

Medicaid Dispensing Fee Survey and Analysis

The 2006 Joint Chairmen's Report required the Department of Health and Mental Hygiene to study and report on the cost to pharmacies of dispensing prescription drugs to Medicaid patients. This report examines current research on Medicaid prescription dispensing fees (including dispensing fees in other states) and compares actual prescription drug acquisition costs to the reimbursement rates that will be in effect on January 1, 2007 as a result of the federal Deficit Reduction Act of 2005. Based on the results of this study, the Department does not endorse a revision of the dispensing fee at this time. Instead, the Department recommends waiting until federal regulations are published in 2007 and the final federal upper limits have been released and implemented to gauge the impact of these measures on Medicaid prescription drug costs.

Current Reimbursement Policy

Nationally-published drug prices – average wholesale price and wholesale acquisition cost – tend to be higher than the actual drug acquisition costs of pharmacies, in part due to discounts and other incentives provided by drug manufacturers. Pharmacies receive reimbursement for Medicaid prescriptions based upon a dispensing fee plus an amount to cover the cost of the ingredient or product dispensed.

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.

Since the Department receives rebates from drug manufacturers under the Medicaid Rebate Program, the Department realizes a net cost for drugs at a level representing their "best price" while reimbursing pharmacies for brand-name drugs at a rate above their acquisition cost (wholesale acquisition cost plus 8 percent). The dispensing fee that is assessed by the pharmacy itself is a fixed amount. *Both components – estimated acquisition costs and actual dispensing fees – must be considered when determining whether pharmacists are paid appropriately.*

The second reimbursement formula, federal upper limits, applies only to multiple-source or generic drugs and is being revised in accordance with the Deficit Reduction Act of 2005 (DRA). Effective January 1, 2007, the new federal upper limits will consist of 250 percent of the average manufacturer price, replacing 150 percent of the lowest published price. Preliminary new FUL prices appear lower than the existing FUL prices. DHMH completed a comparison of these prices using the preliminary FUL figures issued by the federal government. The comparison revealed that in the aggregate, the Department may realize \$2 million in annual savings. This reduction in the drug acquisition cost is much smaller than many have anticipated. One explanation is that the AMP price list does not take into consideration the Maryland Medicaid

MAC figures, which have historically been lower than most FUL prices. These savings cannot be assured, since federal regulations finalizing the methodology for calculation of the AMP will not be issued until mid-2007 (the Bush Administration recently announced a proposed rule on definition of AMP in accordance with the DRA; after a public comment period, a final regulation must be promulgated by July 1, 2007). Until then, the methodology of calculating the AMP is not final and therefore, AMP prices may fluctuate from currently issued prices.

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 from other states indicates that Maryland's dispensing fee appears to be consistent with other states (see Attachment 1). Other state Medicaid retail pharmacy fees vary from a low of \$1.75 in New Hampshire to a high of \$7.25 in California.

Cost of Dispensing Survey

The Medicaid Pharmacy Program, through competitive bidding, has contracted with the University of Maryland School of Pharmacy's Pharmaceutical Health Services Research Department to analyze data collected from a recent survey regarding the cost to pharmacies of dispensing prescription drugs to Medicaid enrollees. The survey was posted on the Maryland Pharmacy website from October 6-23, and Maryland pharmacies were encouraged to complete the survey on-line. Out of approximately 1,100 pharmacies in the state, 387 submitted responses. Many of these were from chain pharmacies that submitted off-line composite entries for all their stores in Maryland. The survey instrument was based upon a survey used by the State of Maine and endorsed and provided to the Maryland Medicaid Pharmacy Program by the Maryland Association of Chain Drugstores. With the help of the School of Pharmacy, the survey was minimally expanded to meet the needs of the analysts. A copy of the survey analysis is attached (see Attachment 2) and it includes a copy of the actual survey. The analysis of the survey submissions reveals that the average cost of dispensing per prescription is \$11.71 with a median cost of \$10.67. However, analysts of the data emphasize 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 over \$8 million (total funds) annually. Again, this does not mean that pharmacists are not receiving adequate payment. One needs to examine the profit levels that are obtained with the acquisition costs.

Other Factors

Complicating the pricing picture even more is the fact that several discount department 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. This would appear to support the adequacy of the current Maryland Medicaid dispensing fee.

Conclusion

Based on preliminary analysis, it appears that the new federal upper limits will have a small reduction on Maryland Medicaid's reimbursement for generic drugs (approximately \$2 million in annual savings). 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, a revision of Medicaid's dispensing fee is not recommended at this time. Rather, it would be wise to wait until after federal regulations are published next July and the final federal upper limits have been released and implemented.