



STATE OF MARYLAND

DHMH

Maryland Department of Health and Mental Hygiene

201 W. Preston Street • Baltimore, Maryland 21201

Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – John M. Colmers, Secretary

NOV 18 2008

The Honorable Ulysses Currie  
Chairman  
Senate Budget and Taxation Committee  
3 West Miller Senate Office Bldg.  
Annapolis, MD 21401-1991

The Honorable Norman H. Conway  
Chairman  
House Appropriations Committee  
121 House Office Bldg.  
Annapolis, MD 21401-1991

**RE: 2008 Joint Chairmen's Report (P. 122) – Report on the Reasonable Level of Medicaid Dispensing Fees**

Dear Chairmen Currie and Conway:

The 2008 Joint Chairmen's Report (page 122) required the Department of Health and Mental Hygiene to determine a reasonable level for Medicaid pharmacy dispensing fees by taking into consideration the findings of the 2006 cost of dispensing survey conducted by the University of Maryland School of Pharmacy. A reasonable Medicaid pharmacy dispensing fee should be:

- fair, transparent, and reasonable and provide a reasonable profit;
- adequate to ensure that an individual covered under the Medical Assistance program has access to prescription drugs and pharmacy services at the same level as those services that are available for Maryland residents who are not individuals enrolled in the Medical Assistance program; and
- consistent with efficiency, economy, and quality of care.

This report examines the findings of the cost of dispensing survey conducted by the University of Maryland School of Pharmacy in 2006, research on Medicaid prescription dispensing fees in other states, research on the dispensing fees paid by the Pharmacy Benefits Manager (PBM) that administers the Maryland State Employee Pharmacy benefit, and research on the dispensing fees that the seven Maryland HealthChoice managed care organizations pay to pharmacies for their members. In addition, the report examines the overall reimbursement rates paid to pharmacy providers that participate with Maryland Medicaid.



## **Current Reimbursement Policy**

Under the current Maryland Medicaid reimbursement methodology, pharmacies' reimbursement consists of an amount to cover the ingredient cost (the cost of the product that is dispensed), plus a fixed dispensing fee. Nationally-published drug prices – average wholesale price (AWP) and wholesale acquisition cost (WAC) – are almost always higher than the actual drug acquisition costs of pharmacies, in part due to discount programs and other incentives provided by drug manufacturers and wholesalers.

Maryland's formula for determining the price to be paid for reimbursement of ingredients is based upon the lesser of four pricing formulae:

- Estimated Acquisition Cost (EAC) which is the lowest of: Wholesale Acquisition Cost (WAC) plus 8 percent; Direct Price plus 8 percent; or Average Wholesale Price (AWP) minus 12 percent; or
- Federal Upper Limit (FUL) for multiple-source drugs; or
- Maryland State Maximum Allowable Cost (MAC) for multiple-source drugs; or
- The pharmacy's usual and customary charges.

*Both components – estimated acquisition costs and actual dispensing fees – must be considered when determining whether pharmacists are paid adequately.*

## **Dispensing Fees**

For retail pharmacies, Maryland's dispensing fee is currently \$3.69 for generic drugs and preferred brand name drugs; the dispensing fee for other brand name drugs is \$2.69. For long-term care pharmacies, the dispensing fees are \$4.69 and \$3.69 respectively. A review of dispensing fees paid by Maryland's managed care organizations for drugs dispensed to their members, revealed that the dispensing fees vary from \$1.50 to \$3.00. In addition, according to data reported at a meeting between the Department and the National Association of Chain Drug Stores (NACDS), the average dispensing fee paid by non-Medicaid insurers is approximately \$1.82 for brand name drugs and \$1.92 for generic drugs. Finally, an analysis of the dispensing fees paid by the PBM that administers the Maryland State Employee Pharmacy benefit (Catalyst Rx) shows that they are substantially lower than the dispensing fees paid by Maryland Medicaid.

## **Cost of Dispensing Survey**

In December of 2006, the University of Maryland School of Pharmacy analyzed data from a survey that was conducted in October of 2006, regarding the cost to the pharmacies of dispensing prescription drugs to Medicaid enrollees. The survey revealed that the average cost of dispensing per prescription is \$11.71 with a median cost of \$10.67. However, those who analyzed the data emphasized that due to limitations of the survey (i.e., data was self-reported), the findings should be interpreted with caution. In addition, no state or third party payer offers that amount as a dispensing fee. A

dispensing fee increase approaching the median cost of \$10.67 would cost the Maryland Medicaid program close to \$11 million (total funds) annually. Again, this does not mean that pharmacists are not receiving adequate payment. One needs to examine the pharmacies' actual acquisition cost for the drugs in comparison to the ingredient cost component of the Medicaid reimbursement methodology.

### **Other Factors**

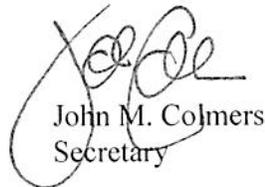
Complicating the pricing picture even more is the fact that several discount department stores and several grocery stores have announced unusually low prescription prices for certain generic drugs. One chain discount department store offers prescriptions for over 300 different drugs at \$4.00, including the price of ingredients and the dispensing fee. These new low prices are only a few pennies more than Maryland Medicaid's current dispensing fee.

### **Conclusion**

All components – acquisition costs as well as the actual dispensing fee – should be taken into consideration when determining whether pharmacists are adequately paid. Since Maryland's current dispensing fee appears to be consistent with other states' fees, and in light of the latest trend by several chain discount department stores to offer generic prescriptions at very low prices, Maryland's reimbursement methodology seems to be fair and reasonable and provide adequate access to prescription drugs and pharmacy services for Medical Assistance beneficiaries.

If you have questions or need more information about this subject, please contact Anne Hubbard, Director, Office of Governmental Affairs at (410) 767-6481.

Sincerely,



John M. Colmers  
Secretary

cc: John Folkemer  
Charles Lehman  
Athos Alexandrou  
Tricia Roddy  
Anne Hubbard