)	Do you provide 24-hour emergency services for pharmaceuticals? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No
(l)	What percentage of prescriptions dispensed were generic products? _____ %
(m)	What is the approximate percent of your Medicaid prescriptions dispensed for which a co-payment is applicable but is not collected? _____ %

**If your pharmacy dispenses prescriptions to long-term care facilities, complete lines (n) through (p).**

(n)	What is the approximate percent of your prescriptions dispensed to long-term care facilities or assisted living homes? _____ %
(o)	Do you dispense in unit dose packaging to long-term care facilities (e.g., medisets, blister packs, etc.)? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No What is the approximate percent of all prescriptions dispensed in unit dose packaging? _____ %
(p)	If you provide unit dose packaging, what percent of unit dose packaging is: 1. Purchased from manufacturers _____ % 2. Prepared in the pharmacy _____ %

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

(q)	What percent of total prescriptions filled are delivered? _____ %
(r)	What percent of Medicaid prescriptions filled are delivered? _____ %
(s)	Does your pharmacy deliver prescriptions by mail (U.S. Postal Service, FedEx, UPS, etc.)? 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 delivered by mail? _____ %
(t)	Are you presently providing specialty products or services (e.g., intravenous, infusion, enteral nutrition, blood factors or derivatives, other pre-filled injectable or oral specialty products)? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No If yes, what is the dollar amount of your sales for intravenous / infusion prescriptions \$ _____, enteral nutrition prescriptions \$ _____ blood factors or derivatives \$ _____ pre-filled injectable or oral specialty products \$ _____ other specialty products or services \$ _____ specify other products or services _____
(u)	What is the approximate percent of your prescriptions dispensed that are compounded? _____ % What is the approximate percent of your prescriptions dispensed that are compounded in a sterile environment? _____ % For prescriptions that are compounded, what is the average number of minutes spent preparing a prescription by pharmacists and technicians? By a pharmacist: _____ By a technician: _____

## SECTION IB -- OTHER INFORMATION

List any additional information you feel contributes significantly to your cost of filling a prescription. Attach additional pages if needed.

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## SECTION IIA -- OVERHEAD EXPENSES

Round all amounts to nearest dollar or whole number.

Complete this section using your internal financial statement or tax return. You should only use a tax return if the only store reported on the return in the store being surveyed. 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. Use your most recently completed fiscal year for which financial records are available and complete (e.g., December 31, 2013, or December 31, 2012, if 2013 records are not yet complete). If you prefer, you may submit a copy of your financial statement and/or tax return (including all applicable schedules) in lieu of completing this section of the survey.

### \* Notes about tax return line references

Form 1040, Sched C, line 27a is for "other expenses" and a detailed breakdown of this category is typically reported on page 2, Part V of the form. Form 1065, line 20; Form 1120, line 26 and Form 1120S, line 19 are for other deductions and there are typically detailed breakdowns of the expenses in this category in the "Statements" attached to the returns.

The following information is from fiscal / tax year ending

### 2013 Tax Form Number

1040 Schedule C	1065	1120	1120S
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Myers and  
Stauffer Use  
Only

Line No.

13	16a	20	14	Depreciation (this fiscal year only - not accumulated)			(1)
23	14	17	12	Taxes	(a) Personal Property Taxes Paid		(2)
					(b) Real Estate Taxes		(3)
					(c) Payroll Taxes		(4)
					Any other taxes should be reported on page 5. Specify each type and amount.		
20b	13	16	11	Rent	(a) Building Rent (or ownership expenses of interest, taxes, insurance and maintenance if building is leased from a related party)		(5)
20a	13	16	11		(b) Equipment and Other		(6)
21	11	14	9	Repairs			(7)
15	20*	26*	19*	Insurance (other than employee medical)			(8)
16a&b	15	18	13	Interest			(9)
17	20*	26*	19*	Legal and Professional Fees			(10)
27*	20*	26*	19*	Dues and Publications			(11)
27*	12	15	10	Bad Debts (this fiscal year only - not accumulated)			(12)
		19		Charitable Contributions			(13)
25	20*	26*	19*	Utilities	(a) Telephone		(14)
25	20*	26*	19*		(b) Heat, Water, Lights, Sewer, Trash and other Utilities		(15)
18&22	20*	26*	19*	Operating and Office Supplies (exclude prescription containers and labels)			(16)
8	20*	22	16	Advertising			(17)
27*	20*	26*	19*	Computer Expenses			(18)
9,27*	20*	26*	19*	Prescription Delivery Expenses			(19)
27*	20*	26*	19*	Prescription Containers and Labels			(20)
27*	20*	26*	19*	Travel, Meals and Entertainment			(21)
27*	20*	26*	19*	Switching / E-Prescribing Fees			(22)
27*	20*	26*	19*	Security / Alarm			(23)
27*	20*	26*	19*	Bank Charges			(24)
27*	20*	26*	19*	Credit Card Processing Fees			(25)
27*	20*	26*	19*	Cleaning / Housekeeping / Janitorial			(26)
27*	20*	26*	19*	Lawn Care / Snow Removal / Pest Control			(27)
27*	20*	26*	19*	Pharmacy Licenses / Permits			(28)
27*	20*	26*	19*	Employee Training and Certification			(29)
27*	20*	26*	19*	Continuing Education			(30)

SECTION IIA -- OVERHEAD EXPENSES, CONTINUED

Other non-labor expenses not included on lines (1) through (30)

Examples: Franchise fees, other taxes not reported on page 4, accreditation and/or certification fees, restocking fees, postage, administrative expenses, amortization, etc. Specify each item and the corresponding amount. Note that labor expenses are reported on Page 6. For corporate overhead expenses allocated to the individual store, please attach documentation to establish the expenses included in the allocation and describe the allocation basis.

	Total Expense	Myers and Stauffer Use Only	
			(31a)
			(31b)
			(31c)
			(31d)
			(31e)
			(31f)
			(31g)
			(31h)
			(31i)
			(31j)
			(31k)
			(31l)
			(31m)
			(31n)
			(31o)
			(31p)
			(31q)
			(31r)
Total Overhead Expenses [Add Line (1) through Line (31r)]			(32)



## SECTION IIB -- PERSONNEL COSTS

Complete each employee classification line in aggregate. If there are no employees in a specific category, please leave blank. Provide your best estimate of the percentage of time spent working in each category, the rows must equal 100%. Complete these forms using the same fiscal year used for reporting overhead expenses.

Employee Classification	Indicate if owner is a pharmacist <input type="checkbox"/> Yes <input type="checkbox"/> No	Estimate of FTEs*	Total Salaries	Percent of Time Spent				Line No.
				Direct Prescription Dispensing Activities	Other Clinical or Administrative (prescription department related)	Other (not related to prescription department)	Total (should equal 100%)	
Owner (if applicable)								(1)
Pharmacist								(2)
Technician								(3)
Delivery								(4)
Nurses								(5)
Customer service representatives								(6)
Billing								(7)
Other Admin								(8)
Contract Labor (Pharmacist)								(9)
Contract Labor (other)								(10)
Staff not related to RX dispensing				0.0%	0.0%	100.0%	100.0%	(11)
Total Salaries								(12)
Pension and Profit Sharing								(13)
Other Employee Benefits (including employee medical insurance, disability insurance, education assistance, etc.)								(14)
Total Labor Expenses								(15)

\* FTE: Full-time Equivalent. Take the total number of weekly hours worked by job category and divide by 40 hours to determine the total number of full time equivalent positions. Answer can be a decimal. Round answer to nearest tenth.

## SECTION III -- RECONCILIATION WITH FINANCIAL STATEMENT OR TAX RETURN

The purpose of this reconciliation is to ensure that all expenses have been included and that none have been duplicated. Complete these forms using the same fiscal year which was used to report overhead and labor expenses.

2013 Tax Form Number					Column 1	Column 2
1040C	1065	1120	1120S		Cost Survey Amounts	Financial Statement or Tax Return Amounts
28	21	27	20	Total Expenses per Financial Statement or Tax Return		(1)
				Enter Amount from Total Overhead Expenses (Page 5, Line 32)		(2)
				Enter Amount from Total Labor Expenses (Page 6, Line 15)		(3)
				Total Expenses per Cost Survey [add Lines (2) and (3)]		(4)
				Specify Items with Amounts that are on Cost Survey but not on Financial Statement or Tax Return		
				(a) _____		(5a)
				(b) _____		(5b)
				(c) _____		(5c)
				(d) _____		(5d)
				(e) _____		(5e)
				Specify Items with Amounts that are on Financial Statement or Tax Return but not on this Cost Survey		
				(a) _____		(6a)
				(b) _____		(6b)
				(c) _____		(6c)
				(d) _____		(6d)
				(e) _____		(6e)
				Total [add Lines (1) to (6e)] Column Totals Must be Equal		(7)

**Exhibit 2**  
**Informational Letter from the Ohio**  
**Department of Medicaid Regarding**  
**Pharmacy Dispensing Cost Survey**

**Ohio**  
**Department of Medicaid**  
**John R. Kasich, Governor**  
**John B. McCarthy, Director**

Dear Medicaid Pharmacy Provider:

The Ohio Department of Medicaid (ODM) has contracted with Myers and Stauffer, LC, Certified Public Accountants, to perform a survey on the cost of dispensing prescriptions to Medicaid fee-for-service clients.

Ohio Revised Code section 5164.752 requires ODM to conduct this survey every two years. The law also requires Medicaid pharmacy providers to participate in this confidential survey.

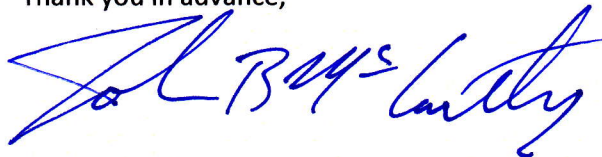
This year, the survey is different than the ones you may remember from past years. We have engaged Myers and Stauffer, an accounting firm with extensive experience in pharmacy cost of dispensing surveys, to conduct the survey. They have conducted similar surveys in many states. Myers and Stauffer and ODM will hold the information you provide to them in confidence, will disclose it only in aggregate form and never identify your pharmacy, and will use the information only for the purpose of conducting and reporting this survey for ODM. It will not be used for any other purpose.

We intend to use the aggregate survey results in a meaningful way. All state Medicaid agencies are being directed by the federal Centers for Medicare and Medicaid Services (CMS) to adopt pharmacy payment policies designed to pay dispensing pharmacies for the actual acquisition cost of the drug plus a reasonable dispensing fee, based on the actual cost to the pharmacy of dispensing drugs to Medicaid patients. **This survey is our tool to help us determine a reasonable dispensing fee, and we need your help.**

Please provide the requested information on the enclosed survey tool, and submit it to Myers and Stauffer timely. It is crucial that we have complete participation with this survey from each chain, independent, and specialty pharmacy.

We appreciate your continued service to our Medicaid recipients, as well as your cooperation in this important study. Please direct questions about the survey to Myers and Stauffer at 1-800-374-6858 or [disp\\_survey@mslc.com](mailto:disp_survey@mslc.com).

Thank you in advance,



John B. McCarthy

**Exhibit 3a**  
**Letter from Myers and Stauffer LC**  
**Regarding Pharmacy Dispensing Cost**  
**Survey (Independent Pharmacies)**



**MYERS AND  
STAUFFER<sub>LC</sub>**  
CERTIFIED PUBLIC ACCOUNTANTS

October 3, 2014

«random» / «npi»  
«prov\_name»  
«address1»  
«address2»  
«city», «state» «zip»

**Re: Ohio Medicaid Pharmacy Cost of Dispensing Survey**

Dear Pharmacy Provider:

The Ohio Department of Medicaid has contracted with Myers and Stauffer LC to conduct a pharmacy cost of dispensing survey as part of the process to evaluate the costs associated with dispensing prescribed medications to Ohio Medicaid members. All Ohio Medicaid pharmacy providers are required to participate in the survey.

You should complete the cost of dispensing survey using information from your most recently completed fiscal year for which records are complete and available. You should report information separately for each store surveyed. For the requested sales and expense information, you should rely on your completed financial statements or other reports that are specific to the pharmacy location being surveyed. The survey form includes cross references to various federal income tax forms (e.g., 1065, 1120, 1120S or Schedule C of Form 1040) which may be useful if your tax return is limited to a single store. If multiple pharmacies are reported on your income tax return, you should instead use store specific financial reports.

For your convenience, Myers and Stauffer can complete Section IIA "Overhead Expenses" and Section III "Reconciliation with Financial Statement or Tax Return" for you if you wish to submit a copy of your store specific financial reports or your federal income tax return (with all accompanying schedules). You will still need to complete other sections of the cost survey.

**If you prefer to respond in a paper format:** Send completed forms to:

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

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

**If you prefer to respond in an electronic format:** You may obtain an Excel spreadsheet version of the survey by contacting Myers and Stauffer. To obtain the

Excel spreadsheet, send a request by email to [disp\\_survey@mslc.com](mailto:disp_survey@mslc.com) or contact Myers and Stauffer staff directly at 1-800-374-6858. Surveys that are completed electronically may be submitted via email.

You will note that the cost of dispensing survey includes a section for you to report your total store and pharmacy sales and total store and pharmacy square footage. This information will be used to allocate certain expenses that are shared between the prescription dispensing department and other business activities within the store. If you operate a closed-door pharmacy with a prescription department only, your expenses will be treated accordingly.

It is very important that all pharmacies cooperate fully by filing an accurate cost survey. Pharmacies are encouraged to return the requested information as soon as possible, but forms must be returned **no later than November 7, 2014**.

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 additional review procedures for 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 and you will be required to submit additional documentation in support of the information reported on the survey.

Myers and Stauffer will be conducting informational meetings via telephonic/Internet-based webinars to further explain the survey. At these meetings, Myers and Stauffer will present more about the survey process and the information that is being requested. You may also use this forum as an opportunity to ask questions about the survey form and the survey process. Please refer to the enclosed information meeting flyer for further information on the dates and times of these webinar meetings.

All submitted cost of dispensing surveys and accompanying documentation will be treated confidentially and in accordance with our contract with the Ohio Department of Medicaid. Although Myers and Stauffer cannot sign non-disclosure agreements with individual pharmacies or chain organizations, you can be assured that confidentiality of survey data is a high priority. The submitted surveys and the accompanying information will be used by Myers and Stauffer only for the purpose of our engagement with the Ohio Department of Medicaid. Myers and Stauffer intentionally restricts our business to serving government agencies, so you can be assured that we have no pharmacy providers as clients. Myers and Stauffer will limit access of the survey information to staff working on the project and each staff member working on this project is bound by a confidentiality agreement. Survey data will be stored in a secure office environment and on secure computer servers. Although it is planned for this engagement to result in a consulting report describing the methodology and findings of the survey, this report will only contain aggregated information and will not specifically identify any pharmacies.

If you have any questions, please call Myers and Stauffer toll free at 1-800-374-6858 or

send an email to [disp\\_survey@mslc.com](mailto:disp_survey@mslc.com). Your cooperation in providing the information for this survey is greatly appreciated.

Sincerely,

A handwritten signature in black ink, reading "T. Allan Hansen". The signature is fluid and cursive, with a large initial "T" and a long, sweeping underline.

T. Allan Hansen  
Principal



**Exhibit 3b**  
**Letter from Myers and Stauffer LC**  
**Regarding Pharmacy Dispensing Cost**  
**Survey (Chain Pharmacies)**



October 3, 2014

«Chain»

«Contact\_Person»

«Address\_1», «Address\_2»

«City», «St» «Zip»

## **Re: Ohio Medicaid Pharmacy Cost of Dispensing Survey**

Dear Pharmacy Provider:

The Ohio Department of Medicaid has contracted with Myers and Stauffer LC to conduct a pharmacy cost of dispensing survey as part of the process to evaluate the cost associated with dispensing prescribed medications to Ohio Medicaid members. All Ohio Medicaid pharmacy providers are required to participate in the survey.

Enclosed are several copies of the "Ohio Medicaid Pharmacy Cost of Dispensing Survey" and a list of pharmacies associated with your organization that participate in the Ohio Medicaid program. Pharmacy information is presented as shown in records from the Ohio Medicaid program. If this list is inaccurate, please notify Myers and Stauffer.

You should complete the cost of dispensing survey using information from your most recently completed fiscal year for which records are complete and available. You should report information separately for each store surveyed. For the requested sales and expense information, you should rely on your completed financial statements or other reports that are specific to the pharmacy location being surveyed. Although the survey form includes cross references to various federal income tax forms (e.g., 1065, 1120, 1120S or Schedule C of Form 1040), these references may not apply to a chain pharmacy organization if the tax return is filed at a corporate level and includes multiple stores. If multiple pharmacies are reported on your income tax return, you should instead use store specific financial reports.

You may respond to the survey using either a paper or electronic format. In past surveys performed by Myers and Stauffer, many chain pharmacy organizations have preferred to respond to the survey in an electronic format.

**If you prefer to respond in a paper format:** You must submit a completed survey for each store on the attached list. If you 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 and 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 email to [disp\\_survey@mslc.com](mailto:disp_survey@mslc.com) or contact Myers and Stauffer staff directly at 1-800-374-6858. Surveys that are completed electronically may be submitted via email.

If you report corporate cost allocations, please describe the types of expenses that are included and the allocation methodology used. Whether you complete the survey in paper or electronic format, we recommend that you retain a copy of the completed survey forms for your records.

You will note that the cost of dispensing survey includes a section for you to report your total store and pharmacy sales and total store and pharmacy square footage. This information will be used to allocate certain expenses that are shared between the prescription dispensing department and other business activities within the store. If you operate a closed-door pharmacy with a prescription department only, your expenses will be treated accordingly.

It is very important that all pharmacies cooperate fully by filing an accurate cost survey. Pharmacies are encouraged to return the requested information as soon as possible, but forms must be returned **no later than November 7, 2014.**

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 additional review procedures for 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 and you will be required to submit additional documentation in support of the information reported on the survey.

Myers and Stauffer will be conducting informational meetings via telephonic/Internet-based webinars to further explain the survey. At these meetings, Myers and Stauffer will present more about the survey process and the information that is being requested. You may also use this forum as an opportunity to ask questions about the survey form and the survey process. Please refer to the enclosed information meeting flyer for further information on the dates and times of these webinar meetings.

All submitted cost of dispensing surveys and accompanying documentation will be

treated confidentially and in accordance with our contract with the Ohio Department of Medicaid. Although Myers and Stauffer cannot sign non-disclosure agreements with individual pharmacies or chain organizations, you can be assured that confidentiality of survey data is a high priority. The submitted surveys and the accompanying information will be used by Myers and Stauffer only for the purpose of our engagement with the Ohio Department of Medicaid. Myers and Stauffer intentionally restricts our business to serving government agencies, so you can be assured that we have no pharmacy providers as clients. Myers and Stauffer will limit access of the survey information to staff working on the project and each staff member working on this project is bound by a confidentiality agreement. Survey data will be stored in a secure office environment and on secure computer servers. Although it is planned for this engagement to result in a consulting report describing the methodology and findings of the survey, this report will only contain aggregated information and will not specifically identify any pharmacies.

If you have any questions regarding the cost of dispensing survey, please call Myers and Stauffer toll free at 1-800-374-6858 or send an email to [disp\\_survey@mslc.com](mailto:disp_survey@mslc.com).

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

Sincerely,

A handwritten signature in black ink, appearing to read "T. Allan Hansen". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

T. Allan Hansen  
Principal

**Exhibit 4**  
**Informational Meeting Flyer**

# Informational Meetings

## Ohio Medicaid Pharmacy Cost of Dispensing Survey

The Ohio Department of Medicaid (ODM) is conducting a pharmacy cost of dispensing survey. The survey results will be used to evaluate the Medicaid pharmacy reimbursement methodology.

The ODM has engaged Myers and Stauffer LC to perform the pharmacy cost of dispensing study. To help prepare pharmacy owners and managers to participate in the survey, Myers and Stauffer will be conducting informational meetings via telephonic/Internet-based webinars. At these meetings, Myers and Stauffer will present more about the survey process, discuss what information is being requested and answer any questions about the survey form.

Surveyed pharmacies are invited to attend one of the informational meetings. **Attendance at one of the webinar sessions requires a reservation.** Please call or email Myers and Stauffer for a reservation and further meeting details.

If you are unable to attend a webinar and have questions about the survey, Myers and Stauffer offers a help desk to answer survey questions.

To reach Myers and Stauffer:

**1-800-374-6858**

**-or-**

**disp\_survey@mslc.com**

### Schedule of Informational Meetings (via telephone and Internet)

Date	Time (Eastern)
Thursday October 16	2:00 PM – 3:00 PM
Friday October 17	8:30 AM – 9:30 AM



**Exhibit 5a**  
**First Survey Reminder Letter**  
**(Independent Pharmacies)**



**MYERS AND  
STAUFFER<sub>LC</sub>**  
CERTIFIED PUBLIC ACCOUNTANTS

October 28, 2014

«random» / «npi»  
«prov\_name»  
«address1»  
«address2»  
«city», «state» «zip»

**Re: Ohio Medicaid Pharmacy Cost of Dispensing Survey Reminder**

Dear Pharmacy Provider:

The Ohio Department of Medicaid has contracted with Myers and Stauffer LC to conduct a pharmacy cost of dispensing survey as part of the process to evaluate the costs associated with dispensing prescribed medications to Ohio Medicaid members. All Ohio Medicaid pharmacy providers are required to participate in the survey.

Several weeks ago you should have received a copy of the dispensing cost survey form. Surveys were sent with a due date of November 7, 2014. This letter serves as a reminder that the survey due date is approaching. You are encouraged to submit a completed survey as soon as possible.

If you have not received a survey form or have misplaced your survey form, you can contact Myers and Stauffer. If you have any questions regarding the survey, please contact Myers and Stauffer at 1-800-374-6858 or via email to [disp\\_survey@mslc.com](mailto:disp_survey@mslc.com). You may also request an Excel template of the survey form, if you prefer to respond in an electronic format.

If you have recently mailed your survey to Myers and Stauffer, we thank you for your participation. If you would like to confirm receipt of your submitted survey, please feel free to contact Myers and Stauffer.

Your cooperation with this survey process is greatly appreciated.

Sincerely,

T. Allan Hansen  
Principal



**Exhibit 5b**  
**First Survey Reminder Letter**  
**(Chain Pharmacies)**



October 28, 2014

«Chain»

«Contact\_Person»

«Address\_1», «Address\_2»

«City», «St» «Zip»

**Re: Ohio Medicaid Pharmacy Cost of Dispensing Survey Reminder**

Dear Pharmacy Provider:

The Ohio Department of Medicaid has contracted with Myers and Stauffer LC to conduct a pharmacy cost of dispensing survey as part of the process to evaluate the cost associated with dispensing prescribed medications to Ohio Medicaid members. All Ohio Medicaid pharmacy providers are required to participate in the survey.

Several weeks ago you should have received a copy of the dispensing cost survey form. Myers and Stauffer also prepared a listing of the pharmacies in your chain that dispensed prescriptions to Ohio Medicaid recipients and are subject to this survey. Surveys were sent with a due date of November 7, 2014. This letter serves as a reminder that the survey due date is approaching. You are encouraged to submit a completed survey as soon as possible.

If you have not received a survey form or have misplaced your survey form, you can contact Myers and Stauffer. If you have any questions regarding the survey, please contact Myers and Stauffer toll free at 1-800-374-6858 or via email to [disp\\_survey@mslc.com](mailto:disp_survey@mslc.com). You may also request an Excel template of the survey form if you prefer to respond in an electronic format.

If you have recently mailed your survey to Myers and Stauffer, we thank you for your participation. If you would like to confirm receipt of your submitted survey, please feel free to contact Myers and Stauffer.

Your cooperation with this survey process is greatly appreciated.

Sincerely,

T. Allan Hansen  
Principal

**Exhibit 6a**  
**Second Survey Reminder / Extension**  
**Letter (Independent Pharmacies)**



**MYERS AND  
STAUFFER<sub>LC</sub>**  
CERTIFIED PUBLIC ACCOUNTANTS

November 7, 2014

«random» / «npi»  
«prov\_name»  
«address1»  
«address2»  
«city», «state» «zip»

**Re: Ohio Medicaid Pharmacy Cost of Dispensing Survey Reminder**

Dear Pharmacy Provider:

The Ohio Department of Medicaid has contracted with Myers and Stauffer LC to conduct a pharmacy cost of dispensing survey as part of the process to evaluate the costs associated with dispensing prescribed medications to Ohio Medicaid members. All Ohio Medicaid pharmacy providers are required to participate in the survey.

Several weeks ago you should have received a copy of the dispensing cost survey form. Surveys were sent with a due date of November 7, 2014. **In order to allow pharmacies more time to respond to the dispensing cost survey, Myers and Stauffer has been instructed by the Department to continue to accept surveys through November 21, 2014. This will be the final extension of the survey due date.** Your participation in the dispensing cost survey is very important. This survey is being used by the Department to evaluate future reimbursement rates.

If you have not received a survey form or have misplaced your survey form, you can contact Myers and Stauffer. If you have any questions regarding the survey, please contact Myers and Stauffer at 1-800-374-6858 or via email to [disp\\_survey@mslc.com](mailto:disp_survey@mslc.com). You may also request an Excel template of the survey form, if you prefer to respond in an electronic format.

If you have recently mailed your survey to Myers and Stauffer, please feel free to contact Myers and Stauffer if you would like to confirm receipt of your submitted survey.

Your cooperation with this survey process is greatly appreciated.

Sincerely,

T. Allan Hansen  
Principal

**Exhibit 6b**  
**Second Survey Reminder / Extension**  
**Letter (Chain Pharmacies)**



November 7, 2014

«Chain»

«Contact\_Person»

«Address\_1», «Address\_2»

«City», «St» «Zip»

**Re: Ohio Medicaid Pharmacy Cost of Dispensing Survey Reminder**

Dear Pharmacy Provider:

The Ohio Department of Medicaid has contracted with Myers and Stauffer LC to conduct a pharmacy cost of dispensing survey as part of the process to evaluate the cost associated with dispensing prescribed medications to Ohio Medicaid members. All Ohio Medicaid pharmacy providers are required to participate in the survey.

Several weeks ago you should have received a copy of the dispensing cost survey form. Attached was also a listing of the pharmacies in your chain that participate in the Ohio Medicaid program and are subject to this survey. Surveys were sent with a due date of November 7, 2014. **In order to allow pharmacies more time to respond to the dispensing cost survey, Myers and Stauffer has been instructed by the Department to continue to accept surveys through November 21, 2014. This will be the final extension of the survey due date.** Your participation in the dispensing cost survey is very important. This survey is being used by the Department to evaluate future reimbursement rates.

If you have not received a survey form or have misplaced your survey form, you can contact Myers and Stauffer. If you have any questions regarding the survey, please contact Myers and Stauffer toll free at 1-800-374-6858 or via email to [disp\\_survey@mslc.com](mailto:disp_survey@mslc.com). You may also request an Excel template of the survey form if you prefer to respond in an electronic format.

If you have recently mailed your survey, please feel free to contact Myers and Stauffer if you would like to confirm receipt of your submitted survey.

Your cooperation with this survey process is greatly appreciated.

Sincerely,

T. Allan Hansen  
Principal

**Exhibit 7a**  
**Enhanced Desk Review Notification**  
**Letter (Independent Pharmacies)**



**MYERS AND  
STAUFFER<sub>LC</sub>**  
CERTIFIED PUBLIC ACCOUNTANTS

December 12, 2014

«random» / «npi»  
«prov\_name»  
«address1»  
«address2»  
«city», «state» «zip»

## **Re: Ohio Medicaid Pharmacy Cost of Dispensing Survey Validation Procedures**

Dear Pharmacy Provider:

The Ohio Department of Medicaid has contracted with Myers and Stauffer LC to conduct a pharmacy cost of dispensing survey as part of the process to evaluate the costs associated with dispensing prescribed medications to Ohio Medicaid members.

As part of the survey process to ensure that accurate data is received from pharmacies, Myers and Stauffer is required to obtain supporting documentation from a sample of pharmacies. This documentation will be reviewed and compared against submitted survey data.

Your pharmacy has been selected for this level of review. You are required to submit the following documentation to Myers and Stauffer:

- A store-specific financial statement that details sales and expenses for the fiscal year reported on the survey. Alternatively, a federal tax return may be submitted if the tax return reports financial data for only one store. If you submit a tax return, you must include any supporting schedule associated with your tax return. For pharmacies that are organized as a sole proprietorship, if you opt to send a tax return, please send only the business portion of the tax return (i.e., Form 1040 Schedule C). [INSERT OPTIONAL LANGUAGE IF FINANCIAL STATEMENT OR TAX RETURN WAS ALREADY SUBMITTED: **Since you previously sent a financial statement and/or a tax return with your survey submission, you are not required to submit any additional information to meet this requirement.**]
- Prescription reports to verify the total number of prescriptions dispensed during the time period corresponding to the fiscal year reported on the survey.
- A copy of a store diagram or blueprint or other documentation to support calculations that were made to determine the total store and pharmacy only square footage reported on the cost of dispensing survey.
- Any other work papers relied upon to complete the cost of dispensing survey which are necessary to reconcile the above records to the information submitted



on the cost of dispensing survey.

**Documentation should be submitted within ten days of the date of this letter.**

Documentation may be submitted by mail to:

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

Alternatively, documentation may be sent via fax to (913) 234-1104 or via email to [disp\\_survey@mslc.com](mailto:disp_survey@mslc.com).

If you have any questions, concerning the desk review process, please call Myers and Stauffer toll free at 1-800-374-6858 or send an email to [disp\\_survey@mslc.com](mailto:disp_survey@mslc.com). Your cooperation with this survey process is greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "T. Allan Hansen". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

T. Allan Hansen  
Principal

**Exhibit 7b**  
**Enhanced Desk Review Notification**  
**Letter (Chain Pharmacies)**



December 12, 2014

«Chain»

«Contact\_Person»

«Address\_1», «Address\_2»

«City», «St» «Zip»

**Re: Ohio Medicaid Pharmacy Cost of Dispensing Survey Validation Procedures**

Dear Pharmacy Provider:

The Ohio Department of Medicaid has contracted with Myers and Stauffer LC to conduct a pharmacy cost of dispensing survey as part of the process to evaluate the cost associated with dispensing prescribed medications to Ohio Medicaid members.

As part of the survey process to ensure that accurate data is received from pharmacies, Myers and Stauffer is required to obtain supporting documentation from a sample of pharmacies. This documentation will be reviewed and compared against submitted survey data.

The following pharmacies associated with your chain have been selected for this review:

[INSERT STORE LIST]

You are required to submit the following documentation to Myers and Stauffer:

- A store-specific financial statement that details sales and expenses for the fiscal year reported on the survey.
- Prescription reports to verify the total number of prescriptions dispensed during the time period corresponding to the fiscal year reported on the survey.
- A copy of a store diagram or blueprint or other documentation to support calculations that were made to determine the total store and pharmacy only square footage reported on the cost of dispensing survey.
- Any other work papers relied upon to complete the cost of dispensing survey which are necessary to reconcile the above records to the information submitted on the cost of dispensing survey.

**Documentation should be submitted within ten days of the date of this letter.**

Documentation may be submitted by mail 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 and postage will be paid by Myers and Stauffer.

Alternatively, documentation may be sent via fax to (913) 234 -1104 or via email to [disp\\_survey@mslc.com](mailto:disp_survey@mslc.com).

If you have any questions concerning the desk review process, please call Myers and Stauffer toll free at 1-800-374-6858 or send an email to [disp\\_survey@mslc.com](mailto:disp_survey@mslc.com). Your cooperation with this survey process is greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "T. Allan Hansen", written in a cursive style.

T. Allan Hansen  
Principal

**Exhibit 8**  
**Summary of Enhanced Desk**  
**Review Findings**

**Summary of Enhanced Desk Review Findings**  
**Ohio Department of Medicaid**

Assigned Number	Exceptions and Comments	Dispensing Cost per Prescription (Increase / Decrease)		
		Original	Revised	
0193	Area ratio, revised count of prescriptions, adjust miscellaneous overhead expenses to financial statement / tax return, various labor allocations	\$38.95	\$38.89	(\$0.06)
0464	Area ratio, various labor allocations	\$7.51	\$7.53	\$0.02
0679	Revised count of prescriptions, adjust miscellaneous overhead expenses to financial statement / tax return, various labor allocations	\$12.04	\$13.38	\$1.34
0770	Adjust miscellaneous overhead expenses to financial statement / tax return, various labor allocations	\$7.16	\$7.36	\$0.20
3064	Cost of goods ratio, adjust miscellaneous overhead expenses to financial statement / tax return	\$74.28	\$74.28	\$0.00
3086	Area ratio, adjust miscellaneous overhead expenses to financial statement / tax return, various labor allocations	\$7.15	\$7.23	\$0.08
3374	Various labor allocations	\$9.76	\$9.76	\$0.00
3780	Area ratio, adjust miscellaneous overhead expenses to financial statement / tax return, various labor allocations	\$8.61	\$9.30	\$0.69
5410	Area ratio, various labor allocations	\$7.16	\$7.19	\$0.03
6822	Sales ratio, revised count of prescriptions, adjust miscellaneous overhead expenses to financial statement / tax return	\$13.36	\$13.40	\$0.04
7402	Adjust miscellaneous overhead expenses to financial statement / tax return, various labor allocations	\$11.77	\$12.06	\$0.29
7477	Sales ratio, cost of goods ratio, area ratio, revised count of prescriptions, adjust miscellaneous overhead expenses to financial statement / tax return, various labor allocations	\$13.71	\$13.66	(\$0.05)
7976	Area ratio, adjust miscellaneous overhead expenses to financial statement / tax return	\$10.72	\$10.72	\$0.00
8409	Area ratio, adjust miscellaneous overhead expenses to financial statement / tax return, various labor allocations	\$6.31	\$6.31	\$0.00
9847	Adjust miscellaneous overhead expenses to financial statement / tax return, various labor allocations	\$12.19	\$12.96	\$0.77
9958	Area ratio, various labor allocations	\$7.64	\$7.65	\$0.01
Mean Change per Pharmacy ( $\bar{x}$ )				\$0.21
Average Revised Cost of Dispensing				\$15.52
Percent Change				1.35%
Standard Deviation (s)				\$0.39
Standard Error				\$0.10
Null Hypothesis ( $\mu_0$ )				\$0.00
Number of Pharmacies (n)				16
Degrees of Freedom (df)				15
Significance Level ( $\alpha$ )				0.05
Tails				2
90% Confidence Interval for Mean Change Due to Enhanced Desk Review				
Lower Bound				\$0.02
Upper Bound				\$0.40
$t\text{-stat} = \frac{\bar{x} - \mu_0}{s / \sqrt{n}} = 2.146$ $t\text{-crit} = 2.131$ $p\text{-value} = 0.049$ <p><b>Reject Ho. The change is statistically different than \$0.00 at <math>p \leq 0.05</math>.</b></p>				

**Exhibit 9**  
**Table of Inflation Factors for Dispensing  
Cost Survey**

# Table of Inflation Factors for Dispensing Cost Survey

## Ohio Department of Medicaid

Fiscal Year End Date	Midpoint Date	Terminal Month		Inflation Factor	Number of Stores with Year End Date
		Midpoint Index <sub>1</sub>	Index (6/30/2013) <sub>1</sub>		
12/31/2012	6/30/2012	116.8	121.4	1.039	4
1/31/2013	7/31/2012	117.0	121.4	1.038	0
2/28/2013	8/31/2012	117.1	121.4	1.037	0
3/31/2013	9/30/2012	117.3	121.4	1.035	0
4/30/2013	10/31/2012	117.5	121.4	1.033	0
5/31/2013	11/30/2012	117.6	121.4	1.032	0
6/30/2013	12/31/2012	117.8	121.4	1.031	115
7/31/2013	1/31/2013	118.0	121.4	1.029	2
8/31/2013	2/28/2013	118.2	121.4	1.027	0
9/30/2013	3/31/2013	118.4	121.4	1.025	2
10/31/2013	4/30/2013	118.6	121.4	1.024	2
11/30/2013	5/31/2013	118.7	121.4	1.023	2
12/31/2013	6/30/2013	118.9	121.4	1.021	727
1/31/2014	7/31/2013	119.1	121.4	1.019	480
2/28/2014	8/31/2013	119.3	121.4	1.018	257
3/31/2014	9/30/2013	119.5	121.4	1.016	70
4/30/2014	10/31/2013	119.7	121.4	1.014	0
5/31/2014	11/30/2013	119.9	121.4	1.013	1
6/30/2014	12/31/2013	120.1	121.4	1.011	73
7/31/2014	1/31/2014	120.2	121.4	1.01	2
8/31/2014	2/28/2014	120.4	121.4	1.008	246
<b>Total Number of Stores</b>					<b>1,983</b>

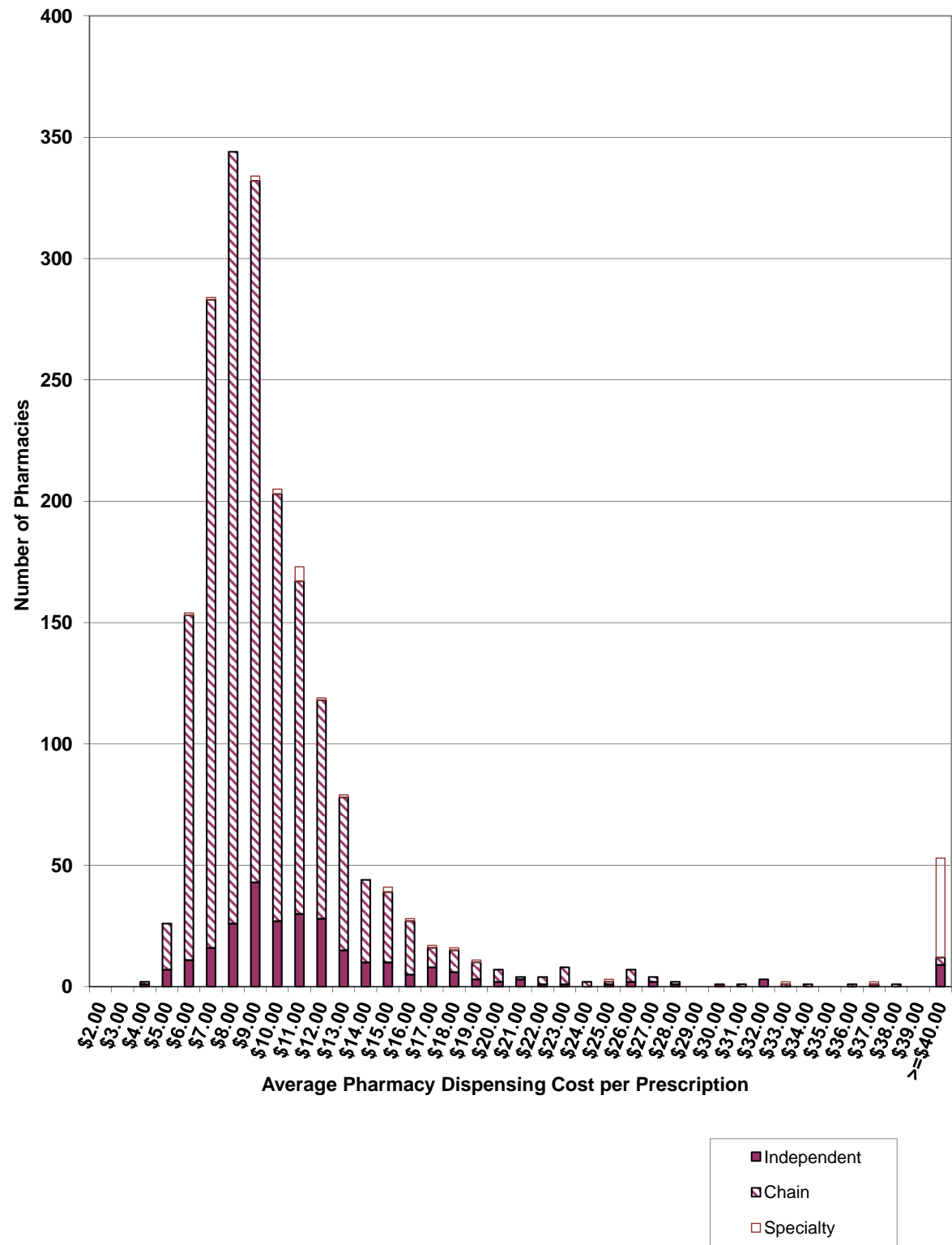
<sup>1</sup> Midpoint and terminal month indices were obtained from the Employment Cost Index, (all civilian; seasonally adjusted) as published by the Bureau of Labor Statistics (BLS). Quarterly indices published by BLS were applied to last month in each quarter; indices for other months are estimated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

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 December 31, 2014 (specifically from the midpoint of the pharmacy's fiscal year to June 30, 2014 which is the midpoint of the fiscal period ending December 31, 2014).



**Exhibit 10**  
**Histogram of Pharmacy Dispensing Cost**

Histogram of Pharmacy Dispensing Cost



**Exhibit 11**  
**Pharmacy Cost of Dispensing Survey**  
**Data - Statistical Summary**

**Pharmacy Cost of Dispensing Survey**  
**Statistical Summary**  
Ohio Department of Medicaid

Characteristic	Pharmacy Dispensing Cost per Prescription <sup>1</sup>												
	Measurements of Central Tendency										Other Statistics		
	n: Number of Pharmacies	Average Total Prescription Volume	Average Medicaid Prescription Volume	Means			Medians			Standard Deviation	95% Confidence Interval for Mean (based on Student t)		
				Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume	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>	1,983	87,976	2,700	\$14.98	\$11.24	\$11.31	\$9.55	\$8.83	\$8.80	\$48.02	\$12.86	\$17.09	1.96
<b>Non Specialty Pharmacies <sup>2</sup></b>	1,919	86,865	2,632	\$10.68	\$9.30	\$9.22	\$9.45	\$8.76	\$8.76	\$6.50	\$10.39	\$10.98	1.96
<b>Specialty Pharmacies <sup>2</sup></b>	64	121,304	4,734	\$143.73	\$52.93	\$46.03	\$68.91	\$15.72	\$12.67	\$232.07	\$85.76	\$201.69	2.00
<b><u>Non Specialty Pharmacies Only</u></b>													
<b>Affiliation:</b>													
Chain	1,646	88,560	2,308	\$10.17	\$9.02	\$8.63	\$9.23	\$8.55	\$8.20	\$5.46	\$9.91	\$10.44	1.96
Independent	273	76,643	4,587	\$13.77	\$11.23	\$11.03	\$11.20	\$9.92	\$9.92	\$10.35	\$12.54	\$15.01	1.97
<b>Affiliation (In State Only):</b>													
Chain (In State)	1,589	86,490	2,381	\$10.22	\$9.02	\$8.63	\$9.27	\$8.52	\$8.19	\$5.53	\$9.95	\$10.50	1.96
Independent (In State)	270	74,927	4,545	\$13.78	\$11.14	\$11.04	\$11.19	\$9.90	\$9.92	\$10.41	\$12.53	\$15.02	1.97
<b>Location (Urban vs. Rural): <sup>3</sup></b>													
In State Urban	1,501	85,039	2,664	\$10.97	\$9.45	\$9.23	\$9.65	\$8.88	\$8.88	\$6.93	\$10.62	\$11.32	1.96
In State Rural	358	83,854	2,826	\$9.77	\$8.65	\$9.18	\$8.69	\$8.07	\$8.42	\$4.79	\$9.27	\$10.27	1.97
All In State (Urban and Rural)	1,859	84,811	2,695	\$10.74	\$9.30	\$9.22	\$9.49	\$8.72	\$8.74	\$6.59	\$10.44	\$11.04	1.96
Out of State	60	150,509	683	\$8.94	\$9.29	\$10.08	\$8.65	\$9.28	\$10.87	\$2.15	\$8.38	\$9.49	2.00
<b>Annual Rx Volume:</b>													
0 to 54,999	625	36,305	960	\$14.17	\$12.70	\$13.67	\$12.16	\$11.74	\$11.76	\$9.95	\$13.39	\$14.95	1.96
55,000 to 89,999	646	72,238	1,980	\$9.70	\$9.62	\$9.34	\$9.27	\$9.14	\$8.99	\$2.47	\$9.51	\$9.89	1.96
90,000 and Higher	648	150,212	4,896	\$8.30	\$8.35	\$8.34	\$7.86	\$7.90	\$8.00	\$2.33	\$8.12	\$8.48	1.96
<b>Annual Medicaid Rx Volume: <sup>4</sup></b>													
0 to 999	718	56,331	479	\$12.89	\$11.33	\$11.68	\$11.21	\$10.35	\$10.80	\$8.87	\$12.24	\$13.54	1.96
1,000 to 1,999	504	76,971	1,448	\$10.05	\$9.28	\$9.95	\$9.38	\$8.94	\$9.27	\$5.06	\$9.60	\$10.49	1.96
2,000 and Higher	697	125,473	5,708	\$8.88	\$8.36	\$8.88	\$8.29	\$8.05	\$8.44	\$2.90	\$8.66	\$9.09	1.96
<b>Medicaid Utilization Ratio: <sup>4</sup></b>													
0.0% to 1.49%	752	78,696	686	\$11.45	\$10.12	\$9.71	\$10.12	\$9.28	\$9.17	\$7.75	\$10.90	\$12.01	1.96
1.5% to 2.99%	609	84,864	1,820	\$9.89	\$8.80	\$8.79	\$9.03	\$8.27	\$8.26	\$4.48	\$9.54	\$10.25	1.96
3.0% and Higher	558	100,057	6,142	\$10.51	\$8.89	\$9.29	\$9.07	\$8.54	\$8.88	\$6.43	\$9.98	\$11.04	1.96

**Pharmacy Cost of Dispensing Survey**  
**Statistical Summary**  
Ohio Department of Medicaid

Characteristic	Pharmacy Dispensing Cost per Prescription <sup>1</sup>												
	Measurements of Central Tendency										Other Statistics		
	n: Number of Pharmacies	Average Total Prescription Volume	Average Medicaid Prescription Volume	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>Total Rx Volume and Location</b>													
<u>In State Urban Only</u>													
0 to 54,999	504	36,047	872	\$14.57	\$13.06	\$14.10	\$12.34	\$11.97	\$12.09	\$10.51	\$13.65	\$15.49	1.96
55,000 to 89,999	522	72,386	1,968	\$9.77	\$9.69	\$9.35	\$9.31	\$9.23	\$9.03	\$2.52	\$9.55	\$9.99	1.96
90,000 and Higher	475	150,927	5,331	\$8.47	\$8.41	\$8.33	\$7.93	\$7.96	\$8.05	\$2.52	\$8.25	\$8.70	1.97
<u>In State Rural only</u>													
0 to 54,999	114	36,897	1,404	\$12.58	\$11.28	\$12.49	\$11.32	\$10.97	\$11.18	\$7.17	\$11.25	\$13.91	1.98
55,000 to 89,999	105	71,968	2,373	\$9.48	\$9.36	\$9.24	\$9.01	\$8.86	\$8.69	\$2.37	\$9.02	\$9.94	1.98
90,000 and Higher	139	131,343	4,336	\$7.68	\$7.76	\$8.28	\$7.33	\$7.34	\$7.72	\$1.40	\$7.45	\$7.92	1.98
<b>Institutional:</b>													
LTC Institutional Pharmacies <sup>5</sup>	48	401,443	27,457	\$11.85	\$9.14	\$9.32	\$11.03	\$9.19	\$8.89	\$4.49	\$10.54	\$13.15	2.01
Non-LTC Institutional Pharmacies <sup>5</sup>	1,871	78,794	1,996	\$10.65	\$9.32	\$9.19	\$9.42	\$8.67	\$8.48	\$6.55	\$10.36	\$10.95	1.96
<b>Unit Dose:</b>													
Does dispense unit dose	61	323,150	21,362	\$12.64	\$9.24	\$9.42	\$11.52	\$9.28	\$8.89	\$6.01	\$11.10	\$14.17	2.00
Does not dispense unit dose	1,858	79,107	2,018	\$10.62	\$9.30	\$9.16	\$9.41	\$8.66	\$8.48	\$6.51	\$10.32	\$10.92	1.96
<b>Provision of Compounding Services</b>													
Provides compounding (>=10% of Rx's)	23	135,751	13,552	\$23.61	\$11.24	\$10.30	\$15.69	\$8.88	\$8.88	\$18.56	\$15.59	\$31.64	2.07
Compounding <10% of Rx's	1,896	86,272	2,500	\$10.53	\$9.26	\$9.15	\$9.42	\$8.70	\$8.58	\$6.06	\$10.25	\$10.80	1.96
<b>340B Pharmacy Status</b>													
Participates in 340B and provides 340B pricing to Medicaid	173	88,269	3,091	\$10.17	\$9.33	\$8.47	\$9.26	\$8.37	\$8.13	\$5.04	\$9.41	\$10.93	1.97
Does not participate in 340B or does not provide 340B pricing to Medicaid	1,746	86,726	2,587	\$10.73	\$9.29	\$9.31	\$9.48	\$8.79	\$8.88	\$6.63	\$10.42	\$11.05	1.96

**Notes:**

1) All pharmacy dispensing costs are inflated to the common point of 6/30/2014 (i.e., midpoint of a fiscal year ending 12/31/2014).

2) For purposes of this report a "specialty pharmacy" is one that reported sales for intravenous, home infusion, blood factor and/or other specialty 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. Pharmacies not in a Metropolitan Statistical Area are considered "rural" for purposes of this report.

4) Medicaid volume is based on the time period of January 1, 2014 to December 31, 2014.

5) For purposes of this report an "LTC Institutional Pharmacy" is one that reported dispensing 25% or more of prescriptions to long-term care facilities.

**Exhibit 12**  
**Table of Counties and Urban / Rural**  
**Locations for Ohio Pharmacies**

# Table of Counties and Urban / Rural Designation for Surveyed Pharmacies

Ohio Department of Medicaid

County	Census Status <sup>2, 3</sup>
ADAMS	RURAL
ALLEN	URBAN
ASHLAND	RURAL
ASHTABULA	RURAL
ATHENS	RURAL
AUGLAIZE	RURAL
BELMONT	URBAN
BROWN	URBAN
BUTLER	URBAN
CARROLL	URBAN
CHAMPAIGN	RURAL
CLARK	URBAN
CLERMONT	URBAN
CLINTON	RURAL
COLUMBIANA	RURAL
COSHOCTON	RURAL
CRAWFORD	RURAL
CUYAHOGA	URBAN
DARKE	RURAL
DEFIANCE	RURAL
DELAWARE	URBAN
ERIE	URBAN
FAIRFIELD	URBAN
FAYETTE	RURAL
FRANKLIN	URBAN
FULTON	URBAN
GALLIA	RURAL
GEAUGA	URBAN
GREENE	URBAN
GUERNSEY	RURAL
HAMILTON	URBAN
HANCOCK	RURAL
HARDIN	RURAL
HARRISON	RURAL
HENRY	RURAL
HIGHLAND	RURAL
HOCKING	RURAL
HOLMES	RURAL
HURON	RURAL
JACKSON	RURAL
JEFFERSON	URBAN
KNOX	RURAL
LAKE	URBAN
LAWRENCE	URBAN

County	Census Status <sup>2, 3</sup>
LICKING	URBAN
LOGAN	RURAL
LORAIN	URBAN
LUCAS	URBAN
MADISON	URBAN
MAHONING	URBAN
MARION	RURAL
MEDINA	URBAN
MEIGS	RURAL
MERCER	RURAL
MIAMI	URBAN
MONROE	RURAL
MONTGOMERY	URBAN
MORGAN	RURAL
MORROW	URBAN
MUSKINGUM	RURAL
NOBLE	RURAL
OTTAWA	URBAN
PAULDING	RURAL
PERRY	RURAL
PICKAWAY	URBAN
PIKE	RURAL
PORTAGE	URBAN
PREBLE	URBAN
PUTNAM	RURAL
RICHLAND	URBAN
ROSS	RURAL
SANDUSKY	RURAL
SCIOTO	RURAL
SENECA	RURAL
SHELBY	RURAL
STARK	URBAN
SUMMIT	URBAN
TRUMBULL	URBAN
TUSCARAWAS	RURAL
UNION	URBAN
VAN WERT	RURAL
VINTON	RURAL
WARREN	URBAN
WASHINGTON	URBAN
WAYNE	RURAL
WILLIAMS	RURAL
WOOD	URBAN
WYANDOT	RURAL

## Notes:

1) Table is limited to counties located within the state of Ohio with pharmacies enrolled in the Ohio Medicaid pharmacy program.

2) Census status refers to the U.S. Bureau of the Census designation for a county as being in a urban statistical area or rural statistical area (per December 2007 definitions, obtained from <http://www.census.gov>).

URBAN = The county is located in a metropolitan statistical area.

RURAL = The county is located in a micropolitan statistical area.

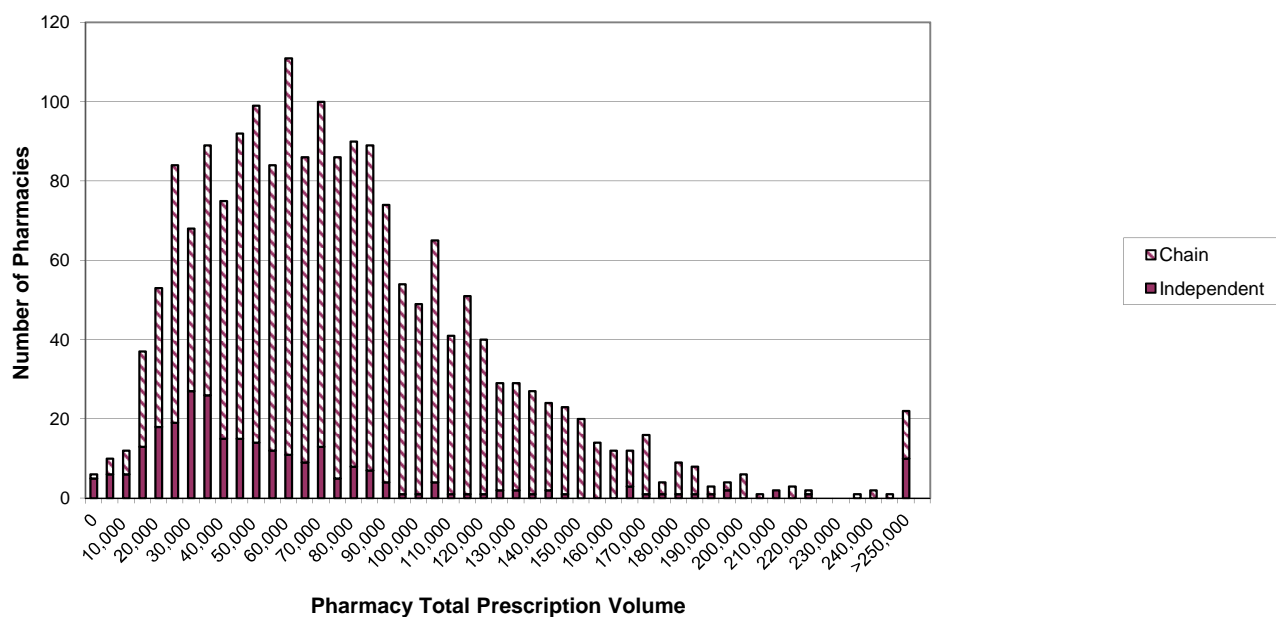
**Exhibit 13**  
**Charts Relating to Pharmacy Total  
Prescription Volume:**

**A: Histogram of Pharmacy Total  
Prescription Volume**

**B: Scatter-Plot of Relationship between  
Dispensing Cost per Prescription and  
Total Prescription Volume**

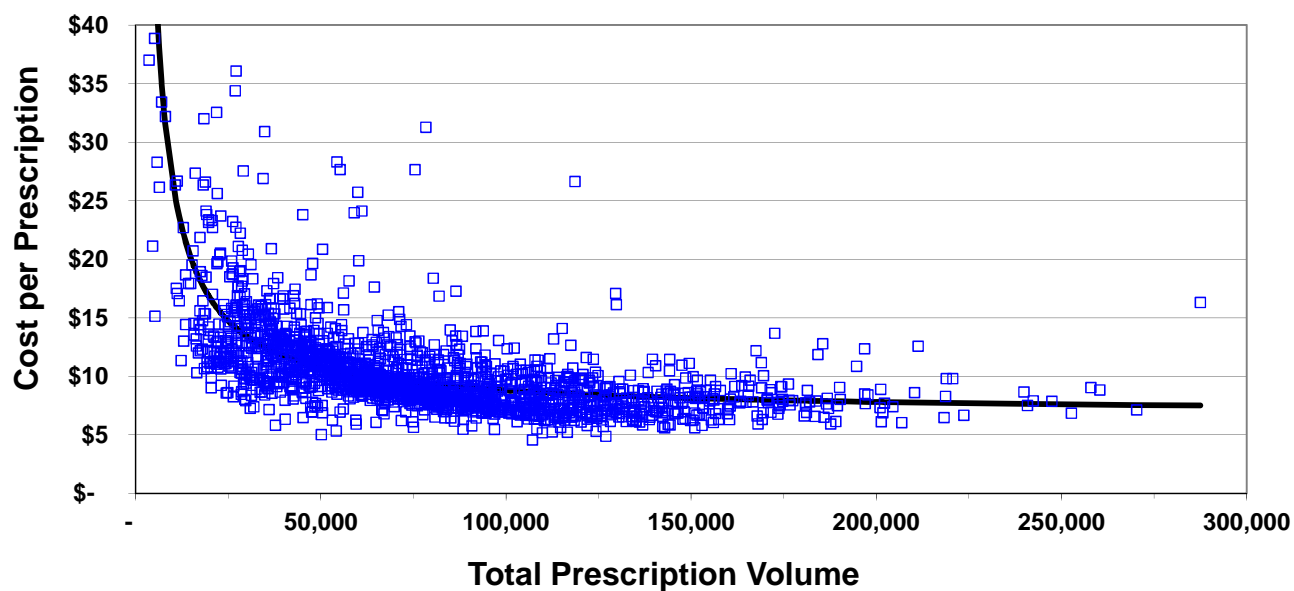


# Histogram of Pharmacy Total Prescription Volume



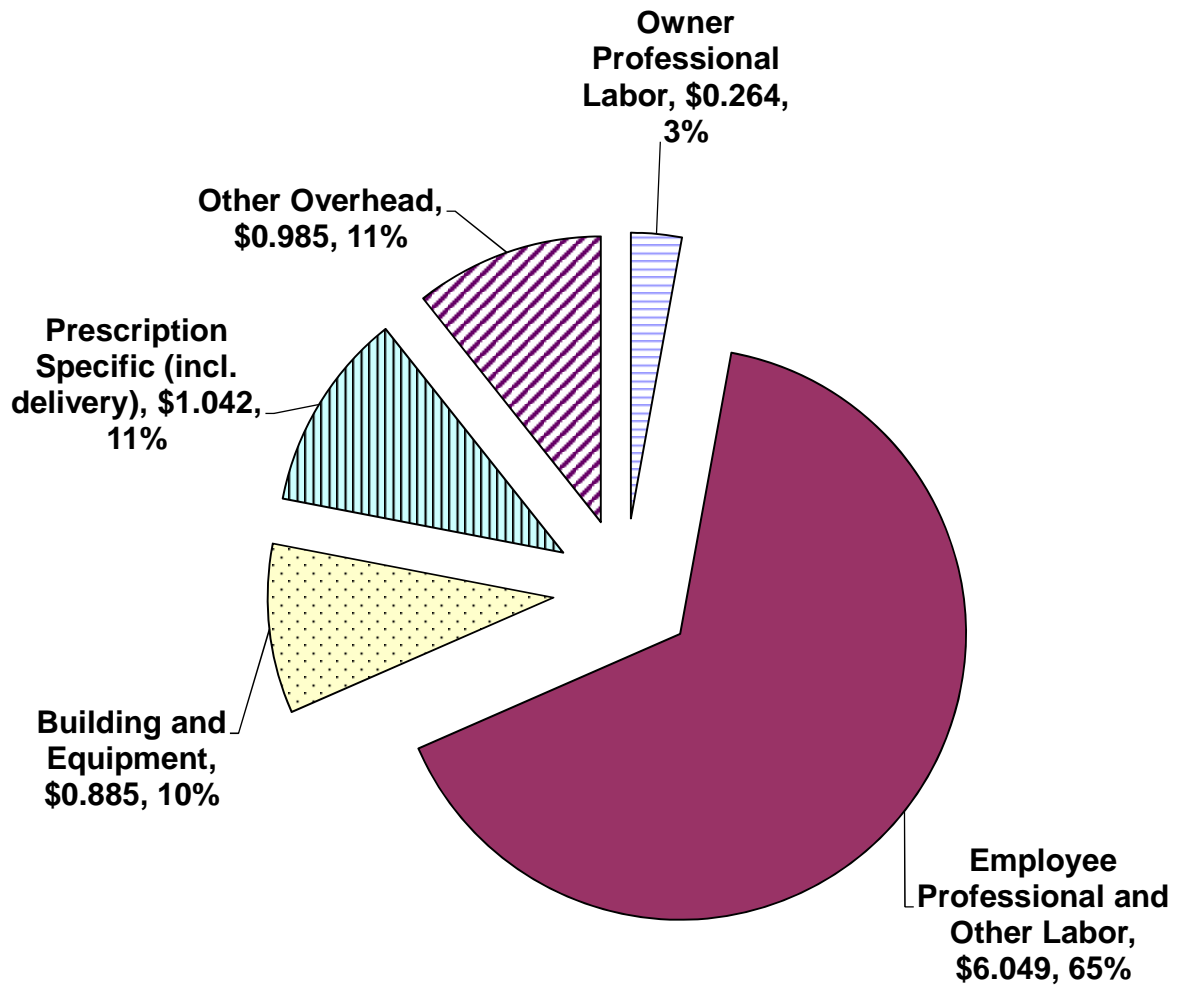
## Scatter Plot of Relationship Between Dispensing Cost per Prescription and Total Prescription Volume

(Non-Specialty Pharmacies, Total Prescription Volume < 300,000)



**Exhibit 14**  
**Chart of Components of Cost of**  
**Dispensing per Prescription**

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



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

**Summary of Pharmacy Attributes**  
Ohio Department of Medicaid

Attribute	Number of Pharmacies Responding	Statistics for Responding Pharmacies		
		Response	Count	Percent
Payer Type: percent of prescriptions (averages)	1,971	Medicaid fee for service	N/A	6.9%
		Other third party	N/A	83.9%
		Cash	N/A	9.2%
		Total	N/A	100.0%
Payer Type: percent of payments (averages)	1,961	Medicaid fee for service	N/A	7.4%
		Other third party	N/A	85.6%
		Cash	N/A	7.0%
		Total	N/A	100.0%
Type of ownership	1,955	Individual	0	0.0%
		Corporation	1,882	96.3%
		Partnership	7	0.4%
		Other	66	3.4%
		Total	1,955	100.0%
Location	1,730	Medical office building	0	0.0%
		Shopping center	0	0.0%
		Stand alone building	969	56.0%
		Grocery store / mass merchant	669	38.7%
		Outpatient Hospital	22	1.3%
		Other	70	4.0%
		Total	1,730	100.0%
Purchase drugs through 340B pricing	1,980	Yes	508	25.7%
		No	1,472	74.3%
		Total	1,980	100.0%
Provision of 340B inventory to Medicaid (for those that indicated they purchase drugs through 340B pricing)	1,456	Yes	174	8.8%
		No	1,282	64.8%
		Total	1,456	73.6%
Building ownership (or rented from related party)	1,977	Yes, (own building or rent from related party)	651	32.9%
		No	1,326	67.1%
		Total	1,977	100.0%
Hours open per week	1,642	75.2 hours	N/A	N/A
Years pharmacy has operated at current location	1,775	19.3 years	N/A	N/A
Provision of 24 hour emergency services	1,976	Yes	244	12.3%
		No	1,732	87.7%
		Total	1,976	100.0%
Percent of prescriptions to generic products	1,914	Percent of prescriptions dispensed that were generic products	1,528	81.6%
Percent of prescriptions to long-term care facilities	1,983	2.44% for all pharmacies; (24.02% for 201 pharmacies reporting > 0%)	N/A	N/A
Provision of unit dose services	1,983	Yes (average of 34.14% of prescriptions for pharmacies indicating provision of unit dose prescriptions. Approximately 92.19% of unit dose prescriptions were reported as prepared in the pharmacy with 7.81% reported as purchased already prepared from a manufacturer)	160	8.1%
		No	1,823	91.9%
		Total	1,983	100.0%
Percent of total prescriptions delivered	1,983	5.94% for all pharmacies; (32.43% for 363 pharmacies reporting > 0%)	N/A	N/A
Percent of Medicaid prescriptions delivered	1,983	5.86% for all pharmacies; (32.81% for 354 pharmacies reporting > 0%)	N/A	N/A
Percent of prescriptions dispensed by mail	1,814	0.51% for all pharmacies; (14.18% for 71 pharmacies reporting >0% percent of prescriptions dispensed by mail)	N/A	N/A
Provision of specialty products or service (e.g., intravenous or home infusion, enteral nutrition, blood factor or derivatives prescriptions)	1,983	Yes	275	13.9%
		No	1,708	86.1%
		Total	1,983	100.0%
Percent of prescriptions compounded	1,983	1.24% for all pharmacies; (10.88% for 226 pharmacies reporting >0 compounded Rx's)	N/A	N/A