

National Study to Determine the Cost of Dispensing Prescriptions in Community Retail Pharmacies

Web Seminar

February 23, 2007

Study overview

- Collected data for 832 million prescriptions from over 23,000 pharmacies in all 50 states, District of Columbia and Puerto Rico
- Gathered data from 6 months (March – August, 2006)
 - Period selected to avoid transitional months for dual eligibles to Medicare Part D
- Included 65 million Medicaid prescriptions
- Computed both Overall COD and Medicaid COD
- Computed urban and rural COD's
- Analyzed impact of prescription volume on COD

Study overview

- Participation included independent pharmacies and chains, including traditional retail pharmacies, grocery stores and mass merchants
- Survey instrument piloted with diverse set of pharmacies
- All responses reviewed individually and respondents contacted regarding any unusual data
- Survey conducted by Grant Thornton LLP, an independent public accounting and business consulting firm, in partnership with The MPI Group, a research and survey company
- Results reviewed by Advisory Panel of three state Medicaid directors and two academic researchers
- Survey sponsored by the Coalition for Community Pharmacy Action (CCPA) with significant funding from the Community Pharmacy Foundation

Summary of Survey Results

- National Overall Cost of Dispensing
 - \$10.50 per prescription
 - \$12.10 per pharmacy
- Prescription volume is key factor in COD
- Rural and urban stores filled similar volume of prescriptions
- Urban store COD's were 8% higher than rural stores
- Rural stores filled 55% more Medicaid prescriptions per store
- State COD's varied from \$8.50 to \$13.08

Components of Cost of Dispensing

COD Components	
Payroll Costs	\$6.55
Prescription Dept. Costs	\$0.66
Facilities Cost Allocation	\$0.40
Other Store/Location Costs	\$1.54
Corporate Cost Allocation	\$1.35
Total	\$10.50

Cost of dispensing (COD) model

- Five cost elements in Overall COD
 - Prescription department salaries and benefits
 - Other prescription department costs
 - Facilities costs (allocated by square feet)
 - Other store/location costs (allocated by sales dollars)
 - Allocated corporate overhead, where applicable
- Medicaid COD adjustments to Overall COD model
 - Adjusted prescription department salaries and benefits to reflect relative time to fill Medicaid prescriptions
 - Imputed carrying costs to number of days receivables were outstanding

Cost of dispensing model

Medicaid adjustments

- Salaries and benefits adjustment
 - Survey respondents estimated the time to dispense in minutes for each type of payer for each state
 - Adjusted salaries and benefits by state to reflect time estimates
 - Adjustment could increase or decrease COD
- Receivables carrying cost adjustment
 - Survey respondents reported average time to receive Medicaid payment by state
 - Imputed 7.17% carrying costs to receivables balance
 - Averaged \$0.01 per prescription per day
 - Adjustment could increase or decrease COD

Cost of dispensing - 50 states, the District of Columbia and Puerto Rico

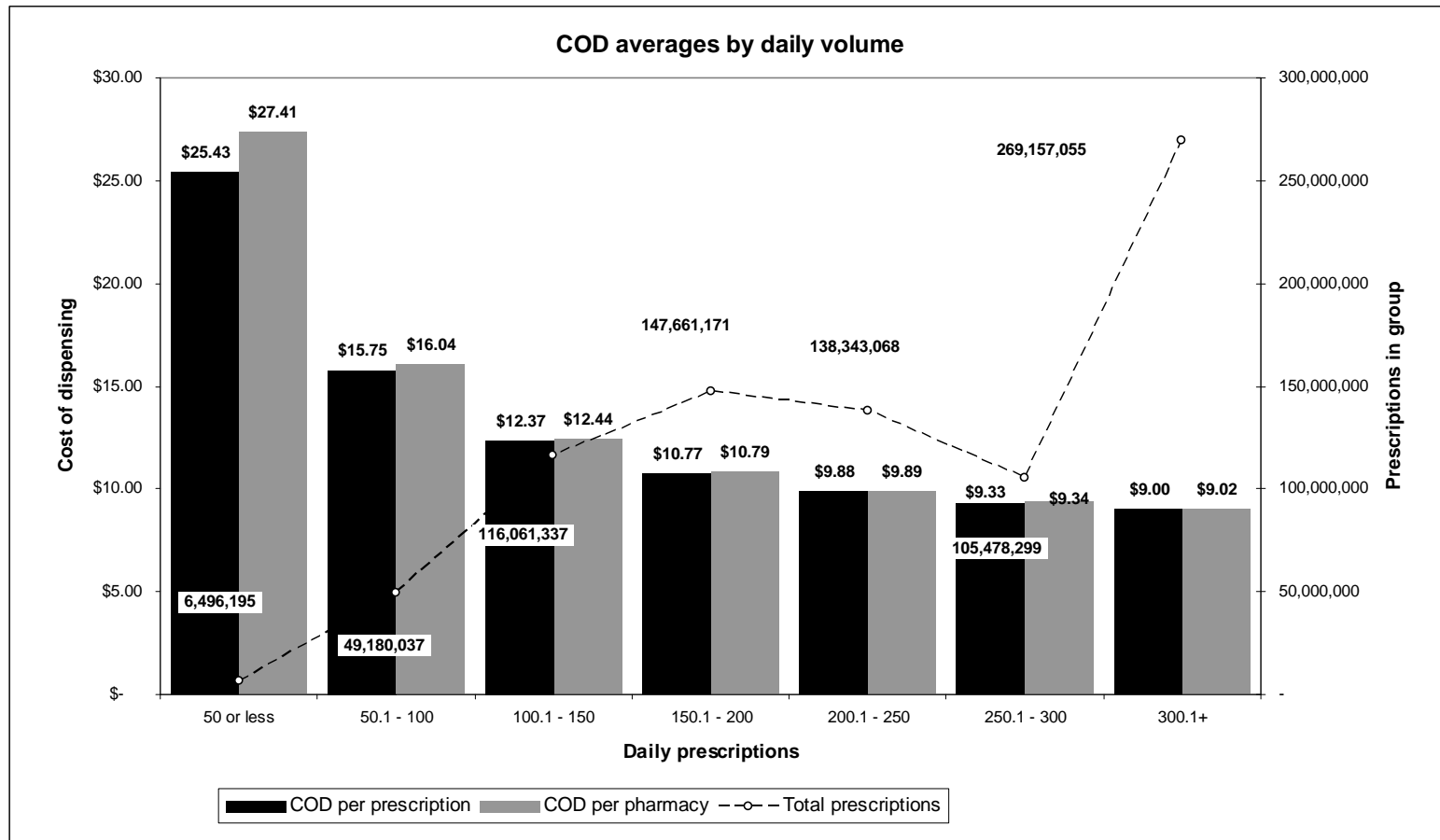
Overall Cost of Dispensing					
	Frequency	Mean	Median	25th Percentile	75th Percentile
COD per prescription	832,377,163	\$10.50	\$9.86	\$8.48	\$11.70
COD per pharmacy	23,152	\$12.10	\$10.86	\$9.07	\$13.50

Overall COD based on 832 million prescriptions dispensed by 23,152 pharmacies.

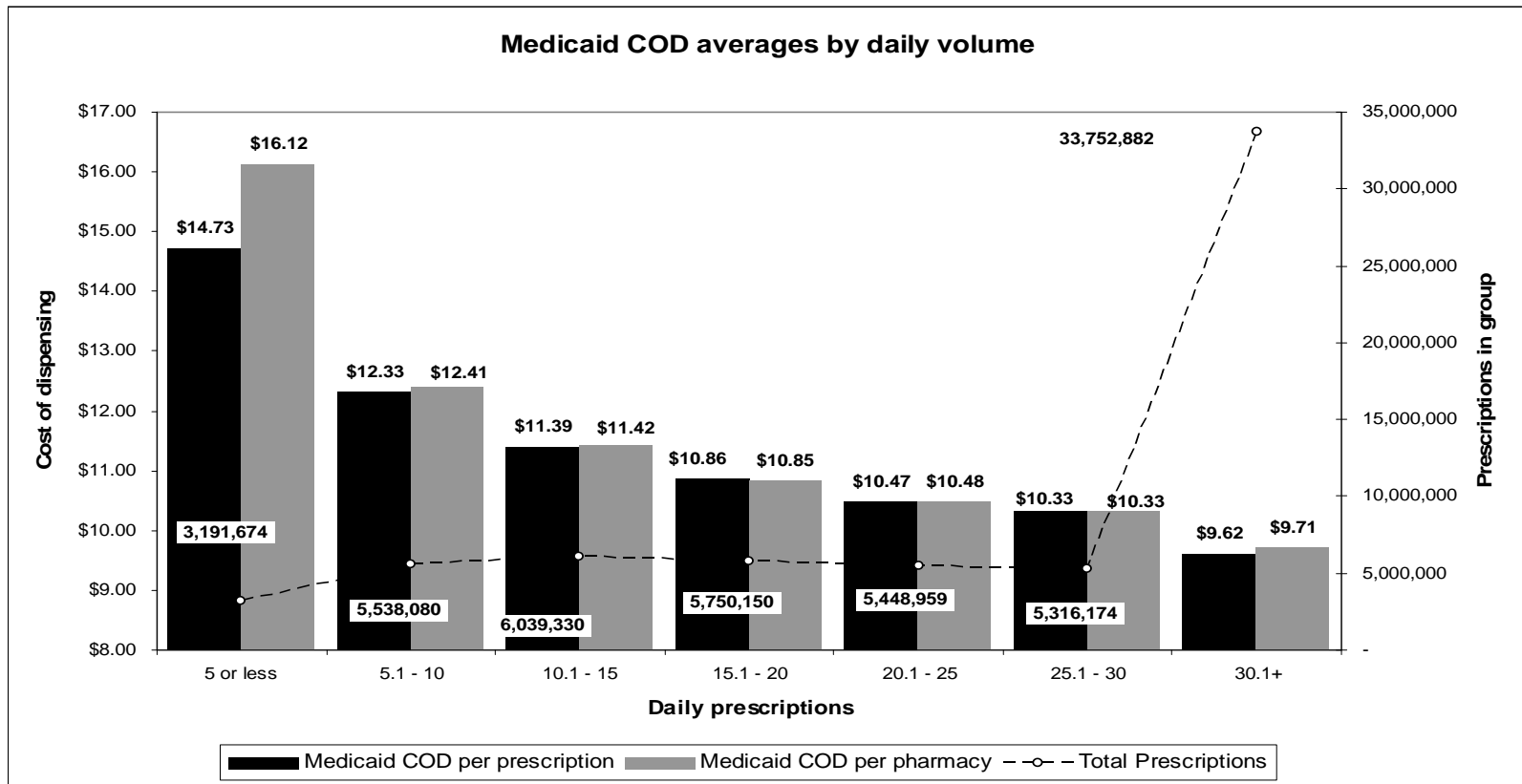
Medicaid Cost of Dispensing					
	Frequency	Mean	Median	25th Percentile	75th Percentile
Medicaid COD per prescription	65,037,250	\$10.51	\$9.87	\$8.52	\$11.62
Medicaid COD per pharmacy	22,123³	\$12.81	\$11.22	\$9.36	\$14.06

Medicaid COD based on over 65 million prescriptions filled by 22,123 pharmacies.

Overall COD vs. prescription volume



Medicaid COD vs. prescription volume



Urban versus rural pharmacies

COD per store for urban and rural pharmacies					
	Frequency – Prescriptions	Mean	Median	25th Percentile	75th Percentile
Urban COD per pharmacy	714,251,542	\$10.61	\$9.96	\$8.61	\$11.82
Rural COD per pharmacy	110,865,626	\$9.79	\$9.13	\$7.66	\$11.00

- **Urban and rural pharmacies reported similar prescription volumes**
- **Rural pharmacies reported filling 55% more Medicaid prescriptions, on average, than urban stores**

Factors affecting Medicaid cost to dispense

Time to Dispense — Minutes					
	Frequency – Pharmacies	Mean	Median	25th Percentile	75th Percentile
Medicaid prescriptions	22,123	11.7	11.1	9.5	12.5
Medicare Part D	22,123	12.5	12.0	9.5	13.4
Other third-party prescriptions	22,123	10.6	10.0	9.4	12.4
Prescriptions paid for by customers	22,123	8.7	8.9	7.0	11.4

Time to Receive Payment after Prescription Was Dispensed — Days					
	Frequency – Pharmacies	Mean	Median	25th Percentile	75th Percentile
Medicaid prescriptions	22,092	19.9	16.0	10.7	26.0
Other third-party, including Medicare Part D	22,123	23.7	24.1	22.5	28.0

Impact of new vs. refill prescriptions on COD

COD per pharmacy for New Prescriptions as a percent of the Total Prescriptions Volume — Quartile Groups			
	Frequency - Pharmacies	Mean	Median
44% or less	6,026	\$11.41	\$10.40
44.1% - 49%	5,553	\$11.67	\$10.56
49.1% - 54%	5,735	\$11.90	\$11.02
54.1% - 100%	5,823	\$13.43	\$11.79

The greater the percentage of new prescriptions, the higher the COD.

Cost of dispensing by state

Both overall CODs and Medicaid CODs were calculated:

- Wide variation ranging from a mean COD per prescription of \$8.50 in Rhode Island to \$13.08 in California.
- No definitive correlation with population density of states
- Mountain and Pacific states have highest CODs.

Mean COD per Prescription by Region		
U. S. Census Region	Frequency - Prescriptions	Mean
New England	60,692,417	\$9.27
Middle Atlantic	120,952,543	\$10.65
East North Central	149,259,577	\$10.36
West North Central	37,042,390	\$9.94
South Atlantic	202,368,264	\$10.13
East South Central	59,155,881	\$9.99
West South Central	79,928,828	\$10.25
Mountain	47,910,975	\$11.80
Pacific	69,581,280	\$12.82

Cost of dispensing – time to receive payment

- Respondents reported a wide variation among states in time to receive payment for Medicaid prescriptions:
 - Shortest time: 9.9 days (Texas)
 - Longest time: 50.6 days (Illinois)
- National average
 - Medicaid: 19.9 days
 - Other third parties: 23.7 days
- Each day payment is outstanding equates to \$0.01 added to COD

Cost of dispensing by state - Medicaid

Time required for Medicaid dispensing activities compared with other third-party payers

Percentage of Pharmacies Reporting Time to Dispense - Medicaid			
Activity	Takes more time	No difference	Takes less time
Obtaining plan number/ qualifying patient	50.8%	48.2%	1.1%
Obtaining prior authorization	91.1%	7.6%	1.3%
Adjudication	13.0%	86.6%	0.3%
Patient counseling	20.4%	79.5%	0.1%
Other dispensing activities	20.7%	79.1%	0.1%

Cost of dispensing by state – Medicare Part D

Time required for Medicare Part D dispensing activities compared with other third-party payers

Percentage of Pharmacies Reporting Time to Dispense – Medicare Part D			
Activity	Takes more time	No difference	Takes less time
Obtaining plan number/ qualifying patient	93.0%	6.0%	1.0%
Obtaining prior authorization	72.7%	27.3%	0.0%
Adjudication	15.7%	84.2%	0.1%
Patient counseling	21.5%	78.5%	0.0%
Other dispensing activities	40.1%	59.9%	0.0%

Service providers and sponsors for The 2006 Cost of Dispensing Study

Grant Thornton, LLP

The MPI Group

CCPA

NCPA

NACDS

Thank you to all participating independent and chain pharmacies.