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# Pharmacy Dispensing Cost Analysis for the State of Maryland

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Prepared for the  
Maryland Department of Health and Mental Hygiene  
Baltimore, Maryland

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## EXHIBITS

- Exhibit 1 Maryland Medicaid Pharmacy Programs Mandatory Cost of Dispensing Survey – Survey Form
- Exhibit 2 Maryland Medicaid Pharmacy Programs Mandatory Cost of Dispensing Survey – Instructions
- Exhibit 3 Letter from the Maryland Department of Health and Mental Hygiene Regarding Pharmacy Dispensing Cost Survey
- Exhibit 4a Letter from Myers and Stauffer LC Regarding Pharmacy Dispensing Cost Survey (Independent Pharmacies)

- Exhibit 4b Letter from Myers and Stauffer LC Regarding Pharmacy Dispensing Cost Survey (Chain Pharmacies)
- Exhibit 5a First Survey Reminder / Extension Letter (Independent Pharmacies)
- Exhibit 5b First Survey Reminder / Extension Letter (Chain Pharmacies)
- Exhibit 6a Second Survey Reminder / Extension Letter (Independent Pharmacies)
- Exhibit 6b Second Survey Reminder / Extension Letter (Chain Pharmacies)
- Exhibit 7a Desk Review Notification Letter (Independent Pharmacies)
- Exhibit 7b Desk Review Notification Letter (Chain Pharmacies)
- Exhibit 8 Summary of Enhanced Desk Review Findings
- Exhibit 9 Construction and Application of Owner Pharmacist Salary Limits
- Exhibit 10 Table of Inflation Factors for Dispensing Cost Survey
- Exhibit 11 Histogram of Pharmacy Dispensing Cost
- Exhibit 12 Pharmacy Cost of Dispensing Survey Data - Statistical Summary
- Exhibit 13 Table of Zip Codes, Counties and Urban Versus Rural Designations
- Exhibit 14 Charts Relating to Pharmacy Prescription Volume:
  - A: Histogram of Pharmacy Total Prescription Volume
  - B: Relationship Between Dispensing Cost per Prescription and Total Prescription Volume
- Exhibit 15 Summary of Pharmacy Attributes
- Exhibit 16 Chart of Components of Cost of Dispensing per Prescription

# Chapter 1: Executive Summary

## Introduction

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

There were 1,410 pharmacy providers enrolled in the Maryland Medicaid Pharmacy Programs. All 1,410 pharmacies were requested to submit survey information for this study.

Myers and Stauffer performed basic desk review procedures to test completeness and accuracy for all dispensing cost surveys submitted. Additionally, expanded desk review procedures which required the submission of supporting documentation from the sample pharmacies were performed for 20 pharmacies to validate reported costs. There were 1,111 pharmacies that filed cost surveys that could be included in this analysis.<sup>1</sup> Data from these surveys was used to calculate the average cost of dispensing at each pharmacy and results from these pharmacies were tabulated and subjected to statistical analysis.

## Summary of Findings

The significant findings of the study are as follows:

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<sup>1</sup> Some pharmacies submitted surveys that were incomplete or contained data errors that precluded their use in this study. As time permitted, pharmacies that submitted incomplete or erroneous survey information were contacted for clarification. However, not all pharmacies responded to these requests for additional information, and those surveys were not included in the final analysis.

## Dispensing Cost

- **Per the survey of pharmacy dispensing cost for pharmacies participating in the Maryland Medicaid Pharmacy Programs, the statewide average (mean) cost of dispensing, weighted by Medicaid volume, was \$11.53 per prescription.** This figure excludes 65 specialty pharmacies which exhibited a significantly different cost structure.

**Table 1.1 Dispensing Cost <sup>A</sup> for Maryland Pharmacies**

Pharmacies Included in Analysis <sup>B</sup>	1,046
Unweighted Average (Mean)	\$13.72
Weighted Average (Mean) <sup>C</sup>	\$11.53
Unweighted Median	\$11.78
Weighted Median <sup>C</sup>	\$10.49

<sup>A</sup> Inflated to common point of June 30, 2011 (midpoint of calendar ending December 31, 2011).

No adjustments have been made to the reported means and medians to account for potential response rate bias. However, see discussion of potential response rate bias in Chapter 2.

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

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

## Conclusions

Based on the results of the study of pharmacy dispensing cost, a single statewide dispensing fee of \$11.53 would reimburse the weighted mean cost of dispensing prescriptions to Medicaid recipients for non-specialty prescriptions. A statewide dispensing fee of \$10.49 would reimburse the weighted median cost of dispensing for non-specialty prescriptions.

Alternately, a tiered system could be implemented with between two and four variable dispensing fees corresponding to ranges of annual prescription volume of pharmacies. 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, such an approach would be more complex to implement and would require periodic surveys of pharmacy total prescription volume.

Dispensing cost for specialty pharmacies as measured by the survey was significantly higher and exhibited greater variability. Consideration of alternative dispensing fee arrangements for prescriptions for specialty products may be appropriate.

A change in pharmacy dispensing fees to levels that approximate the average cost of dispensing would be most appropriately considered only if revisions to the current methodology for ingredient reimbursement are considered. Currently, the Maryland Medicaid Pharmacy Program's ingredient reimbursement is primarily based on the lesser of the Average Wholesale Price (AWP) minus 12%, the Wholesale Acquisition Cost (WAC) plus 8% or the Direct Price (DP) plus 8% and also incorporates the Federal Upper Limit (FUL) and a State Maximum Allowable Cost (SMAC) for generic drugs.

The Centers for Medicare and Medicaid Services (CMS) have recently launched an initiative to develop the National Average Drug Acquisition Cost (NADAC) reference file which will be a nationally derived average acquisition cost benchmark made available for the use of state Medicaid pharmacy programs. CMS has indicated that state Medicaid programs adopting the NADAC would need to set reasonable dispensing fees that appropriately recognize the professional services rendered by pharmacists. Myers and Stauffer's contract with the Department of Health and Mental Hygiene includes the task of modeling potential reimbursement scenarios utilizing alternative dispensing fee structures along with an ingredient reimbursement methodology derived from the published NADAC reference file when it becomes available to states.

## Chapter 2: Dispensing Cost Survey and Analysis

The Maryland Department of Health and Mental Hygiene, engaged Myers and Stauffer LC to perform a study of costs incurred by pharmacies participating in the Maryland Medicaid Pharmacy Programs 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>*

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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.

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

## Methodology of the Dispensing Cost Survey

### Survey Distribution

Myers and Stauffer obtained from the Department a list of pharmacy providers currently enrolled in the Maryland Medicaid Pharmacy Programs. According to the provider list, there were 1,410 pharmacy providers enrolled in the program. Surveys were mailed to all 1,410 pharmacy providers on June 24, 2011. Each sampled pharmacy received a copy of the cost survey (Exhibit 1), instructions for the survey (Exhibit 2), a letter of explanation from the Department of Health and Mental Hygiene (Exhibit 3) and a letter of explanation from Myers and Stauffer (Exhibit 4a and Exhibit 4b).

Concerted efforts to encourage participation were made to enhance the survey response rate. Additional letters were sent on July 14, 2011 to remind pharmacies of the survey and extend the original due date of July 15, 2011 to July 29, 2011. (Exhibit 5a and Exhibit 5b). On July 28, 2011, an additional letter was mailed extending the due date for the survey by two weeks to August 12, 2011 (Exhibit 6a and Exhibit 6b). In addition to reminder letters and due date extensions, efforts were made to assist pharmacies with completion of the survey. The survey forms, instructions and a letter of explanation from Myers and Stauffer offered pharmacy owners the option of having Myers and Stauffer complete certain sections of the survey if copies of financial statements and/or tax returns were submitted. A toll-free telephone number was listed on the survey form and pharmacists were instructed to call to resolve any questions they had concerning completion of the survey form.

Providers were given instructions to report themselves as ineligible for the survey if they met certain criteria. Pharmacies were to be deemed ineligible if they had closed their pharmacy, had a change of ownership, or had less than six months of cost data available (e.g., due to a pharmacy that recently opened, or changed ownership). Of the 1,410 surveyed pharmacies, 50 pharmacies were determined to be ineligible to participate (based on the returned surveys).

Surveys were accepted through August 24, 2011. As indicated in Table 2.1, there were 1,111 pharmacies (out of 1,360 eligible pharmacies) that submitted a usable cost survey for this study, which is a response rate of 81.7%.

Some of the submitted cost surveys contained errors or did not include complete information necessary for full evaluation. For cost surveys with such errors or omissions, the pharmacy was contacted for clarification. There were some cases in which issues on the cost survey were not resolved in time for inclusion in the final analysis.<sup>3</sup>

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

**Table 2.1 Pharmacies Responding to Dispensing Cost Survey**

Pharmacy Category	Total Medicaid Enrolled Pharmacies	Pharmacies Exempt or Ineligible from Filing	Eligible Pharmacies	Usable Cost Surveys Received <sup>4</sup>	Response Rate
Chain	846	16	830	752	90.6%
Non-chain	564	34	530	359	67.7%
<b>TOTAL</b>	<b>1,410</b>	<b>50</b>	<b>1,360</b>	<b>1,111</b>	<b>81.7%</b>
Urban <sup>5</sup>	1,081	32	1,049	918	87.5%
Rural	72	2	70	64	91.4%
Out of State	257	16	241	129	53.5%
<b>TOTAL</b>	<b>1,410</b>	<b>50</b>	<b>1,360</b>	<b>1,111</b>	<b>81.7%</b>

### Tests for Reporting Bias

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

Of the 1,111 usable cost surveys, 752 were from chain pharmacies and 359 were from non-chain pharmacies. There was a response rate of 90.6% for chain

<sup>3</sup> There were 21 surveys received on or before August 24, 2011 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 21 surveys are not included in the count of 1,111 usable surveys received.

<sup>4</sup> There were 228 potentially eligible pharmacies that did not respond to the survey request with a usable survey on or before August 24, 2011.

<sup>5</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. Urban versus rural classification of pharmacies is limited to those located within the state of Maryland.

pharmacies compared to a response rate of 67.7% for independent pharmacies. The results of the  $\chi^2$  test indicated that the difference was statistically significant.

A  $\chi^2$  test was also performed with respect to the urban versus rural location of the pharmacy for responding pharmacies that were located in the state of Maryland. The results of this test indicated that the difference in response rate for pharmacies in urban versus rural locations (a response rate of 87.5% for urban pharmacies compared to a response rate of 91.4% for rural pharmacies) was not statistically significant.

### Receipt and Review Procedures

For confidentiality purposes, each pharmacy was randomly assigned a four-digit identification number and each cost survey was carefully examined. A desk review was performed for 100% of all surveys received. This review identified incomplete cost surveys and pharmacies submitting these incomplete cost surveys were contacted by telephone 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.

For approximately one-third of surveys received from non-chain pharmacies, the surveys were submitted with a tax return or financial statement. Myers and Stauffer had indicated in the survey instructions that this type of supporting documentation could be sent in lieu of completion of certain portions of the survey form. The desk review process included steps to complete or confirm survey data when such documentation was available.

### Enhanced Desk Review Procedures

In addition to the desk review procedures, a random sample of 40 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 40 randomly sampled pharmacies, responses with the requested information were received from 20 pharmacies.<sup>6</sup>

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<sup>6</sup> Responses to the request for documentation for the enhanced desk review procedures were accepted through August 31, 2011.

The submitted documentation was reviewed and compared against the previously submitted survey data. If warranted by the supporting documentation, adjustments to the submitted data were made. Myers and Stauffer calculated the cost of dispensing associated with each of these pharmacies (using the cost allocation procedures described subsequently in this report) using both the survey data as submitted and the adjusted survey data.

While there were both positive and negative impacts to the calculated pharmacy cost of dispensing as a result of the enhanced desk review procedures, there was no indication of significant and systemic overstating or understating of costs reported on the survey (Exhibit 8).

## Cost Finding Procedures

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

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

Determining the result of this equation becomes more complex since not all costs are strictly related to the prescription dispensing function of the pharmacy. Most pharmacies are also engaged in lines of business other than the dispensing of prescription drugs. For example, many pharmacies have a retail business with sales of over-the-counter (OTC) drugs and other non-medical 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 recipients. To accomplish this objective, some pharmacy costs must be allocated between the prescription dispensing function and other business activities. This process identified the reasonable and allowable costs necessary for prescription dispensing to Medicaid recipients.

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

## Overhead Costs

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

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

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

- Prescription department licenses.
- Prescription delivery expense.
- Prescription computer expense.
- Prescription containers and labels (For many pharmacies the costs associated with prescription containers and labels is captured in their cost of goods 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: \$0.5524 per prescription).
- Certain other expenses that were separately identified on lines 22a-22r <sup>7</sup> of the cost survey (Exhibit 1).

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

- Income taxes <sup>8</sup>

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<sup>7</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>8</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.

- Bad debts<sup>9</sup>
- Advertising<sup>10</sup>
- Charitable Contributions<sup>11</sup>
- Certain costs reported on Lines 22a through 22r of the cost survey (Exhibit 1) were occasionally excluded. An example is freight expense, which usually relates only to nonprescription purchases or cost of goods sold.

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>12</sup>
- Repairs

<sup>9</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>10</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>11</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>12</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."

- Utilities
- The costs in these categories were considered a function of floor space.<sup>13</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 1a-4 of Page 5 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 (Lines 2a to 2j of Page 5 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 was allocated to prescription labor costs than would have been allocated if a simple

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<sup>13</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.

percent of time allocation were utilized. Specifically, the percent of prescription time indicated was adjusted by the following formula: <sup>14</sup>

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

The allocation of salaries, payroll taxes, and benefits for all other prescription employees (Lines 3a-3h of Page 5 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

The allocation of salaries, payroll taxes, and benefits of the owner pharmacists (Lines 1a-1e of Page 5 of the cost survey – Exhibit 1) was based upon the same modified percentage as that used for employee pharmacists. However, limitations were placed upon the allocated salaries, payroll taxes, and benefits of owner pharmacists. Since compensation reported for owner pharmacists are not costs that have arisen from arm's length negotiations, they are not similar to other costs. A pharmacy owner has a different approach toward other expenses than toward his/her own salary. In fact, owners often pay themselves above the market costs of securing the services of an employee pharmacist. This excess effectively represents a withdrawal of business profits, not a cost of dispensing. Some owners may underpay themselves for business reasons, which would also misrepresent the true dispensing cost.

A factor considered in determining the allocation of owner's salaries was the variability in productivity. For example, one owner pharmacist may dispense 30,000 prescriptions per year while another may dispense 5,000. Those owner pharmacists who dispensed a greater number of prescriptions were allowed a higher salary than were owner pharmacists who dispensed a smaller number of prescriptions. Since variance is not nearly as great with respect to employee pharmacists, the owner pharmacist's salary was subjected to limits based upon employee pharmacists' salaries per prescription.

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<sup>14</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.

## Determining Owner Compensation Allowances

To estimate the cost that would have been incurred had an employee been hired to perform the prescription-related functions actually performed by the owner, a statistical regression technique was used. A bivariate plot shows the correlation between an independent (predictor) variable and a dependent (predicted) variable (Exhibit 9). The upper and lower limits on owner pharmacist salary were determined from a bivariate regression.<sup>15</sup> In order to accurately reflect the trend of decreasing marginal costs with increasing volume, a regression technique that fit the bivariate data to a logarithmic curve was used. The resulting regression equation to predict pharmacist labor cost at varying amounts of work performed is:

$$\text{Labor cost} = 47,889 \times \ln(\text{number of prescriptions dispensed}) - 354,859$$

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

This equation was used to establish limits for allocating owner pharmacist costs. There was variation in actual employee salaries both above and below this regression line. For simplicity, confidence bands are constructed as if the constant and slope in the regression above are known. Then the margin of error is constant and proportional to the standard error of the estimate, \$32,441. The standard error of the estimate was used to construct upper and lower limits of owner pharmacist labor cost:

$$\text{Upper Limit} = 47,889 \times \ln(\text{number of prescriptions dispensed}) - 301,498$$
$$\text{Lower Limit} = 47,889 \times \ln(\text{number of prescriptions dispensed}) - 363,078$$

These two constraints effectively set upper and lower thresholds at approximately the 40<sup>th</sup> and 95<sup>th</sup> percentiles of volume adjusted employee salaries. An additional constraint is a \$179,082 maximum salary and a \$25,966 minimum salary. These amounts are set at the 40<sup>th</sup> and 95<sup>th</sup> percentile of volume adjusted employee salaries.

There is no reason to believe that managerial or clerical duties performed by the non-pharmacist owners were more valuable to the prescription dispensing function than for other functions. As with other owners, the amount shown for salaries, payroll taxes, and benefits was not a result of arm's length negotiations. Therefore, an upper limit of \$83,200 and a lower limit of \$31,200 were placed upon these labor costs. These limits were based on an analysis of salaries of

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<sup>15</sup> Employee pharmacist salary per prescription was used to set limitations on owner pharmacist salary estimates due to the "arm's length" nature and lack of variance in employee productivity compared with owner productivity. The number of prescriptions filled by the owner pharmacist was determined by multiplying the percent of owner-filled prescriptions (Lines 1a-1e of Page 5 of the cost survey - Exhibit 1) by the total number of prescriptions dispensed (Line a of Page 1 of the cost survey - Exhibit 1).

employee pharmacists and were adjusted based on the reported time worked by the owner non-pharmacist.

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 1,111 pharmacies in the cost analysis, owner limits impacted 248 pharmacies, or 22.3%. Of these, 69 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 179 pharmacies had costs increased as a result of the limits (on the basis that owner salaries appeared to be below their market value). In total, the final estimate of average pharmacy dispensing cost per prescription was decreased by approximately \$0.09 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 1,111 pharmacies included in the dispensing cost analysis, this limit was applied to 106 pharmacies. The final estimate of average pharmacy dispensing cost per prescription was decreased by approximately \$0.03 as a result of this limit.

## Inflation Factors

All allocated costs for overhead and labor were totaled and multiplied by an inflation factor. Inflation factors are intended to reflect cost changes from the middle of the reporting period of a particular pharmacy to a common fiscal period ending December 31, 2011 (specifically from the *midpoint* of the pharmacy's fiscal year to June 30, 2011 which is the *midpoint* of the fiscal period ending December 31, 2011). The midpoint and terminal month indices used were taken from the Employment Cost Index, (all civilian, all workers; seasonally adjusted) (Exhibit 10). The use of inflation factors is preferred in order for pharmacy cost data from various fiscal years to be compared uniformly.

## Dispensing Cost Analysis and Findings

The dispensing costs for all pharmacies in the sample are summarized in the following tables and paragraphs. Findings for all pharmacies in the sample are presented collectively, and additionally are presented for subsets of the sample based on pharmacy characteristics.

There are several statistical measurements that may be used to express the central tendency of a distribution, the most common of which are the average, or mean, and the median. Findings are presented in the forms of means and medians, both weighted and unweighted.<sup>16</sup>

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.

---

<sup>16</sup> **Different Measures of Central Tendency:**

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

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

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

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

For all pharmacies in the sample, findings are presented in Table 2.2.

**Table 2.2 Cost Per Prescription – All Pharmacies**

	Dispensing Cost
Unweighted Average (Mean)	\$23.75
Average (Mean) Weighted by Medicaid Volume	\$12.10
Unweighted Median	\$12.15
Median Weighted by Medicaid Volume	\$10.36

*n=1,111 pharmacies*

*(Dispensing costs have been inflated to the common point of June 30, 2011)*

See Exhibit 11 for a histogram of the dispensing cost for all pharmacies in the sample. There was a large range between the highest and the lowest dispensing cost observed for pharmacies in the sample. However, the majority of pharmacies (approximately 85%) had dispensing costs between \$7 and \$26.

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, enteral nutrition, 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 seven pharmacies in the sample that provided significant levels of these services.<sup>17</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 2.3.

<sup>17</sup> In every pharmacy dispensing study where information on 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 in these specialty prescriptions are significantly different from the costs incurred by the traditional retail or institutional pharmacy. The reasons for this difference include:

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

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

**Table 2.3 Cost Per Prescription - Specialty Versus Other Pharmacies**

Type of Pharmacy	Number of Pharmacies	Unweighted Average (Mean) Cost	Standard Deviation
Specialty Pharmacies (e.g., intravenous or infusion)	65	\$185.24	\$311.42
Other Pharmacies	1,046	\$13.72	\$8.13

*(Dispensing costs have been inflated to the common point of June 30, 2011)*

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 2.4 and 2.5 below exclude the 65 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 Maryland Medicaid Pharmacy Programs providers that provide “traditional” pharmacy services.

Table 2.4 restates the measurements noted in Table 2.2 excluding pharmacies that dispensed significant volumes of specialty prescriptions.

**Table 2.4 Cost Per Prescription – Excluding Specialty Pharmacies**

	Dispensing Cost
Unweighted Average (Mean)	\$13.72
Average (Mean) Weighted by Medicaid Volume	\$11.53
Unweighted Median	\$11.78
Median Weighted by Medicaid Volume	\$10.49

*n=1,046 pharmacies*

*(Dispensing costs have been inflated to the common point of June 30, 2011)*

Additional statistical measures of pharmacy dispensing cost are provided in Exhibit 12. For measurements that refer to the urban or rural location of a pharmacy, Myers and Stauffer used the pharmacies’ zip code and tables from the U.S. Census Bureau to determine if the pharmacy was located in a Metropolitan Statistical Area (MSA). Pharmacies in an MSA were assigned an “urban” location flag; other pharmacies were assigned a “rural” location flag. A table of zip codes and their designation as urban or rural is included at Exhibit 13. It should be noted that zip codes can overlap county boundaries; therefore the mapping of zip codes into counties and a corresponding MSA should be considered an approximation.

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

**Table 2.5 Dispensing Cost by Pharmacy Total Annual Prescription Volume<sup>A</sup>**

Total Annual Prescription Volume of Pharmacy	Number of Stores	Unweighted Average (Mean) Cost	Average (Mean) Weighted by Medicaid Volume
0 to 39,999	345	\$18.88	\$16.67
40,000 to 69,999	349	\$12.27	\$11.96
70,000 and Higher	352	\$10.09	\$9.99

*n=1,046 pharmacies*

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

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

**Table 2.6 Statistics for Pharmacy Total Annual Prescription Volume<sup>A</sup>**

Statistic	Value
Mean	94,865
Standard Deviation	471,032
10 <sup>th</sup> Percentile	19,313
25 <sup>th</sup> Percentile	34,107
Median	53,540
75 <sup>th</sup> Percentile	82,228
90 <sup>th</sup> Percentile	117,946

*n=1,046 pharmacies*

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

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

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

### Components of Dispensing Cost

The dispensing cost of the surveyed pharmacies was broken down into the various components of overhead and labor related costs. Table 2.7 displays the means of the various cost components for pharmacies in the sample. Labor-related expenses accounted for approximately 60% to 70% of overall prescription dispensing costs.

Expenses in Table 2.7 are classified as follows:

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

**Table 2.7 Components of Prescription Dispensing Cost**

Type of Expense	Unweighted Average (Mean) Cost	Average (Mean) Weighted by Medicaid Volume
Owner Professional Labor	\$1.032	\$0.794
Employee Professional and Other Labor	\$8.078	\$6.447
Building and Equipment	\$1.344	\$1.105
Prescription Specific Expenses (incl. delivery)	\$1.324	\$1.328
Other Overhead Expenses	\$1.935	\$1.852
<b>Total</b>	<b>\$13.713</b>	<b>\$11.526</b>

*n=1,046 pharmacies*

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

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

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

In the following Table 2.8, measurements are provided for certain expenses that were not included in the cost of dispensing. Reasons for not including these costs were discussed previously. For all of the expenses below, average cost per prescription was calculated using a sales ratio as the basis for allocation.

**Table 2.8 Non-Allocated Expenses Per Prescription<sup>A</sup>**

Expense Category	Unweighted Average (Mean) Cost	Average (Mean) Weighted by Medicaid Volume
Bad Debts	\$0.065	\$0.213
Charitable Contributions	\$0.017	\$0.017
Advertising	\$0.485	\$0.341

*n=1,046 pharmacies*

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

## Comparisons to Other Recent Cost of Dispensing Surveys

The findings of this cost of dispensing study is reasonably consistent with dispensing cost trends observed in other studies performed in the last five years by Myers and Stauffer and other firms. Table 2.9 includes results from several recent studies.

**Table 2.9 Results of Other Recent Pharmacy Cost of Dispensing Studies**

State	Year of Report	Firm	Results (weighted mean cost of dispensing)
Minnesota	2006	Myers and Stauffer	\$9.59
Maryland	2006	University of Maryland School of Pharmacy	\$11.71 (unweighted mean)
Maryland	2007	Grant Thornton (study was national in scope; results listed are for Maryland)	\$10.34
Alabama	2010	Health Information Designs	\$12.46
Oregon	2010	Myers and Stauffer	\$10.72
Louisiana	2011	Myers and Stauffer	\$10.13
Indiana	2011	Myers and Stauffer	\$9.92

**Exhibit 1**  
**Maryland Medicaid**  
**Pharmacy Programs**  
**Mandatory Cost of Dispensing**  
**Survey**



**MARYLAND MEDICAID PHARMACY PROGRAMS**  
**MANDATORY COST OF DISPENSING SURVEY**

Maryland Department of Health and Mental Hygiene  
 201 W. Preston Street • Baltimore, Maryland 21201

Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – Joshua M. Sharfstein, M.D., Secretary

Office of Systems, Operations and Pharmacy  
 Medical Care Programs

Charles E. Lehman  
 Executive Director

M&S Use Only

Prov. No. (NPI)

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

ROUND ALL AMOUNTS TO NEAREST DOLLAR OR WHOLE NUMBER

**Complete and return by July 15, 2011**

Instructions are enclosed. Call toll free (800) 374-6858 or e-mail pharmacy@mslc.com if you have any questions.

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

**DECLARATION BY OWNER AND PREPARER**

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

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

**SECTION IA -- PHARMACY ATTRIBUTES**

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

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

(a) 1. New \_\_\_\_\_ 2. Refill \_\_\_\_\_ 3. Total \_\_\_\_\_

What is the approximate percentage of prescriptions dispensed for the following classifications?

(b) 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 \_\_\_\_\_%

Ownership Affiliation

(c) 1.  Independent (1 to 3 units) 2.  Chain (4 or more units)  
 3.  Institutional (service to LTC facilities only) 4.  Other (specify) \_\_\_\_\_

Type of Ownership

(d) 1.  Individual 2.  Corporation 3.  Partnership 4.  Other (specify) \_\_\_\_\_

**MARYLAND MEDICAID PHARMACY PROGRAMS  
MANDATORY COST OF DISPENSING SURVEY**

(e)	Location 1. <input type="checkbox"/> Medical Office Building 3. <input type="checkbox"/> Stand Alone Building 5. <input type="checkbox"/> Hospital Outpatient Dept.	2. <input type="checkbox"/> Shopping Center 4. <input type="checkbox"/> Grocery Store / Mass Merchant 6. <input type="checkbox"/> Other (specify) _____
(f)	Does your pharmacy purchase drugs through the 340B Drug Pricing Program? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No If yes, are prescriptions dispensed through the Maryland Medicaid Pharmacy Program provided through 340B inventory? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No	
(g)	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	
(h)	How many hours per week is your pharmacy open? _____ Hours	
(i)	How many years has a pharmacy operated at this location? _____ Years	
(j)	Do you provide 24-hour emergency services for pharmaceuticals? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No	
(k)	What percentage of prescriptions dispensed were generic products? _____ %	

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

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

**If your pharmacy provides delivery, specialty or compounding services, complete lines (o) through (s) as applicable.**

(o)	What percent of total prescriptions filled are delivered? _____ %	
(p)	What percent of Medicaid prescriptions filled are delivered? _____ %	
(q)	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? _____ %	
(r)	Are you presently providing specialty products or services (e.g., IV, infusion, enteral nutrition, blood factors or derivatives)? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No If yes, what is the dollar amount of your sales for IV / infusion Rxs \$ _____, enteral nutrition Rxs \$ _____ blood factors or derivatives \$ _____ other specialty products or services \$ _____ specify other products or services _____	
(s)	What is the approximate percent of your prescriptions dispensed that are compounded? _____ % For prescriptions that are compounded, what is the average number of minutes spent preparing a prescription? _____	

**SECTION IB -- OTHER INFORMATION**

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

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**MARYLAND MEDICAID PHARMACY PROGRAMS  
MANDATORY COST OF DISPENSING SURVEY**

ROUND ALL AMOUNTS TO NEAREST DOLLAR OR WHOLE NUMBER

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

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

**SECTION IIB -- OVERHEAD EXPENSES**

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

The following information is from fiscal / tax year ending.....	____ / ____ / ____	(4)
---	--------------------	-----

**2010 Tax Form Number**

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

**MARYLAND MEDICAID PHARMACY PROGRAMS  
MANDATORY COST OF DISPENSING SURVEY**

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

Examples: Security, janitorial, bank fees, credit card fees, franchise fees, switching fees, e-prescribing transaction fees, accreditation fees, continuing education, restocking fees, postage, robotics expenses, etc.

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

**MARYLAND MEDICAID PHARMACY PROGRAMS  
MANDATORY COST OF DISPENSING SURVEY**

**SECTION IIC -- PERSONNEL COSTS** -- List each person separately (except Line 4). Attach schedule if necessary.

	Check if RPh	Estimate Percent of Rxs Dispensed by Each RPh	Annual Salaries, Bonuses and/or Drawings	No. Weeks Employed This Fiscal Year	Average Weekly Hours		Line No.
					Total Store Including Rx Dept.	Rx Dispensing Related Duties Only *	
Owners, Individual Proprietors, Partners, and Stockholders	(a)						(1a)
	(b)						(1b)
	(c)						(1c)
	(d)						(1d)
	(e)						(1e)
Employee and Relief Pharmacists	(a)						(2a)
	(b)						(2b)
	(c)						(2c)
	(d)						(2d)
	(e)						(2e)
	(f)						(2f)
	(g)						(2g)
	(h)						(2h)
	(i)						(2i)
	(j)						(2j)
	Subtotal:		100%	XXXXX	XXXXX	XXXXX	XXXXX
Other Employees with Time in Rx Dept. (including technicians, delivery personnel, etc.)	(a)	XXX	XXXXXXXXXX				(3a)
	(b)	XXX	XXXXXXXXXX				(3b)
	(c)	XXX	XXXXXXXXXX				(3c)
	(d)	XXX	XXXXXXXXXX				(3d)
	(e)	XXX	XXXXXXXXXX				(3e)
	(f)	XXX	XXXXXXXXXX				(3f)
	(g)	XXX	XXXXXXXXXX				(3g)
	(h)	XXX	XXXXXXXXXX				(3h)
All Non-Rx Employee Salaries							(4)
Pension, Profit-sharing etc.							(5)
Other Employee Benefits							(6)
<b>TOTAL - Salaries and Benefits</b>							(7)

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

**MARYLAND MEDICAID PHARMACY PROGRAMS  
MANDATORY COST OF DISPENSING SURVEY**

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

2010 Tax Form Number			
1040C	1065	1120	1120S

Column 1
Cost Survey Amounts

Column 2
Financial Statement or Tax Return Amounts

28	21	27	20	Total Expenses per Financial Statement or Tax Return	_____	(1)
				Enter Amount from Section IIB, Line (23)	_____	(2)
				Enter Amount from Section IIC, Line (7)	_____	(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**  
**Maryland Medicaid**  
**Pharmacy Programs**  
**Mandatory Cost of Dispensing**  
**Survey Instructions**



## MARYLAND MEDICAID PHARMACY PROGRAMS MANDATORY COST OF DISPENSING SURVEY

Maryland Department of Health and Mental Hygiene  
201 W. Preston Street • Baltimore, Maryland 21201

Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – Joshua M. Sharfstein, M.D., Secretary

Office of Systems, Operations and Pharmacy  
Medical Care Programs

Charles E. Lehman  
Executive Director

### INSTRUCTIONS

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

### WHO MUST FILE THIS FORM

Except for the following, all Maryland Pharmacy Programs pharmacies should file this cost survey:

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

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

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

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

### GENERAL INSTRUCTIONS

**If any assistance is needed in completing this survey, call toll-free (800) 374-6858.** Complete these forms using your most recently completed fiscal year for which financial records are available and complete (e.g., December 31, 2010 or December 31, 2009 if 2010 records are not yet complete) and **return them by July 15, 2011.** Most retail pharmacies can complete the survey form by using their most recent annual financial statement or federal

**MARYLAND MEDICAID PHARMACY PROGRAMS**  
**MANDATORY COST OF DISPENSING SURVEY**  
**INSTRUCTIONS**

income tax return. If you are using an income tax return, most expense line items can be transferred directly from a line on a tax return to a line on the cost survey. Line reference numbers of four tax forms are listed on the left side of the cost survey. Simply locate the column for your tax form.

If you prefer, send us a copy of your financial statements or income tax return (Form 1065, 1120, 1120S, or Schedule C of Form 1040 including supporting schedules) and we will complete the overhead expenses, Section IIB, Page 3 and Section IID, Page 6, for you. **You will still need to fill in the remaining sections of the cost survey.** If you send a copy of your financial statement or tax return, identify any expenses that are 100% Rx-Department expenses such as continuing education, and identify any expenses that are 100% non-Rx Department expenses.

Round all amounts to the nearest dollar or whole number.

**Multiple Location/Chain Pharmacies**

Central administration expenses incurred by multiple location and/or chain pharmacies shall be reported on lines (21a)-(21r) of Section IIB. Report the expense allocated to each store. Methods of allocation must be reasonable and conform to generally accepted accounting principles. Warehousing expense must be separately identified and entered on lines (21a)-(21r) of Section IIB.

**SECTION IA --- PHARMACY ATTRIBUTES**

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

**Line (a)**            **“Prescriptions Dispensed.”** Report the total number of all prescriptions filled **during the fiscal year** of the costs reported on pages 3 through 6 of the cost survey. This information may be kept on a daily or monthly log or on your computer.

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

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

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

**MARYLAND MEDICAID PHARMACY PROGRAMS**  
**MANDATORY COST OF DISPENSING SURVEY**  
**INSTRUCTIONS**

**SECTION IIB --- OVERHEAD EXPENSES**

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

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

**Line (6a) & (6b) Personal Property Taxes and Real Estate Taxes.** Include only personal property taxes or real estate taxes paid on property used in this pharmacy's business.

**Line (6c) Payroll Taxes.** Include the employer's share of Social Security, Medicare and state/federal unemployment taxes.

**Line (7a) Building Rent.** Include only rent that applies to the store. **Report only rental expense incurred by transactions between non-related parties. See the first paragraph of this section for expenses allowed in lieu of rent paid to a related party.**

**Line (17) Operating and Office Supplies.** If prescription containers and labels are included in your supplies, exclude them from this line and show them on line (21).

**Line (20) Rx Delivery Expenses.** If you deliver Rx items only, include expenses paid for your delivery vehicle here, including expenses paid to a delivery service for delivery of Rx items. These expenses should not be duplicated on any other line. If your delivery vehicle is used by other departments of the pharmacy or for miscellaneous purposes, do not enter anything on this line and enter delivery expenses on line (22a)-(22r).

**Line (21) Rx Containers and Labels.** The cost of prescription containers and labels should be included here if separately identified on your financial statement or as "other deductions" on your federal income tax return. If this expense is included in cost of goods sold on your federal income tax return and if your accounting records are such that this figure is difficult to determine, leave this line blank. An allowance will be made for Rx containers and labels.

**Lines (22a)-(22r) Other Overhead Expenses.** On these lines identify any non-labor expenses not already included on your cost survey but listed on your financial statement or as other deductions on your federal income tax return. **Identify each item and the amount, rather than labeling all such expenses as "miscellaneous." If you wish, you can simply attach a schedule that lists these expenses.** Clearly label any items that are 100% Rx-related or that are 100% non-Rx-related.

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

**Lines (1a)-(2j) Percent of Prescriptions Dispensed.** Provide your best estimate of the percentage of prescriptions dispensed by each pharmacist. Notice: This column must total line 2k (100%).

**Lines (1a)-(5h) Average Weekly Hours.** You may not have detailed records of where each employee worked; however, provide your best estimate of an average or "typical" week. Report the average number of hours the employee worked per week in the "Total Store" column. The "Rx Dispensing

**MARYLAND MEDICAID PHARMACY PROGRAMS**  
**MANDATORY COST OF DISPENSING SURVEY**  
**INSTRUCTIONS**

Related Duties Only” column shall show the average number of hours per week spent performing Rx-related duties. Rx-related duties are defined as time spent filling prescriptions as well as doing the related administrative work including ordering and stocking prescription ingredients, taking inventory, maintaining prescription files, third party reimbursement claims management and delivering prescriptions. For purposes of this survey, time associated with the performance of Medication Therapy Management (MTM) activities should not be considered "dispensing related duties". Pharmacists providing consultation to long-term care facilities must be identified and listed separately.

- Lines (1a)-(1e) Owners.** All individual proprietors, partners, or stockholders shall list their total drawings and/or salaries for the year. Do not show net profit as the owner’s salary but **only actual drawings or salary**. For those owners who took no salary or drawings, show zero to indicate you have not overlooked this line – an allowance for salary will be imputed based on time worked and/or prescriptions dispensed.
- Lines (3a)-(3h) Other Employees with Time in Rx. Dept.** Rx Technicians, nonprofessional, clerical, and delivery personnel who perform Rx-related duties shall be listed.
- Line (4) All Non-Rx Employees.** List total salaries for all employees who spend no time in Rx-related duties.
- Lines (5)&(6) Pension, profit sharing etc. and Other Employee Benefits.** List total expenses associated with pension plans, retirement plans and other employee benefits not reported elsewhere. These labor-related expenses will be allocated to employee salaries.

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

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

**Exhibit 3**  
**Letter from the**  
**Maryland Department of**  
**Health and Mental Hygiene**  
**for Pharmacy**  
**Cost Survey**



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 – Joshua M. Sharfstein, M.D., Secretary

Office of Systems, Operations & Pharmacy  
Maryland Medicaid Pharmacy Program

Charles Lehman  
Executive Director

**MEMORANDUM**

**DATE:** June 24, 2011  
**TO:** Pharmacy Providers  
**FROM:** Charles Lehman, Executive Director   
Office of Systems, Operation & Pharmacy  
**RE:** 2011 Cost of Dispensing Survey

---

**Background:**

The Maryland Medicaid Pharmacy Program (MMPP) has contracted with the firm of Myers and Stauffer, LC, Certified Public Accountants, a reputable firm with extensive experience in developing survey instruments, to conduct a comprehensive study to determine the true cost of dispensing prescriptions to Maryland Medicaid fee-for-service clients and for drugs currently “carved out” of the Maryland Managed Care Programs.

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

All providers are required to participate in the survey and provide all necessary documentation to the designated vendor. Such participation and document production is a required under COMAR 10.09.03.03E and COMAR 10.09.03.07A. Failure to participate could result in actions being taken against the provider under COMAR 10.09.36.

**Survey:**

To accomplish the amount of work which must be performed and to ensure an accurate and valid measurement of dispensing costs, all forms must be completed as quickly and accurately as possible. Both MMPP and Myers and Stauffer guarantee confidentiality of your survey responses.

Please return the completed survey, in the prepaid envelope going directly to Myers and Stauffer, no later than July 15, 2011.

**Contacts:**

The enclosed instructions include a toll-free number to assist you in completing the survey. If you have questions or concerns that Myers and Stauffer are unable to answer, call Alex Taylor, Division Chief, Clinical Services at (410) 1767-5878 or email: [taylor@dhmh.state.md.us](mailto:taylor@dhmh.state.md.us).

Thank you for your cooperation and continued support of the Maryland Medicaid Pharmacy Program.

**Exhibit 4a**  
**Letter from**  
**Myers and Stauffer**  
**for Pharmacy Survey**  
**(Independent Pharmacies)**

**Sample  
(Independent  
Pharmacies)**



June 24, 2011

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

Re: Maryland Medicaid Pharmacy Programs  
Mandatory Cost of Dispensing Survey

Dear Pharmacy Owner or Manager:

The Maryland Department of Health and Mental Hygiene has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey as part of the process to evaluate the cost of dispensing for prescription medications in the state of Maryland. All Maryland Medicaid Pharmacy Programs providers are required to participate in the survey according to the following directions:

1. After reviewing the survey instructions, complete and return the enclosed “Maryland Medicaid Pharmacy Programs Mandatory Cost of Dispensing Survey”.
2. For your convenience, Myers and Stauffer will complete Section IIB “Overhead Expenses” and Section IID “Reconciliation with Financial Statement or Tax Return” for you if you wish to submit a copy of your store financial statements or your business federal income tax return (Forms 1065, 1120, 1120S or Schedule C of Form 1040 and accompanying schedules). You will still need to complete other sections of the cost survey.
3. If your financial statements or tax return have not been completed for your most recent fiscal year, file a cost survey using your prior year's financial statements (or tax return) and the corresponding prescription data for that year. The data will be adjusted accordingly.
4. Retain a copy of the completed survey forms for your records.

It is very important that all pharmacies cooperate fully by filing an accurate cost survey. **The Maryland Department of Health and Mental Hygiene has designated participation in this survey as mandatory for all pharmacies.** Pharmacies are encouraged to return the requested information as soon as possible, but forms must be returned **no later than July 15, 2011.**

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. Postage will be paid by Myers and Stauffer.

It is very important that pharmacies respond with accurate information. All submitted surveys must be reviewed and validated by staff at Myers and Stauffer. If our review yields the need for additional inquiries, Myers and Stauffer staff will contact you. Additionally, Myers and Stauffer staff will be performing 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.

If you have any questions, please call toll free at 1-800-374-6858 or send an e-mail to [pharmacy@mslc.com](mailto:pharmacy@mslc.com). Your cooperation in providing the information for this survey is greatly appreciated.

Sincerely,

A handwritten signature in black ink that reads "T. Allan Hansen". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

**Exhibit 4b**  
**Letter from**  
**Myers and Stauffer**  
**for Pharmacy Survey**  
**(Chain Pharmacies)**

**Sample  
(Chain Pharmacies)**



June 24, 2011

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

Re: Maryland Medicaid Pharmacy Programs  
Mandatory Cost of Dispensing Survey

To: Maryland Medicaid Chain Pharmacy Providers:

The Maryland Department of Health and Mental Hygiene has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey. **All Maryland Medicaid Pharmacy Programs providers are required to participate in the mandatory survey.**

Enclosed are several copies of the “Maryland Medicaid Pharmacy Programs Mandatory Cost of Dispensing Survey”. Please review the survey instructions. You may respond to the survey using either a paper or electronic format. In past surveys performed by Myers and Stauffer, many pharmacy chains have preferred to respond to the survey in an electronic format.

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

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

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

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

**If you prefer to respond in an electronic format:** You will still be required to submit survey data for each store on the attached list using an Excel spreadsheet template provided by Myers and Stauffer. To obtain the Excel spreadsheet, send a request by e-mail to [pharmacy@mslc.com](mailto:pharmacy@mslc.com) or contact Myers and Stauffer staff directly (contact information below). Surveys that are

completed electronically may be submitted via e-mail.

Whether you complete the survey in either a paper or electronic format, we recommend that you retain a copy of the completed survey forms for your records. Also, please describe any cost allocations used in preparing the income statement such as administrative expense, etc. Warehousing and distribution costs should be shown in cost of goods sold or listed separately.

**Pharmacies are encouraged to return the requested information as soon as possible, but no later than July 15, 2011.**

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

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

Shelly Schmitz	Lesley Weaverling
<a href="mailto:mschmitz@mslc.com">mschmitz@mslc.com</a>	<a href="mailto:lweaverling@mslc.com">lweaverling@mslc.com</a>
(800) 374-6858 ext. 1861	(800) 374-6858 ext. 1796

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

Sincerely,



T. Allan Hansen  
Project Manager  
(800) 374-6858 ext. 1038  
E-mail: [ahansen@mslc.com](mailto:ahansen@mslc.com)

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

**Sample  
(Independent Pharmacies)**



**MARYLAND MEDICAID PHARMACY PROGRAMS  
MANDATORY COST OF DISPENSING SURVEY**

Maryland Department of Health and Mental Hygiene  
201 W. Preston Street • Baltimore, Maryland 21201

Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – Joshua M. Sharfstein, M.D., Secretary

Office of Systems, Operations and Pharmacy  
Medical Care Programs

Charles E. Lehman  
Executive Director

July 14, 2011

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

Re: Maryland Medicaid Pharmacy Programs  
**Mandatory Cost of Dispensing Survey**

Dear Pharmacy Owner or Manager:

The Maryland Department of Health and Mental Hygiene has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey. All Maryland Medicaid Pharmacy Programs (MMPP) providers are required to participate in the survey.

During the week of June 27 you should have received a copy of the dispensing cost survey form and instructions. Your participation in the dispensing cost survey is very important. This survey is being used by the MMPP to evaluate future reimbursement rates. **The MMPP has indicated that participation in the survey is mandatory.** Failure to participate may jeopardize your pharmacy's status as a Medicaid provider.

Surveys were sent with a due date of July 15, 2011. According to our records, a completed survey has not yet been received from your pharmacy. In order to allow more pharmacies time to respond to the dispensing cost survey, Myers and Stauffer has been instructed by the MMPP to continue to accept surveys through Friday, July 29, 2011.

If you have not received a survey form or have misplaced your survey form, you can download a copy of the survey and instructions from [md.mslc.com](http://md.mslc.com). If you have any questions regarding the survey, please contact Myers and Stauffer at 1-800-374-6858 or via e-mail to [pharmacy@mslc.com](mailto:pharmacy@mslc.com).

If you have recently mailed your survey to Myers and Stauffer, we thank you for your participation. 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.

Alex Taylor, Division Chief  
Maryland Medicaid Pharmacy Programs  
(410) 767-5878  
[taylora@dnhm.state.md.us](mailto:taylora@dnhm.state.md.us)

Allan Hansen, Project Manager  
Myers and Stauffer LC  
(800) 374-6858 ext. 1038  
[ahansen@mslc.com](mailto:ahansen@mslc.com)

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

**Sample  
(Chain Pharmacies)**



**MARYLAND MEDICAID PHARMACY PROGRAMS  
MANDATORY COST OF DISPENSING SURVEY**

Maryland Department of Health and Mental Hygiene  
201 W. Preston Street • Baltimore, Maryland 21201

Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – Joshua M. Sharfstein, M.D., Secretary

Office of Systems, Operations and Pharmacy  
Medical Care Programs

Charles E. Lehman  
Executive Director

July 14, 2011

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

Re: Maryland Medicaid Pharmacy Programs  
**Mandatory Cost of Dispensing Survey**

To: Maryland Medicaid Chain Pharmacy Providers:

The Maryland Department of Health and Mental Hygiene has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey. All Maryland Medicaid Pharmacy Programs (MMPP) providers are required to participate in the survey.

During the week of June 27 you should have received a copy of the dispensing cost survey form and instructions. Myers and Stauffer also prepared a listing of the pharmacies in your chain that participate in the MMPP and are subject to this survey.

Your participation in the dispensing cost survey is very important. This survey is being used by the MMPP to evaluate future reimbursement rates. **The MMPP has indicated that participation in the survey is mandatory.** Failure to participate may jeopardize your pharmacies' status as Medicaid providers.

Surveys were sent with a due date of July 15, 2011. According to our records, a completed survey has not yet been received for your pharmacies. In order to allow more pharmacies time to respond to the dispensing cost survey, Myers and Stauffer has been instructed by the MMPP to continue to accept surveys through Friday, July 29, 2011.

If you have not received a survey form or have misplaced your survey form, you can download a copy of the survey and instructions from [md.mslc.com](http://md.mslc.com). If you have any questions regarding the survey, please contact Myers and Stauffer. You may also request an Excel template of the survey form if you prefer to respond in an electronic format. Inquiries may be directed to:

Shelly Schmitz  
mschmitz@mslc.com  
(800) 374-6858 ext. 1861

Lesley Weaverling  
lweaverling@mslc.com  
(800) 374-6858 ext. 1796

If you have recently mailed your survey to Myers and Stauffer, we thank you for your participation. 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.

Alex Taylor, Division Chief  
Maryland Medicaid Pharmacy Programs  
(410) 767-5878  
taylora@dhhm.state.md.us

Allan Hansen, Project Manager  
Myers and Stauffer LC  
(800) 374-6858 ext. 1038  
ahansen@mslc.com

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

**Sample  
(Independent Pharmacies)**



**MARYLAND MEDICAID PHARMACY PROGRAMS  
MANDATORY COST OF DISPENSING SURVEY**

Maryland Department of Health and Mental Hygiene  
201 W. Preston Street • Baltimore, Maryland 21201

Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – Joshua M. Sharfstein, M.D., Secretary

Office of Systems, Operations and Pharmacy  
Medical Care Programs

Charles E. Lehman  
Executive Director

July 28, 2011

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

Re: Maryland Medicaid Pharmacy Programs  
**Mandatory Cost of Dispensing Survey**

Dear Pharmacy Owner or Manager:

The Maryland Department of Health and Mental Hygiene has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey. All Maryland Medicaid Pharmacy Programs (MMPP) providers are required to participate in the survey.

During the week of June 27 you should have received a copy of the dispensing cost survey form and instructions. Your participation in the dispensing cost survey is very important. This survey is being used by the MMPP to evaluate future reimbursement rates. **The MMPP has indicated that participation in the survey is mandatory.** Failure to participate may jeopardize your pharmacy's status as a Medicaid provider.

The initial due date for the survey was July 15, 2011, which was subsequently extended to July 29, 2011. **In order to allow more pharmacies time to respond to the dispensing cost survey, Myers and Stauffer has been instructed by the MMPP to continue to accept surveys through Friday, August 12, 2011. This will be the final extension of the survey due date.**

According to our records, a completed survey has not yet been received from your pharmacy. If you have recently mailed your survey to Myers and Stauffer, we thank you for your participation. Please feel free to contact Myers and Stauffer if you would like to confirm receipt of your submitted survey.

If you have not received a survey form or have misplaced your survey form, you can download a copy of the survey and instructions from [md.mslc.com](http://md.mslc.com). If you have any questions regarding the survey, please contact Myers and Stauffer at 1-800-374-6858 or via e-mail to [pharmacy@mslc.com](mailto:pharmacy@mslc.com).

Your cooperation with this survey process is greatly appreciated.

Alex Taylor, Division Chief  
Maryland Medicaid Pharmacy Programs  
(410) 767-5878  
[taylor@dhmh.state.md.us](mailto:taylor@dhmh.state.md.us)

Allan Hansen, Project Manager  
Myers and Stauffer LC  
(800) 374-6858 ext. 1038  
[ahansen@mslc.com](mailto:ahansen@mslc.com)

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

**Sample  
(Chain Pharmacies)**



**MARYLAND MEDICAID PHARMACY PROGRAMS  
MANDATORY COST OF DISPENSING SURVEY**

Maryland Department of Health and Mental Hygiene  
201 W. Preston Street • Baltimore, Maryland 21201

Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – Joshua M. Sharfstein, M.D., Secretary

Office of Systems, Operations and Pharmacy  
Medical Care Programs

Charles E. Lehman  
Executive Director

July 28, 2011

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

Re: Maryland Medicaid Pharmacy Programs  
**Mandatory Cost of Dispensing Survey**

To: Maryland Medicaid Chain Pharmacy Providers:

The Maryland Department of Health and Mental Hygiene has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey. All Maryland Medicaid Pharmacy Programs (MMPP) providers are required to participate in the survey.

During the week of June 27 you should have received a copy of the dispensing cost survey form and instructions. Myers and Stauffer also prepared a listing of the pharmacies in your chain that participate in the MMPP and are subject to this survey.

Your participation in the dispensing cost survey is very important. This survey is being used by the MMPP to evaluate future reimbursement rates. **The MMPP has indicated that participation in the survey is mandatory.** Failure to participate may jeopardize your pharmacies' status as Medicaid providers.

The initial due date for the survey was July 15, 2011, which was subsequently extended to July 29, 2011. **In order to allow more pharmacies time to respond to the dispensing cost survey, Myers and Stauffer has been instructed by the MMPP to continue to accept surveys through Friday, August 12, 2011. This will be the final extension of the survey due date.**

According to our records, a completed survey has not yet been received from your pharmacy. If you have recently mailed your survey to Myers and Stauffer, we thank you for your participation. Please feel free to contact Myers and Stauffer if you would like to confirm receipt of your submitted survey.

If you have not received a survey form or have misplaced your survey form, you can download a copy of the survey and instructions from [md.mslc.com](http://md.mslc.com). If you have any questions regarding the survey, please contact Myers and Stauffer. You may also request an Excel template of the survey form if you prefer to respond in an electronic format. Inquiries may be directed to:

Shelly Schmitz  
mschmitz@mslc.com  
(800) 374-6858 ext. 1861

Lesley Weaverling  
lweaverling@mslc.com  
(800) 374-6858 ext. 1796

If you have recently mailed your survey to Myers and Stauffer, we thank you for your participation. 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.

Alex Taylor, Division Chief  
Maryland Medicaid Pharmacy Programs  
(410) 767-5878  
taylora@dhhm.state.md.us

Allan Hansen, Project Manager  
Myers and Stauffer LC  
(800) 374-6858 ext. 1038  
ahansen@mslc.com

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

**Sample  
(Independent Pharmacies)**



**MARYLAND MEDICAID PHARMACY PROGRAMS  
MANDATORY COST OF DISPENSING SURVEY**

Maryland Department of Health and Mental Hygiene  
201 W. Preston Street • Baltimore, Maryland 21201

Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – Joshua M. Sharfstein, M.D., Secretary

Office of Systems, Operations and Pharmacy  
Medical Care Programs

Charles E. Lehman  
Executive Director

August 9, 2011

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

**Re: Maryland Medicaid Pharmacy Programs Mandatory Cost of Dispensing Survey  
Desk Review Notification**

**VIA CERTIFIED MAIL**

Dear Pharmacy Owner or Manager:

The Maryland Department of Health and Mental Hygiene has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey. All Maryland Medicaid Pharmacy Programs (MMPP) providers were required to participate in the survey.

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 schedules 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 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.

**Maryland Medicaid Pharmacy Programs Mandatory Cost of Dispensing Survey**

**Desk Review Notification**

**Page 2 of 2**

- 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  
11440 Tomahawk Creek Parkway  
Leawood, Kansas 66211**

Alternatively, documentation may sent via fax to (913) 234-1104 or via e-mail to the contacts listed below:

Lesley Weaverling                      Shelly Schmitz  
lweaverling@mslc.com              mschmitz@mslc.com  
(913) 234-1796                      or              (913) 234-1861

If you have any questions concerning the desk review process, please contact Myers and Stauffer. Your cooperation with this survey process is greatly appreciated.

Alex Taylor, Division Chief  
Maryland Medicaid Pharmacy Programs  
(410) 767-5878  
taylora@dhhm.state.md.us

Allan Hansen, Project Manager  
Myers and Stauffer LC  
(800) 374-6858 ext. 1038  
ahansen@mslc.com

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

**Sample  
(Chain Pharmacies)**



**MARYLAND MEDICAID PHARMACY PROGRAMS  
MANDATORY COST OF DISPENSING SURVEY**

Maryland Department of Health and Mental Hygiene  
201 W. Preston Street • Baltimore, Maryland 21201

Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – Joshua M. Sharfstein, M.D., Secretary

Office of Systems, Operations and Pharmacy  
Medical Care Programs

Charles E. Lehman  
Executive Director

August 9, 2011

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

**Re: Maryland Medicaid Pharmacy Programs Mandatory Cost of Dispensing Survey  
Desk Review Notification**

**VIA CERTIFIED MAIL**

To: Maryland Medicaid Chain Pharmacy Providers:

The Maryland Department of Health and Mental Hygiene has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey. All Maryland Medicaid Pharmacy Programs (MMPP) providers were required to participate in the survey.

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 level of 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.

**Maryland Medicaid Pharmacy Programs Mandatory Cost of Dispensing Survey**

**Desk Review Notification**

**Page 2 of 2**

- 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  
11440 Tomahawk Creek Parkway  
Leawood, Kansas 66211**

Alternatively, documentation may sent via fax to (913) 234-1104 or via e-mail to the contacts listed below:

Lesley Weaverling                      Shelly Schmitz  
lweaverling@mslc.com            or            mschmitz@mslc.com  
(913) 234-1796                                      (913) 234-1861

If you have any questions concerning the desk review process, please contact Myers and Stauffer. Your cooperation with this survey process is greatly appreciated.

Alex Taylor, Division Chief  
Maryland Medicaid Pharmacy Programs  
(410) 767-5878  
taylor@dhmh.state.md.us

Allan Hansen, Project Manager  
Myers and Stauffer LC  
(800) 374-6858 ext. 1038  
ahansen@mslc.com

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

## Summary of Enhanced Desk Review Findings Maryland Medicaid Pharmacy Programs

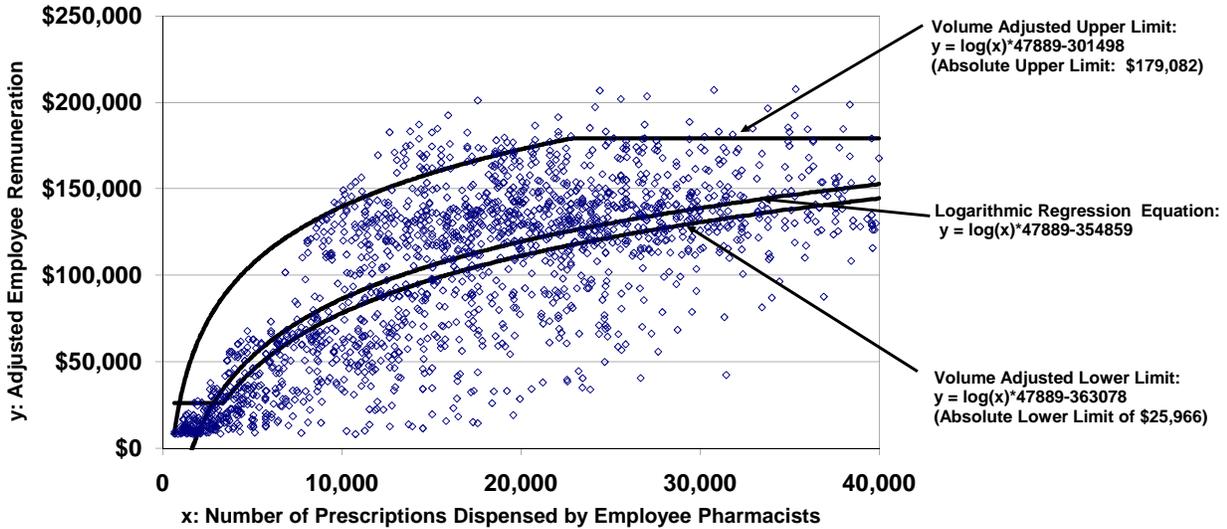
Assigned Number	Exceptions and Comments	Dispensing Cost per Prescription		
		Original	Revised	Increase / (Decrease)
0073	Revised count of prescriptions	\$9.38	\$9.40	\$0.02
0606	Revised count of prescriptions	\$9.24	\$9.26	\$0.02
1012	Adjust square footage	\$10.48	\$10.74	\$0.26
1967	Adjust square footage, adjust miscellaneous overhead expenses to financial statement, various labor allocations	\$17.54	\$16.86	(\$0.68)
1989	Adjust sales, adjust cost of goods sold, adjust miscellaneous overhead expenses to tax return	\$67.05	\$67.05	\$0.00
2095	Adjust square footage	\$44.47	\$39.08	(\$5.39)
3961	Revised count of prescriptions	\$8.19	\$8.21	\$0.02
4879	Adjust sales, adjust square footage	\$13.71	\$13.78	\$0.07
4981	Adjust square footage	\$8.65	\$8.30	(\$0.35)
5187	Revised count of prescriptions	\$6.78	\$6.80	\$0.02
5259	Revised count of prescriptions, adjust sales, adjust square footage, adjust miscellaneous overhead expenses to tax return, various labor allocations	\$12.89	\$12.87	(\$0.02)
6054	Revised count of prescriptions	\$14.85	\$14.85	\$0.00
6188	Adjust square footage, adjust miscellaneous overhead expenses to financial statement, various labor allocations	\$11.67	\$11.43	(\$0.24)
6317	Revised count of prescriptions	\$7.04	\$7.06	\$0.02
7858	Revised count of prescriptions, adjust cost of goods sold, adjust square footage, adjust miscellaneous overhead expenses to tax return	\$11.64	\$9.70	(\$1.94)
8154	Adjust square footage	\$501.64	\$501.64	\$0.00
8437	Revised count of prescriptions	\$8.35	\$8.37	\$0.02
9090	Revised count of prescriptions	\$7.73	\$7.76	\$0.03
9201	Revised count of prescriptions, adjust sales, adjust square footage, adjust miscellaneous overhead expenses to tax return	\$13.24	\$10.63	(\$2.61)
9383	Revised count of prescriptions	\$20.25	\$20.25	\$0.00
	Mean Change per Pharmacy			(\$0.54)
	Standard Deviation			\$1.35
	Number of Responding Pharmacies			20
	95% Confidence Interval for Mean Change Due to Enhanced Desk Review			
	Lower Bound			(\$1.13)
	Upper Bound			\$0.05

\* Denotes specialty pharmacies. For purposes of this report a "specialty pharmacy" is one that reported sales for intravenous, home infusion, enteral nutrition, blood factor and/or other specialty services of 10% or more of total prescription sales.

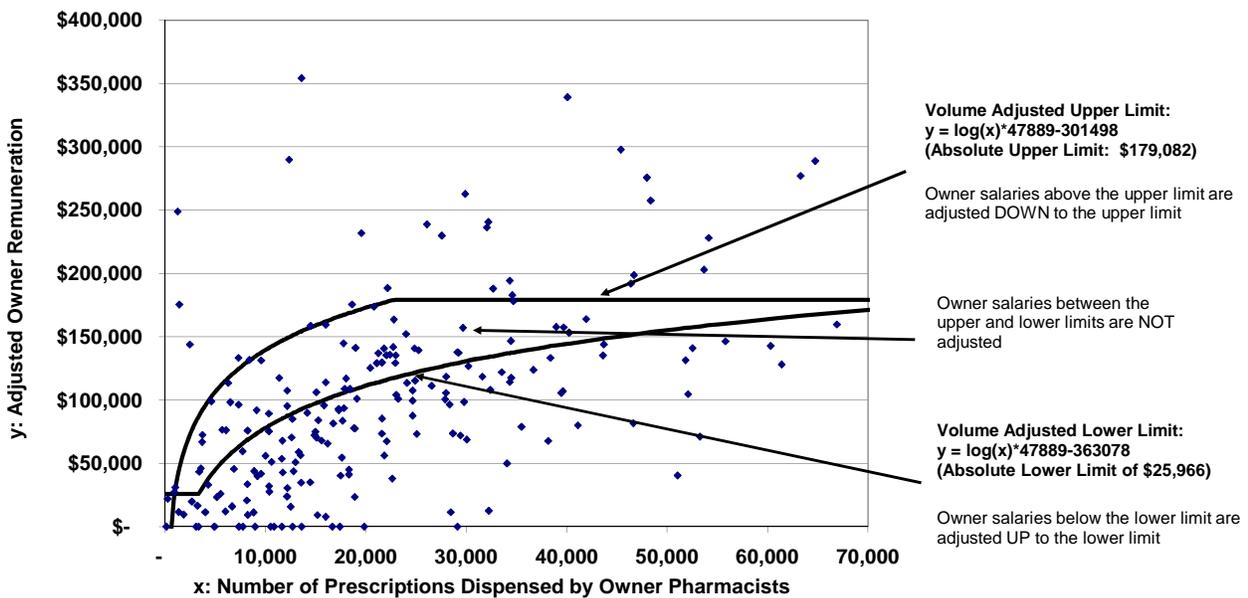
**Exhibit 9**  
**Construction and Application**  
**of Owner Pharmacist Salary Limits**

# Construction and Application of Owner Pharmacist Salary Limits

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



## Application of Owner Pharmacist Salary Limits



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

**Table of Inflation Factors for Dispensing Cost Survey  
Maryland Medicaid Pharmacy Programs**

Fiscal Year End		Terminal Month			Number of Stores with Year End Date
Date	Midpoint Date	Midpoint Index <sub>1</sub>	Index (6/30/2011) <sub>1</sub>	Inflation Factor	
12/31/2008	6/30/2008	108.3	114.8	1.060	1
1/31/2009	7/31/2008	108.6	114.8	1.057	0
2/28/2009	8/31/2008	108.8	114.8	1.055	0
3/31/2009	9/30/2008	109.1	114.8	1.052	0
4/30/2009	10/31/2008	109.3	114.8	1.050	0
5/31/2009	11/30/2008	109.4	114.8	1.049	0
6/30/2009	12/31/2008	109.6	114.8	1.047	0
7/31/2009	1/31/2009	109.7	114.8	1.046	0
8/31/2009	2/28/2009	109.8	114.8	1.046	0
9/30/2009	3/31/2009	109.9	114.8	1.045	1
10/31/2009	4/30/2009	110.0	114.8	1.044	1
11/30/2009	5/31/2009	110.2	114.8	1.042	0
12/31/2009	6/30/2009	110.3	114.8	1.041	28
1/31/2010	7/31/2009	110.4	114.8	1.040	0
2/28/2010	8/31/2009	110.5	114.8	1.039	0
3/31/2010	9/30/2009	110.6	114.8	1.038	1
4/30/2010	10/31/2009	110.8	114.8	1.036	2
5/31/2010	11/30/2009	110.9	114.8	1.035	1
6/30/2010	12/31/2009	111.1	114.8	1.033	40
7/31/2010	1/31/2010	111.3	114.8	1.031	2
8/31/2010	2/28/2010	111.6	114.8	1.029	52
9/30/2010	3/31/2010	111.8	114.8	1.027	21
10/31/2010	4/30/2010	112.0	114.8	1.025	2
11/30/2010	5/31/2010	112.1	114.8	1.024	2
12/31/2010	6/30/2010	112.3	114.8	1.022	651
1/31/2011	7/31/2010	112.5	114.8	1.020	113
2/28/2011	8/31/2010	112.6	114.8	1.020	181
3/31/2011	9/30/2010	112.8	114.8	1.018	1
4/30/2011	10/31/2010	113.0	114.8	1.016	1
5/31/2011	11/30/2010	113.1	114.8	1.015	2
6/30/2011	12/31/2010	113.3	114.8	1.013	8
7/31/2011	1/30/2011	113.5	114.8	1.011	0
8/31/2011	2/28/2011	113.8	114.8	1.009	0
9/30/2011	3/30/2011	114.0	114.8	1.007	0
10/31/2011	4/30/2011	114.3	114.8	1.004	0
11/30/2011	5/30/2011	114.5	114.8	1.003	0
12/31/2011	6/30/2011	114.8	114.8	1.000	0

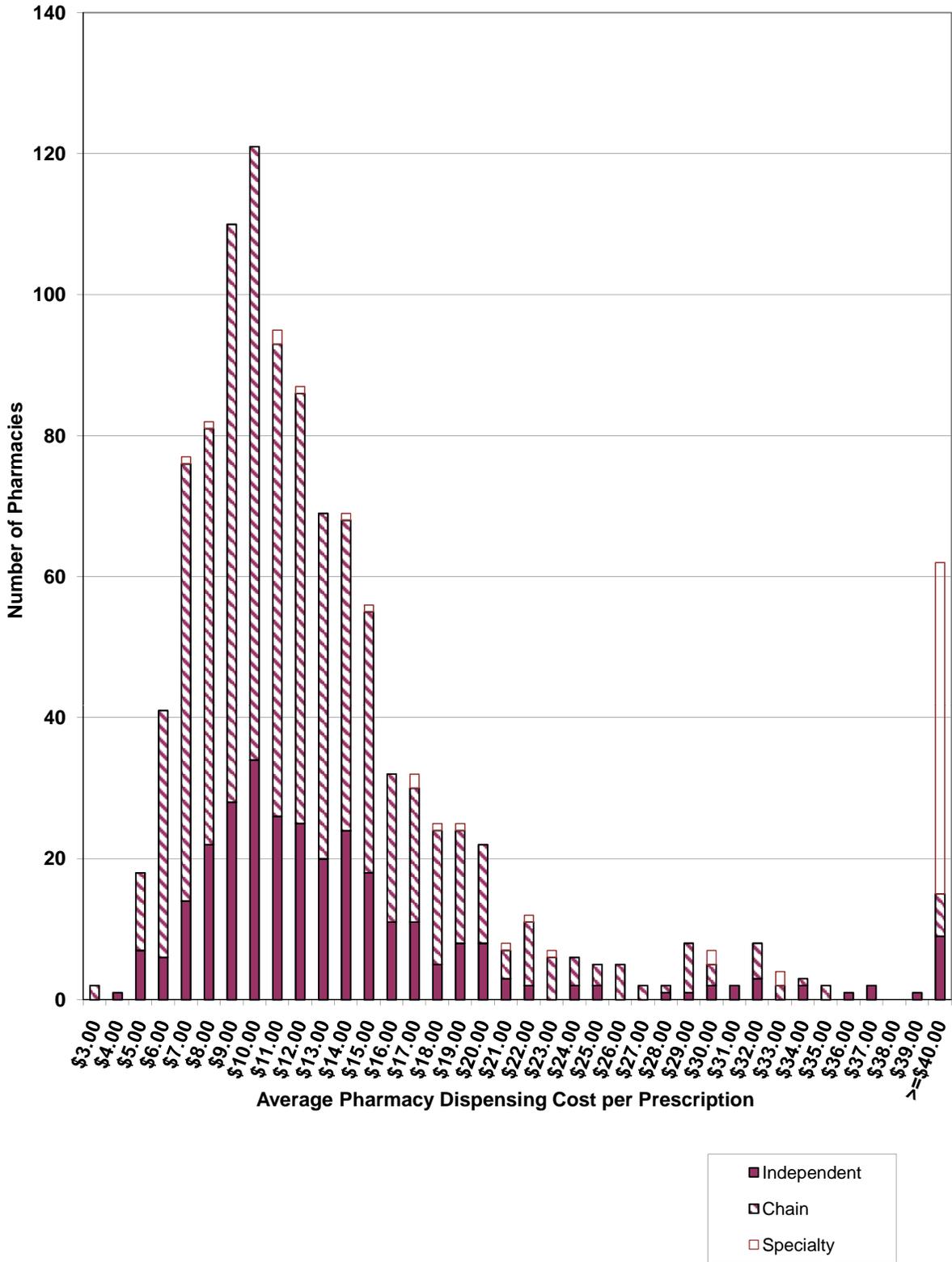
<b>Total Number of Stores</b>	<b>1,111</b>
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<sup>1</sup> Midpoint and terminal month indices were obtained from the Employment Cost Index, (all civilian; seasonally adjusted) as published by the Bureau of Labor Statistics (BLS). Quarterly indices published 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, 2011 (specifically from the midpoint of the pharmacy's fiscal year to June 30, 2011 which is the midpoint of the fiscal period ending December 31, 2011).

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

### Histogram of Pharmacy Dispensing Cost



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

**Pharmacy Cost of Dispensing Survey  
Preliminary Statistical Summary  
Maryland Medicaid Pharmacy Programs**

Pharmacy Dispensing Cost per Prescription <sup>1</sup>											
Characteristic	n: Number of Pharmacies	Measurements of Central Tendency						Other Statistics			
		Means			Medians			Standard Deviation	95% Confidence Interval for Mean (based on Student t)		
		Mean	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume	Median	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume		Lower Bound	Upper Bound	t Value (with n-1 degrees of freedom)
<b>All Pharmacies in Sample</b>	1,111	\$23.75	\$12.58	\$12.10	\$12.15	\$9.74	\$10.36	\$85.30	\$18.73	\$28.77	1.96
<b>Non Specialty Pharmacies <sup>2</sup></b>	1,046	\$13.72	\$10.47	\$11.53	\$11.78	\$9.74	\$10.49	\$8.13	\$13.22	\$14.21	1.96
<b>Specialty Pharmacies <sup>2</sup></b>	65	\$185.24	\$35.05	\$17.95	\$72.92	\$25.20	\$8.42	\$311.42	\$108.07	\$262.40	2.00
<b><u>Non Specialty Pharmacies Only</u></b>											
<b>Affiliation:</b>											
Chain	745	\$13.18	\$11.09	\$11.76	\$11.47	\$10.02	\$10.85	\$7.16	\$12.66	\$13.69	1.96
Independent	301	\$15.05	\$9.83	\$11.24	\$12.37	\$9.62	\$10.21	\$10.03	\$13.91	\$16.18	1.97
<b>Location (Urban vs. Rural): <sup>3</sup></b>											
In State Urban	897	\$13.53	\$11.37	\$11.56	\$11.83	\$10.37	\$10.54	\$7.21	\$13.05	\$14.00	1.96
In State Rural	64	\$13.17	\$10.43	\$11.07	\$10.98	\$9.30	\$9.56	\$9.35	\$10.83	\$15.51	2.00
Out of State	85	\$16.14	\$9.22	\$11.67	\$12.17	\$8.64	\$12.20	\$13.99	\$13.12	\$19.16	1.99
<b>340B Pharmacy Status</b>											
Participates in 340B	29	\$15.45	\$13.83	\$13.43	\$13.87	\$12.19	\$12.12	\$8.08	\$12.38	\$18.53	2.05
Does not participate in 340B	1,017	\$13.67	\$10.40	\$11.40	\$11.74	\$9.74	\$10.35	\$8.13	\$13.17	\$14.17	1.96
<b>Institutional:</b>											
Excludes specialty pharmacies, which for purposes of this survey are defined as Non-LTC Institutional Pharmacies <sup>4</sup>	49	\$13.41	\$9.61	\$9.22	\$11.18	\$8.78	\$7.20	\$7.72	\$11.19	\$15.62	2.01
Non-LTC Institutional Pharmacies <sup>4</sup>	997	\$13.73	\$10.59	\$11.92	\$11.80	\$9.74	\$10.83	\$8.15	\$13.23	\$14.24	1.96
<b>Unit Dose:</b>											
Does dispense unit dose	92	\$13.27	\$8.58	\$9.79	\$11.91	\$7.42	\$9.65	\$6.64	\$11.89	\$14.64	1.99
Does not dispense unit dose	954	\$13.76	\$10.97	\$12.00	\$11.78	\$9.74	\$10.99	\$8.26	\$13.24	\$14.28	1.96

**Pharmacy Cost of Dispensing Survey  
Preliminary Statistical Summary  
Maryland Medicaid Pharmacy Programs**

Characteristic	Pharmacy Dispensing Cost per Prescription <sup>1</sup>										
	Measurements of Central Tendency							Other Statistics			
	n: Number of Pharmacies	Means			Medians			Standard Deviation	95% Confidence Interval for Mean (based on Student t)		
		Mean	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume	Median	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume		Lower Bound	Upper Bound	t Value (with n-1 degrees of freedom)
<b>Annual Rx Volume:</b>											
0 to 39,999	345	\$18.88	\$16.60	\$16.67	\$15.57	\$14.98	\$14.79	\$11.19	\$17.70	\$20.07	1.97
40,000 to 69,999	349	\$12.27	\$12.15	\$11.96	\$11.61	\$11.38	\$11.50	\$4.16	\$11.83	\$12.70	1.97
70,000 and Higher	352	\$10.09	\$9.29	\$9.99	\$9.31	\$8.91	\$9.36	\$3.90	\$9.68	\$10.50	1.97
<b>Annual Medicaid Rx Volume: <sup>5</sup></b>											
0 to 499	295	\$16.44	\$9.87	\$15.73	\$12.35	\$9.62	\$12.76	\$11.69	\$15.10	\$17.78	1.97
500 to 1,999	419	\$13.34	\$11.47	\$13.09	\$12.31	\$10.31	\$12.16	\$6.58	\$12.71	\$13.97	1.97
2,000 and Higher	332	\$11.78	\$10.68	\$11.00	\$10.90	\$9.70	\$10.20	\$4.68	\$11.27	\$12.28	1.97
<b>Medicaid Utilization Ratio: <sup>5</sup></b>											
0.0% to 1.0%	266	\$13.23	\$9.49	\$10.44	\$10.76	\$9.40	\$9.67	\$9.33	\$12.11	\$14.36	1.97
>1.0% to 5.0%	538	\$13.72	\$11.63	\$11.83	\$12.25	\$10.54	\$10.72	\$7.43	\$13.09	\$14.34	1.96
>5.0%	242	\$14.25	\$11.60	\$11.41	\$12.39	\$10.85	\$10.36	\$8.21	\$13.21	\$15.29	1.97
<b>Provision of Compounding Services</b>											
Provides compounding (>=10% of Rxs)	27	\$16.69	\$11.44	\$14.12	\$12.51	\$9.61	\$9.87	\$12.81	\$11.62	\$21.75	2.06
Compounding <10% of Rxs	1,019	\$13.64	\$10.45	\$11.48	\$11.76	\$9.74	\$10.49	\$7.96	\$13.15	\$14.13	1.96
<b>Pharmacy Location in Outpatient Hospital Dept.</b>											
Located in Outpatient Hospital Dept.	10	\$14.54	\$10.96	\$10.05	\$9.25	\$8.49	\$8.59	\$12.90	\$5.30	\$23.77	2.26
Not located in Outpatient Hospital Dept.	1,036	\$13.71	\$10.47	\$11.56	\$11.78	\$9.74	\$10.50	\$8.08	\$13.22	\$14.20	1.96

**Notes:**

- 1) All pharmacy dispensing costs are inflated to the common point of 6/30/2011 (i.e., midpoint of a fiscal year ending 12/31/2011).
- 2) For purposes of this report a "specialty pharmacy" is one that reported sales for intravenous, home infusion, enteral nutrition, 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) For purposes of this report a "LTC Institutional Pharmacy" is one that reported dispensing 25% or more of prescriptions to long-term care facilities.
- 5) Medicaid volume is based on Maryland Medicaid Pharmacy Programs claims data for the time period of January 1, 2010 to December 31, 2010.

**Exhibit 13**  
**Table of Zip Codes, Counties**  
**and Urban Versus Rural**  
**Designations**

**Table of Zip Codes, Counties  
and Metropolitan / Micropolitan / Rural Locations  
for Surveyed Pharmacies  
Maryland Medicaid Pharmacy Programs**

Zip Code	County	Census Status <sup>2,3</sup>
17010	FREDERICK	METRO
20016	MONTGOMERY	METRO
20023	PRINCE GEORGES	METRO
20601	CHARLES	METRO
20602	CHARLES	METRO
20603	CHARLES	METRO
20604	CHARLES	METRO
20607	PRINCE GEORGES	METRO
20613	PRINCE GEORGES	METRO
20616	CHARLES	METRO
20619	ST. MARYS	MICRO
20622	ST. MARYS	MICRO
20636	ST. MARYS	MICRO
20640	CHARLES	METRO
20646	CHARLES	METRO
20650	ST. MARYS	MICRO
20653	ST. MARYS	MICRO
20657	CALVERT	METRO
20659	ST. MARYS	MICRO
20678	CALVERT	METRO
20688	CALVERT	METRO
20695	CHARLES	METRO
20701	HOWARD	METRO
20705	PRINCE GEORGES	METRO
20706	PRINCE GEORGES	METRO
20707	PRINCE GEORGES	METRO
20708	PRINCE GEORGES	METRO
20710	PRINCE GEORGES	METRO
20715	PRINCE GEORGES	METRO
20716	PRINCE GEORGES	METRO
20720	PRINCE GEORGES	METRO
20722	PRINCE GEORGES	METRO
20723	HOWARD	METRO
20724	ANNE ARUNDEL	METRO
20732	CALVERT	METRO
20735	PRINCE GEORGES	METRO
20736	CALVERT	METRO
20737	PRINCE GEORGES	METRO
20740	PRINCE GEORGES	METRO
20742	PRINCE GEORGES	METRO
20743	PRINCE GEORGES	METRO
20744	PRINCE GEORGES	METRO
20745	PRINCE GEORGES	METRO
20746	PRINCE GEORGES	METRO
20747	PRINCE GEORGES	METRO
20748	PRINCE GEORGES	METRO
20751	ANNE ARUNDEL	METRO
20754	CALVERT	METRO
20759	HOWARD	METRO
20770	PRINCE GEORGES	METRO
20772	PRINCE GEORGES	METRO
20774	PRINCE GEORGES	METRO
20782	PRINCE GEORGES	METRO
20783	PRINCE GEORGES	METRO
20784	PRINCE GEORGES	METRO

Zip Code	County	Census Status <sup>2,3</sup>
20785	PRINCE GEORGES	METRO
20787	PRINCE GEORGES	METRO
20794	ANNE ARUNDEL	METRO
20814	MONTGOMERY	METRO
20815	MONTGOMERY	METRO
20816	MONTGOMERY	METRO
20817	MONTGOMERY	METRO
20829	MONTGOMERY	METRO
20832	MONTGOMERY	METRO
20837	MONTGOMERY	METRO
20850	MONTGOMERY	METRO
20851	MONTGOMERY	METRO
20852	MONTGOMERY	METRO
20853	MONTGOMERY	METRO
20854	MONTGOMERY	METRO
20855	MONTGOMERY	METRO
20860	MONTGOMERY	METRO
20866	MONTGOMERY	METRO
20870	PRINCE GEORGES	METRO
20872	MONTGOMERY	METRO
20874	MONTGOMERY	METRO
20876	MONTGOMERY	METRO
20877	MONTGOMERY	METRO
20878	MONTGOMERY	METRO
20879	MONTGOMERY	METRO
20886	MONTGOMERY	METRO
20895	MONTGOMERY	METRO
20901	MONTGOMERY	METRO
20902	MONTGOMERY	METRO
20903	MONTGOMERY	METRO
20904	MONTGOMERY	METRO
20905	MONTGOMERY	METRO
20906	MONTGOMERY	METRO
20910	MONTGOMERY	METRO
20912	MONTGOMERY	METRO
21001	HARFORD	METRO
21009	HARFORD	METRO
21012	ANNE ARUNDEL	METRO
21014	HARFORD	METRO
21015	HARFORD	METRO
21017	HARFORD	METRO
21029	HOWARD	METRO
21030	BALTIMORE	METRO
21031	BALTIMORE	METRO
21034	HARFORD	METRO
21037	ANNE ARUNDEL	METRO
21040	HARFORD	METRO
21042	HOWARD	METRO
21043	HOWARD	METRO
21044	HOWARD	METRO
21045	HOWARD	METRO
21046	HOWARD	METRO
21047	HARFORD	METRO
21048	CARROLL	METRO
21050	HARFORD	METRO

**Table of Zip Codes, Counties  
and Metropolitan / Micropolitan / Rural Locations  
for Surveyed Pharmacies  
Maryland Medicaid Pharmacy Programs**

Zip Code	County	Census Status <sup>2,3</sup>
21054	ANNE ARUNDEL	METRO
21060	ANNE ARUNDEL	METRO
21061	ANNE ARUNDEL	METRO
21074	BALTIMORE	METRO
21075	ANNE ARUNDEL	METRO
21076	ANNE ARUNDEL	METRO
21078	HARFORD	METRO
21084	HARFORD	METRO
21085	HARFORD	METRO
21090	ANNE ARUNDEL	METRO
21093	BALTIMORE	METRO
21102	CARROLL	METRO
21104	HOWARD	METRO
21108	ANNE ARUNDEL	METRO
21111	BALTIMORE	METRO
21113	ANNE ARUNDEL	METRO
21114	ANNE ARUNDEL	METRO
21117	BALTIMORE	METRO
21120	BALTIMORE	METRO
21122	ANNE ARUNDEL	METRO
21128	BALTIMORE	METRO
21131	BALTIMORE	METRO
21133	BALTIMORE	METRO
21136	BALTIMORE	METRO
21144	ANNE ARUNDEL	METRO
21146	ANNE ARUNDEL	METRO
21157	CARROLL	METRO
21158	CARROLL	METRO
21160	HARFORD	METRO
21163	HOWARD	METRO
21201	BALTIMORE CITY	METRO
21202	BALTIMORE CITY	METRO
21204	BALTIMORE	METRO
21205	BALTIMORE CITY	METRO
21206	BALTIMORE CITY	METRO
21207	BALTIMORE	METRO
21208	BALTIMORE	METRO
21209	BALTIMORE CITY	METRO
21210	BALTIMORE CITY	METRO
21211	BALTIMORE CITY	METRO
21212	BALTIMORE CITY	METRO
21213	BALTIMORE CITY	METRO
21214	BALTIMORE CITY	METRO
21215	BALTIMORE CITY	METRO
21216	BALTIMORE CITY	METRO
21217	BALTIMORE CITY	METRO
21218	BALTIMORE CITY	METRO
21219	BALTIMORE	METRO
21220	BALTIMORE	METRO
21221	BALTIMORE	METRO
21222	BALTIMORE	METRO
21223	BALTIMORE CITY	METRO
21224	BALTIMORE CITY	METRO
21225	ANNE ARUNDEL	METRO
21227	BALTIMORE	METRO

Zip Code	County	Census Status <sup>2,3</sup>
21228	BALTIMORE	METRO
21229	BALTIMORE CITY	METRO
21230	BALTIMORE CITY	METRO
21231	BALTIMORE CITY	METRO
21234	BALTIMORE	METRO
21236	BALTIMORE	METRO
21237	BALTIMORE	METRO
21239	BALTIMORE CITY	METRO
21244	BALTIMORE	METRO
21263	BALTIMORE	METRO
21286	BALTIMORE	METRO
21287	BALTIMORE CITY	METRO
21401	ANNE ARUNDEL	METRO
21403	ANNE ARUNDEL	METRO
21501	ALLEGANY	METRO
21502	ALLEGANY	METRO
21531	GARRETT	
21532	ALLEGANY	METRO
21536	GARRETT	
21539	ALLEGANY	METRO
21541	GARRETT	
21550	GARRETT	
21562	ALLEGANY	METRO
21601	TALBOT	MICRO
21604	WICOMICO	METRO
21613	DORCHESTER	MICRO
21617	QUEEN ANNES	METRO
21619	QUEEN ANNES	METRO
21620	KENT	
21629	CAROLINE	
21632	CAROLINE	
21635	KENT	
21639	CAROLINE	
21643	DORCHESTER	MICRO
21651	KENT	
21655	CAROLINE	
21660	CAROLINE	
21661	KENT	
21663	TALBOT	MICRO
21666	QUEEN ANNES	METRO
21701	FREDERICK	METRO
21702	FREDERICK	METRO
21703	FREDERICK	METRO
21704	FREDERICK	METRO
21713	WASHINGTON	METRO
21716	FREDERICK	METRO
21717	BALTIMORE CITY	METRO
21722	WASHINGTON	METRO
21727	FREDERICK	METRO
21737	HOWARD	METRO
21740	WASHINGTON	METRO
21742	WASHINGTON	METRO
21745	WASHINGTON	METRO
21750	WASHINGTON	METRO
21769	FREDERICK	METRO

**Table of Zip Codes, Counties  
and Metropolitan / Micropolitan / Rural Locations  
for Surveyed Pharmacies  
Maryland Medicaid Pharmacy Programs**

Zip Code	County	Census Status <sup>2, 3</sup>
21770	FREDERICK	METRO
21771	CARROLL	METRO
21774	FREDERICK	METRO
21782	WASHINGTON	METRO
21783	WASHINGTON	METRO
21784	CARROLL	METRO
21787	CARROLL	METRO
21788	FREDERICK	METRO
21791	CARROLL	METRO
21793	FREDERICK	METRO
21795	WASHINGTON	METRO
21797	CARROLL	METRO
21801	WICOMICO	METRO
21804	WICOMICO	METRO
21811	WORCESTER	MICRO

Zip Code	County	Census Status <sup>2, 3</sup>
21817	SOMERSET	METRO
21842	WORCESTER	MICRO
21850	WICOMICO	METRO
21851	WORCESTER	MICRO
21853	SOMERSET	METRO
21863	WORCESTER	MICRO
21875	WICOMICO	METRO
21901	CECIL	METRO
21903	CECIL	METRO
21911	CECIL	METRO
21921	CECIL	METRO
22124	BALTIMORE CITY	METRO

**Notes:**

1) Table is limited to zip codes located within the state of Maryland with pharmacies enrolled in the Maryland Medicaid Pharmacy Programs.

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

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

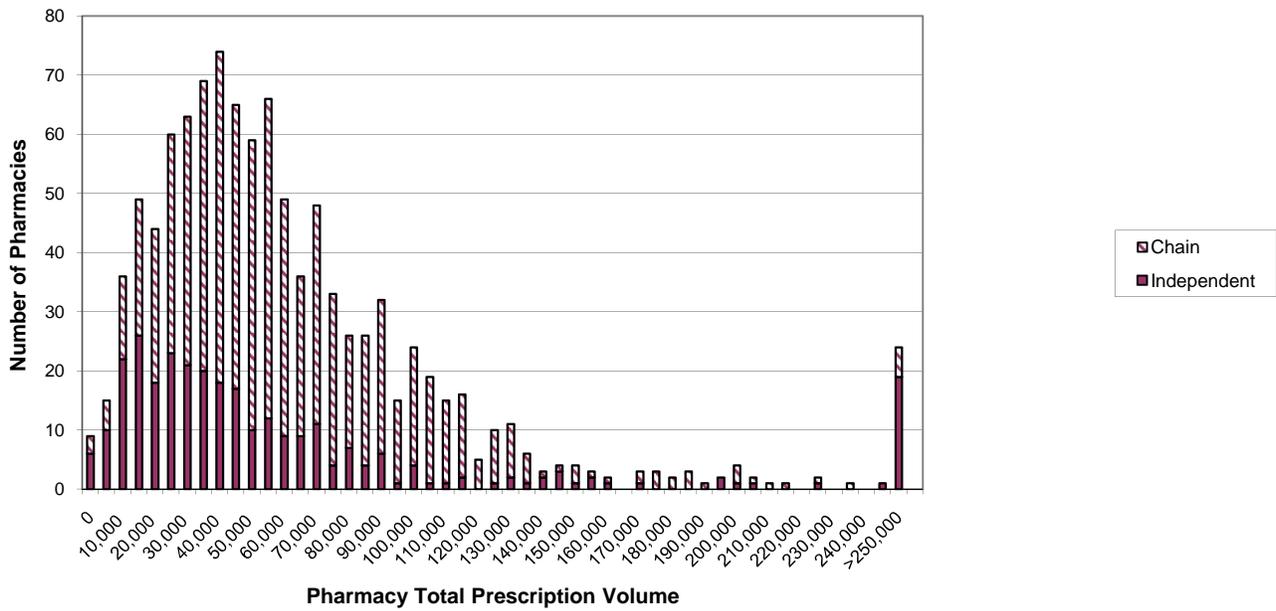
MICRO = The county is located in a micropolitan statistical area.

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

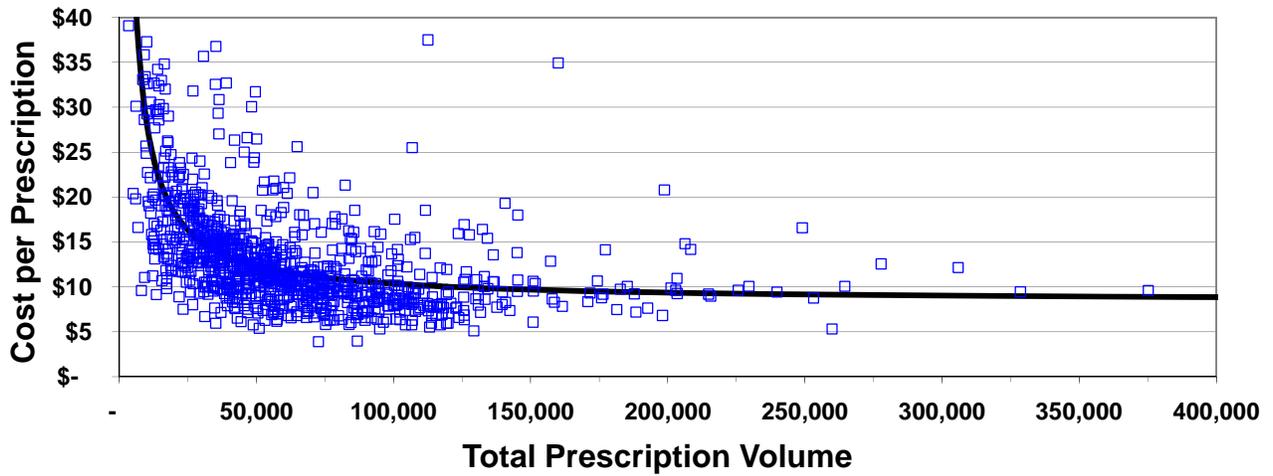
**Exhibit 14**  
**Charts Relating to Pharmacy**  
**Prescription Volume:**

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

### Histogram of Pharmacy Total Prescription Volume



### Scatter Plot of Relationship Between Dispensing Cost per Prescription and Total Prescription Volume (Non-Specialty Pharmacies)



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

**Summary of Pharmacy Attributes  
Maryland Medicaid Pharmacy Programs**

Attribute	Number of Pharmacies Responding	Statistics for Responding Pharmacies	
		Response	Count Percent
Payer Type: percent of prescriptions (averages)	1,102	Medicaid fee for service	N/A 8.3%
		Medicaid managed care	N/A 6.8%
		Other third party	N/A 75.2%
		Cash	N/A 9.6%
		<i>Total</i>	N/A 100.0%
Payer Type: percent of payments (averages)	1,032	Medicaid fee for service	N/A 9.1%
		Medicaid managed care	N/A 5.0%
		Other third party	N/A 79.7%
		Cash	N/A 6.2%
		<i>Total</i>	N/A 100.0%
Type of ownership	1,092	Individual	19 1.7%
		Corporation	1,019 93.3%
		Partnership	15 1.4%
		Other	39 3.6%
		<i>Total</i>	1,092 100.0%
Location	936	Medical office building	102 10.9%
		Shopping center	183 19.6%
		Stand alone building	207 22.1%
		Grocery store / mass merchant	371 39.6%
		Hospital outpatient department	11 1.2%
		Other	62 6.6%
<i>Total</i>	936 100.0%		
Purchase drugs through 340B pricing	840	Yes	32 3.8%
		No	808 96.2%
		<i>Total</i>	840 100.0%
Provision of 340B inventory to Medicaid (for those that indicated they purchase drugs through 340B pricing)	32	Yes	5 15.6%
		No	27 84.4%
		<i>Total</i>	32 100.0%
Building ownership (or rented from related party)	1,085	Yes, (own building or rent from related party)	470 43.3%
		No	615 56.7%
		<i>Total</i>	1,085 100.0%
Hours open per week	1,071	73.1 hours	N/A N/A
Years pharmacy has operated at current location	968	20.3 years	N/A N/A
Provision of 24 hour emergency services	1,106	Yes	222 20.1%
		No	884 79.9%
		<i>Total</i>	1,106 100.0%
Percent of prescriptions to long-term care facilities	1,111	4.2% for all pharmacies; (45.5% for 102 pharmacies reporting > 0%)	N/A N/A
Provision of unit dose services	1,111	Yes (average of 35.1% of prescriptions for pharmacies indicating provision of unit dose prescriptions. Approximately 88% of unit dose prescriptions were reported as prepared in the pharmacy with 12% reported as purchased already prepared from a manufacturer)	99 8.9%
		No	1,012 91.1%
		<i>Total</i>	1,111 100.0%
Percent of total prescriptions delivered	1,111	12.2% for all pharmacies; (40.3% for 338 pharmacies reporting > 0%)	N/A N/A
Percent of Medicaid prescriptions delivered	1,111	12.0% for all pharmacies; (46.4% for 287 pharmacies reporting > 0%)	N/A N/A
Percent of prescriptions dispensed by mail	1,111	4.0% for all pharmacies; (30.0% for 146 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)	1,111	Yes	101 9.1%
		No	1,010 90.9%
		<i>Total</i>	1,111 100.0%
Percent of prescriptions compounded	1,111	2.4% for all pharmacies; (5.7% for 472 pharmacies reporting >0 compounded Rx's)	N/A N/A

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

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

