
Survey of Dispensing Costs of Pharmaceuticals in the State of Idaho

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- Exhibit 1 Idaho Medicaid Pharmacy Cost Report
- Exhibit 2 Idaho Medicaid Pharmacy Cost Report Instructions
- Exhibit 3 Letter from the Idaho Department of Health and Welfare for Pharmacy Cost Survey
- Exhibit 4a Second Letter from the Idaho Department of Health and Welfare for Pharmacy Cost Survey (Independent Pharmacies)
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- Exhibit 5 Construction and Application of Owner Pharmacist Salary Limits
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- Exhibit 10 Charts Relating to Pharmacy Prescription Volume:
 - A: Histogram of Pharmacy Total Prescription Volume
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- Exhibit 13 Prescription Charges Survey - Commercial Insurance Third Party Prescriptions (Single Source Products Only)

Chapter 1: Executive Summary

Introduction

Under contract to the Idaho Department of Health and Welfare, 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 357 pharmacy providers enrolled in the Idaho Medicaid program that were considered eligible to participate in the survey.¹ Of the 357 eligible pharmacies, ten pharmacies were determined to be exempt from participation. Out of 347 non-exempt eligible pharmacies, there were 182 pharmacies that submitted a usable cost survey for this study yielding a response rate of 52.4%.

Myers and Stauffer performed desk review procedures to test completeness and accuracy for all dispensing cost surveys submitted. 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:

Dispensing Cost

- **Per the survey of pharmacy dispensing cost for pharmacies participating in the Idaho Medicaid program, the average (mean) cost of dispensing, weighted by total prescription volume, was \$12.19 per prescription.**

¹ Survey analysis is limited to pharmacies enrolled in the Idaho Medicaid program that were located within the state of Idaho or a state bordering Idaho (i.e., Washington, Oregon, Nevada, Utah, Wyoming or Montana).

Table 1.1 Dispensing Cost ^A Per Prescription

Pharmacies Included in Analysis ^B	180
Unweighted Average (Mean)	\$13.22
Weighted Average (Mean) ^C	\$12.19
Unweighted Median	\$12.58
Weighted Median ^C	\$12.08

^A Inflated to common point of December 31, 2010 (midpoint of state fiscal year ending June 30, 2011) using the Employment Cost Index (ECI) (all civilian, all workers; seasonally adjusted) as published by the Bureau of Labor Statistics.

^B Excludes two specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

^C Weighted by total prescription volume.

- A significant correlation was observed between a pharmacy's total prescription volume and the dispensing cost per prescription.

Table 1.2 Dispensing Cost by Pharmacy Total Annual Prescription Volume^A

Total Annual Prescription Volume of Pharmacy	Number of Stores	Unweighted Average (Mean) Dispensing Cost ^B	Average (Mean) Weighted by Total Prescription Volume ^B
0 to 39,999	47	\$16.77	\$15.11
40,000 to 69,999	76	\$12.40	\$12.35
70,000 and Higher	57	\$11.41	\$11.51

^A Excludes two specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

^B Dispensing costs have been inflated to the common point of December 31, 2010.

Comparison of Pharmacy Reimbursement Rates

State Medicaid agencies use a wide variety of reimbursement rates in their pharmacy programs. Pharmacy dispensing fees in these programs vary from under \$2 to over \$11. At \$4.94, the dispensing fee for Idaho Medicaid falls at approximately the 80th percentile of all state Medicaid dispensing fees (i.e., 80% of states pay equal to or less than Idaho Medicaid). Ingredient reimbursement for brand name drug products ranges from a low of AWP minus 17.5% to a high of AWP minus 5%. At AWP minus 12%, the ingredient reimbursement for brand name drug products under Idaho Medicaid falls at approximately the 78th

percentile of all state ingredient reimbursement rates for brand name drug products (i.e., 78% of states pay equal to or less than Idaho Medicaid).²

Private third party payers generally reimburse for dispensing fees and drug ingredients at rates less than those paid by Idaho Medicaid. On average, dispensing fees paid by private third party payers are less than the dispensing cost of most pharmacies, with one national study reporting average dispensing fees of less than \$2 in 2010.³

Conclusions

There are several factors that should be considered in determining an appropriate Medicaid pharmacy reimbursement formula besides dispensing costs incurred by pharmacies. These factors include drug acquisition costs and market dynamics (e.g., the rates accepted from commercial third-party payers) balanced with the need to maintain sufficient access to services for Medicaid recipients throughout the state.

Perhaps the most important factor to consider is the need to maintain sufficient patient access to pharmacy services for Medicaid recipients throughout the state.⁴ Medicaid pharmacy programs must be aware of the issue of accessibility of services and ensure that reimbursement levels are adequate to provide Medicaid recipients with reasonable levels of access to pharmacy services.

An analysis of market dynamics, including the payment rates accepted by pharmacies from other payers, is an additional component of the assessment of Medicaid dispensing fees.

Cost of providing services is also a consideration for the evaluation of the adequacy of Medicaid pharmacy dispensing and ingredient reimbursement rates. A comparison of current pharmacy reimbursement rates with provider cost should consider findings related to dispensing cost in conjunction with ingredient

² Based on the midpoint between the independent pharmacy reimbursement rate of AWP minus 13.5% and the chain pharmacy reimbursement rate of AWP minus 15.0% (i.e., AWP minus 14.25%). Percentile ranking is based on states that use AWP as the basis for brand name drug product reimbursement.

³ See *2010-2011 Prescription Drug Benefit Cost and Plan Design Report*, Pharmacy Benefits Management Institute, LP and Takeda Pharmaceuticals North America, Inc.

⁴ Medicaid programs are required to address the issue of accessibility of services and ensure that reimbursement levels are adequate to provide recipients with reasonable levels of access to services. Federal statutes at 42 USC 1396a(a)(30)(A) (and corresponding regulations at 42 CFR 447.204) state that the Medicaid program must "assure that payments are consistent with efficiency, economy, and quality of care and are sufficient to enlist enough providers so that care and services are available under the plan at least to the extent that such care and services are available to the general population in the geographic area."

reimbursement rates and the cost pharmacies incur to acquire prescription medications.

Based on the results of the study of pharmacy dispensing cost, a single statewide dispensing fee of \$12.19 would reimburse the weighted mean cost of dispensing prescriptions. A statewide dispensing fee of \$12.08 would reimburse the weighted median cost of dispensing.

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. Such an approach would be more complex to implement and may require periodic surveys of pharmacy total prescription volume.

Chapter 2: Dispensing Cost Survey

The Idaho Department of Health and Welfare, engaged Myers and Stauffer LC to perform a study of costs incurred by pharmacies participating in the Idaho Medicaid program to dispense prescription medications. There are two primary components related to the provision of prescription medications: dispensing cost and drug ingredient cost. Dispensing cost consists of the overhead and labor costs incurred by a pharmacy to fill prescription medications.

In its final rule to implement provisions of the Deficit Reduction Act of 2005 (DRA), the Centers for Medicare and Medicaid Services (CMS) have 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.”⁵

In order to determine costs incurred to dispense pharmaceuticals to Medicaid recipients in the state of Idaho, 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.

⁵ See “Medicaid Program; Prescription Drugs; Final Rule.” Federal Register, 72: 136 (17 July 2007), p. 39240. These guidelines are codified at 42 CFR 47.502.

Methodology of the Dispensing Cost Survey

Survey Distribution

Myers and Stauffer obtained from the Department a list of pharmacy providers currently enrolled in the Medicaid program. There were 357 pharmacy providers enrolled in the Idaho Medicaid program that were considered eligible to participate in the survey⁶. These pharmacies were requested to submit survey information for this study. Survey forms were initially distributed on April 6, 2011. Each pharmacy received a copy of the cost survey (Exhibit 1), a list of instructions (Exhibit 2) and a letter of explanation from the Department of Health and Welfare (Exhibit 3).

Concerted efforts to encourage participation were made to enhance the survey response rate. Additional letters reminding pharmacies of the survey were sent on April 25, 2011 (see Exhibits 4a and 4b). The survey forms, instructions and a letter of explanation from the Department offered pharmacy owners the option of having Myers and Stauffer complete certain sections of the survey form if copies of financial statements and/or tax returns were supplied. A toll-free telephone number was listed on the survey form, and pharmacists were urged to call to resolve any questions they had concerning completion of the survey form.

Of the 357 eligible pharmacies, ten pharmacies were determined to be exempt from participation (based on the returned surveys). Providers were deemed exempt 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).

Surveys were accepted through May 2011. As indicated in Table 2.1, there were 182 pharmacies (out of 347 non-exempt eligible pharmacies) that submitted a usable cost survey for this study, which is a response rate of 52.4%.

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.

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

⁶ Survey analysis is limited to pharmacies enrolled in the Idaho Medicaid program that were located within the state of Idaho or a state bordering Idaho (i.e., Washington, Oregon, Nevada, Utah, Wyoming or Montana).

Table 2.1 Pharmacies Responding to Dispensing Cost Survey

Type of Pharmacy	Pharmacies Receiving Cost Surveys	Pharmacies Exempt from Filing	Non-Exempt Eligible Pharmacies	Usable Cost Surveys Received	Response Rate
Chain	195	7	188	122	64.9%
Independent	162	3	159	60	37.7%
TOTAL	357	10	347	182	52.4%
In-state Urban	193	5	188	113	60.1%
In-state Rural	121	4	117	47	40.2%
Border State	43	1	42	22	52.4%
TOTAL	357	10	347	182	52.4%

Tests for Reporting Bias

For the pharmacy traits of affiliation (i.e., chain or independent) and location (i.e., urban or rural), the set of surveys included in the dispensing cost analysis 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 (χ^2) tests were performed. A χ^2 test evaluates differences between proportions for two or more groups in a data set.

Of the 182 usable cost surveys, 122 were from chain pharmacies and 60 were from independent pharmacies. There was a response rate of 64.9% for chain pharmacies compared to a response rate of 37.7% for independent pharmacies. The results of the χ^2 test indicated that difference in the response rates for chain and independent pharmacies was statistically significant. The decision of a chain organization to file or not file typically meant filing for all or none of the chain's pharmacies participating in the Idaho Medicaid program. Several of the large pharmacy chains in Idaho participated in the dispensing cost survey.

A χ^2 test was also performed with respect to the urban versus rural location of the pharmacy.⁷ There was a response rate of 60.1% for urban pharmacies compared to a response rate of 40.2% for rural pharmacies. The results of the χ^2 test indicated that the difference in the response rates for urban and rural location was statistically significant.

⁷ 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. Zip codes can overlap county lines; therefore the mapping of zip codes into counties and a corresponding MSA should be considered an approximation.

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 each survey received. This review identified incomplete cost surveys, and pharmacies submitting these cost surveys were contacted by telephone to obtain information necessary for completion.

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. 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 95th percentile of prescription containers and labels expense per prescription for pharmacies that did report prescription containers and labels expense: \$0.5245 per prescription).
- Certain other expenses that were separately identified on lines 22a-22r⁸ of the cost survey (Exhibit 1).

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

- Income taxes⁹
- Bad debts¹⁰

⁸ "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).

⁹ Income taxes are not considered an operational cost because they are based upon the profit of the pharmacy operation. Although a separate line was provided for the state income taxes of corporate filers, these costs were not included in this study as a prescription cost. This provides equal treatment to each pharmacy, regardless of the type of ownership.

- Advertising ¹¹
- Charitable Contributions ¹²

Certain costs reported on Lines 22a through 22r of the cost survey 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 ¹³
- Repairs
- Utilities

¹⁰ 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.

¹¹ 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."

¹² 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 14 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.

¹³ The survey instrument included these special instructions for reporting rent: "Overhead costs reported on the cost report must be resulting from arms-length transactions between non-related parties. Related parties include, but are not limited to, those related by family, by business or financial association, and by common ownership or control. The most common non-arms-length transaction involves rental of property between related parties. The only allowable expense of such transactions for cost determination purposes would be the actual costs of ownership (depreciation, taxes, interest, etc., for the store area only)." This treatment of related-party expenses is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15-2, Section 3614: "Cost applicable to home office costs, services, facilities, and supplies furnished to you by organizations related to you by common ownership or control are includable in your allowable cost at the cost to the related organizations. However, such cost must not exceed the amount a prudent and cost conscious buyer pays for comparable services, facilities, or supplies that are purchased elsewhere."

The costs in these categories were considered a function of floor space.¹⁴ The floor space ratio was increased by 50% from that reported on the original cost survey to allow for waiting and counseling areas for patients and prescription department office area. The resulting ratio was adjusted downward, when necessary, not to exceed the sales ratio (in order to avoid allocating 100% of these costs in the instance where the prescription department occupies the majority of the area of the store).

Overhead costs allocated using the *sales ratio* include:

- Personal property taxes
- Other taxes
- Insurance
- Interest
- Accounting and legal fees
- Telephone and supplies
- Dues and publications

Labor Costs

Labor costs are calculated by allocating total salaries, payroll taxes, and benefits based on the percent of time spent in the prescription department. The allocations for each labor category were summed and then divided by the number of prescriptions dispensed to calculate labor cost per prescription. There are various classifications of salaries and wages requested on the cost survey (Lines 1 to 3 of Page 5) 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) 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 percent of time allocation were utilized. Specifically, the percent of prescription time indicated was adjusted by the following formula:¹⁵

¹⁴ Allocation of certain expenses using a ratio based on square footage is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15-2, Section 3617.

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

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

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

¹⁵ 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.

between an independent (predictor) variable and a dependent (predicted) variable (Exhibit 5). The upper and lower limits on owner pharmacist salary were determined from a bivariate regression.¹⁶ 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:

$$\text{Labor cost} = 48,853 \times \ln(\text{number of prescriptions dispensed}^{17}) - 369,308$$

(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. This variation is measured by the equation's *standard error of the estimate*, \$29,282. The standard error of the estimate was used to construct upper and lower limits of owner pharmacist labor cost:

$$\text{Upper Limit} = 48,853 \times \ln(\text{number of prescriptions dispensed}) - 321,143$$
$$\text{Lower Limit} = 48,853 \times \ln(\text{number of prescriptions dispensed}) - 376,726$$

These two constraints effectively set upper and lower thresholds at approximately the 40th and 95th percentiles of volume adjusted employee salaries. Additionally, absolute constraints were set at a \$176,600 maximum salary and a \$12,413 minimum salary. These amounts were set at the 40th and 95th 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 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 182 pharmacies in the cost analysis, owner limits impacted 48 pharmacies, or 26.4%. Of these, 8 pharmacies had costs reduced as a result of application of these limits (on the basis that a portion of owner salary "cost")

¹⁶ 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.

¹⁷ The number of prescriptions filled by the owner pharmacist was determined by multiplying the percent of owner-filled prescriptions (Lines 31-33 of the cost report) by the total number of prescriptions dispensed (Line a).

appeared to represent a withdrawal of profits from the business), and 40 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 increased 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 182 pharmacies included in the dispensing cost analysis, this limit was applied to 13 pharmacies. The final estimate of average pharmacy dispensing cost per prescription was decreased by approximately \$0.01 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, 2010 (specifically from the *midpoint* of the pharmacy's fiscal year to the *midpoint* of the common fiscal period, June 30, 2011). The midpoint and terminal month indices used were taken from the Employment Cost Index (ECI) (all civilian, all workers; seasonally adjusted) as published by the

Bureau of Labor Statistics (see Exhibit 6). 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 raw and weighted.¹⁸

As is typically the case with dispensing cost surveys, statistical “outliers” are a common occurrence. These outlier pharmacies have dispensing costs that are not typical of the majority of pharmacies. Medians are sometimes preferred to averages (i.e., the arithmetic mean) in situations where the magnitude of outlier values results in an average that does not represent what is thought of as “average” or normal in the common sense.

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

¹⁸ **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 500,000th prescription.

Table 2.2 Dispensing Cost Per Prescription – All Responding Pharmacies

	Dispensing Cost
Unweighted Average (Mean)	\$15.88
Average (Mean) Weighted by Total Prescription Volume	\$12.31
Unweighted Median	\$12.58
Median Weighted by Total Prescription Volume	\$12.08

(Dispensing costs have been inflated to the common point of December 31, 2010)

See Exhibit 7 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 (over 80%) had dispensing costs between approximately \$9 and \$19.

Several pharmacies included in the cost analysis were identified as specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales. The analysis revealed significantly higher cost of dispensing associated with two pharmacies in the sample that provided significant levels of these services.¹⁹

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.

Table 2.3 Dispensing 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)	2	\$254.55	\$246.28
Other Pharmacies	180	\$13.22	\$4.85

(Dispensing costs have been inflated to the common point of December 31, 2010)

¹⁹ 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.

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 two 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 Idaho Medicaid pharmacy 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 Dispensing Cost Per Prescription – Excluding Specialty Pharmacies

	Dispensing Cost
Unweighted Average (Mean)	\$13.22
Average (Mean) Weighted by Total Prescription Volume	\$12.19
Unweighted Median	\$12.58
Median Weighted by Total Prescription Volume	\$12.08

(Dispensing costs have been inflated to the common point of December 31, 2010)

Additional statistical measures of pharmacy dispensing cost are provided in Exhibit 8. 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 9.

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 analyzed based upon these volume classifications.

Table 2.5 Dispensing Cost by Pharmacy Total Annual Prescription Volume

Total Annual Prescription Volume of Pharmacy	Number of Stores	Unweighted Average (Mean) Dispensing Cost ^B	Average (Mean) Weighted by Total Prescription Volume ^B
0 to 39,999	47	\$16.77	\$15.11
40,000 to 69,999	76	\$12.40	\$12.35
70,000 and Higher	57	\$11.41	\$11.51

^A Excludes two specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

^B Dispensing costs have been inflated to the common point of December 31, 2010.

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.

Table 2.6 Statistics for Pharmacy Total Annual Prescription Volume

Statistic	Value ^A
Mean	64,210
Standard Deviation	50,621
10 th Percentile	25,813
25 th Percentile	39,686
Median	54,488
75 th Percentile	76,161
90 th Percentile	101,417

^A Excludes two specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

A histogram of pharmacy total annual prescription volume, a histogram of pharmacy Medicaid prescription volume and a scatter-plot of the relationship between dispensing cost per prescription and total prescription volume are included in Exhibit 10.

Several pharmacy attributes were collected on the cost survey. A summary of these attributes is provided at Exhibit 11.

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. displays the means of the various cost components for pharmacies in the sample. Labor-related expenses accounted for approximately 65% 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 ^A

Type of Expense	Unweighted Average (Mean) Dispensing Cost	Average (Mean) Weighted by Total Prescription Volume
Owner Professional Labor	\$0.986	\$0.684
Employee Professional and Other Labor	\$7.984	\$7.161
Building and Equipment	\$0.562	\$0.505
Prescription Specific Expenses (incl. delivery)	\$1.050	\$1.042
Other Overhead Expenses	\$2.640	\$2.796
Total	\$13.222	\$12.188

^A Excludes two specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

A pie chart of the components of prescription dispensing cost is provided in Exhibit 12.

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

Expense Category	Unweighted Average (Mean) Cost	Average (Mean) Weighted by Total Prescription Volume
Bad Debts	\$0.036	\$0.032
Charitable Contributions	\$0.014	\$0.014
Advertising	\$0.333	\$0.298

Chapter 3: Analysis of Pharmacy Reimbursement Rates by Other Payers

State Medicaid Pharmacy Reimbursement

Dispensing fees for Medicaid programs vary from state to state and have typically been based on an analysis of costs incurred by pharmacies within the state as well as other market factors. An overview of Medicaid dispensing fees and ingredient reimbursement is included in the following table.

Table 3.1 State Medicaid Pharmacy Reimbursement Rates²⁰

State	Dispensing Fee	Ingredient Reimbursement
Alabama	\$10.64	AAC
Alaska	3.45 to 11.46	AWP - 5%
Arizona	\$2.00	AWP - 15%
Arkansas	\$5.51	B: AWP - 14% G: AWP - 20%
California	\$7.25 \$8.00 (LTC)	AWP - 17%
Colorado	\$4.00 \$1.89 for Institutions	B: AWP - 14.5% G: AWP - 45%
Connecticut	\$3.15	B: AWP - 14% G: AWP - 40%
Delaware	\$4.50	AWP - 14% AWP - 16% (LTC)%
DC	\$4.50	AWP - 10%
Florida	\$3.73 (Non 340 B) \$7.50 (340 B)	AWP - 16.4% WAC + 4.75%
Georgia	\$4.63 (for profit) 4.33 (not for profit)	AWP - 11%
Hawaii	\$4.67	AWP - 10.5%
Idaho	\$4.94 (\$5.54 for unit dose)	AWP - 12%
Illinois	B: \$3.40 G: \$4.60	B: AWP -12% G: AWP - 25%
Indiana	\$4.90	B: AWP -16% G: AWP - 20%
Iowa	\$4.34	AWP - 12%
Kansas	\$3.40	B: AWP -13% G: AWP - 27%
Kentucky	G: \$5.00 B: \$4.50	G: AWP - 14% B: AWP - 15%
Louisiana	\$5.77	AWP - 13.5% (AWP - 15%)

²⁰ Source: CMS, "Medicaid Prescription Reimbursement Information by State - Quarter Ending December 2010". See http://www.cms.hhs.gov/Reimbursement/20_StateMedicaidRxReimb.asp.

State	Dispensing Fee	Ingredient Reimbursement
		for chains)
Maine	\$3.35 \$1.00 (mail order) \$4.35 and \$5.35 (compounding) \$12.50 (insulin syringe)	AWP - 15% AWP - 17% (on direct supply) AWP - 20% (mail order)
Maryland	B: \$2.69 G: \$3.69 (+\$1.00 for LTC) \$7.25 (home IV)	AWP - 12% WAC + 8%
Massachusetts	\$3.00 (Non 340B) \$10 (340B)	WAC + 5%
Michigan	\$2.50 (\$2.75 LTC)	AWP - 13.5% (1-4 stores) AWP - 15.1% (5+ stores)
Minnesota	\$3.65 (+\$0.30 for legend unit dose drugs)	AWP - 12%
Mississippi	B: \$3.91 G: \$5.50	B: (AWP - 12%/WAC + 9%) G: AWP - 25%
Missouri	\$4.09	AWP - 10.43% WAC + 10%
Montana	\$5.04 \$12.50 to \$22.50 (compounding)	AWP - 15%
Nebraska	\$3.27 to \$5.00	AWP - 11%
Nevada	\$4.76 \$22.40 daily (home IV therapy) \$16.80 daily (nursing facility IV therapy)	AWP - 15%
New Hampshire	\$1.75	AWP - 16%
New Jersey	\$3.73 to \$3.99 (twenty-four hour emergency service, patient consultation and location)	AWP - 17.5%
New Mexico	\$2.50 or \$3.65	AWP - 14%
New York	B: \$3.50 G: \$4.50	B: AWP - 16.25% B: AWP - 12% (specialized HIV pharmacies) G: AWP - 25%
North Carolina	B: \$4.00 G: \$5.60	WAC + 7% or AWP - 14.5% ASP + 2.39% or AWP - 13.61% (physician administered drugs)
North Dakota	B: \$4.60 G: \$5.60 plus \$0.15 per pill (pill splitting)	AWP - 10% WAC + 12.5%
Ohio	\$3.70	AWP - 14.4% WAC + 7%
Oklahoma	\$4.02	AWP - 12.0%
Oregon	Volume tiers: \$14.01, \$10.14 and \$9.68	AAC
Pennsylvania	\$4.00 \$5.00 (compounding)	AWP - 14% WAC + 7%
Rhode Island	\$3.40 (outpatient) LTC: \$2.85	WAC
South Carolina	\$4.05 LTC: \$3.15	AWP - 10%
South Dakota	\$4.75	AWP - 13%

State	Dispensing Fee	Ingredient Reimbursement
	(\$5.55 for unit dose)	
Tennessee	PBM national network: \$1.50 TennCare network: B: \$2.50 G: \$3.00 LTC B: \$5.00 LTC G: \$6.00 \$25 (compound prescriptions)	PBM national network: AWP - 16% TennCare network: AWP - 13%
Texas	\$7.50 + 2% of cost of drug	AWP - 15% WAC + 12%
Utah	\$3.90 (urban) \$4.40 (rural)	AWP - 15%
Vermont	\$4.75 (In-State) \$2.50 (Out-of-State)	AWP - 14.2%
Virginia	\$3.75 (\$5.00 for unit dose)	AWP - 10.25%
Washington	\$4.24 to \$5.25	B: AWP - 16% G: AWP - 50%
West Virginia	B:\$2.50 G:\$5.30 \$8.25 (340B)	B: AWP - 15% G: AWP - 30%
Wisconsin	B:\$3.44 G: \$3.94 \$0.015 per unit (for repackaging) \$9.45 to \$22.16 (compound drug fee) \$9.45 to 40.11 (pharmaceutical care dispensing fee)	AWP - 14%
Wyoming	\$5.00	AWP - 11%

Pharmacy dispensing fees for state Medicaid pharmacy programs vary from under \$2 to over \$11. Ingredient reimbursement for brand name drug products is predominately based on the AWP benchmark and ranges from a low of AWP minus 17.5%, to a high of AWP minus 5%. As can be noted in Table 3.1, the dispensing fee and ingredient reimbursement formulas used in various states are often based on multiple numeric values, using different factors for different drug products. In order to evaluate how Idaho Medicaid pharmacy reimbursement policies compare to other state Medicaid programs, we estimated a single payment rate for each state's dispensing fee. With these conversions, we developed statistics presenting average reimbursement rates for all states, which are shown in Table 3.2.

Table 3.2 Average State Medicaid Pharmacy Reimbursement – Brand Name Drugs

Pharmacy Reimbursement Component	Mean	Median
Dispensing Fee	\$4.51	\$4.14
Ingredient Reimbursement (Brand Name Drugs; based on states utilizing AWP)	AWP – 13.3%	AWP – 14.0%

The dispensing fee for Idaho Medicaid (\$4.94) falls at approximately the 80th percentile of all state Medicaid dispensing fees (i.e., 80% of states pay equal to or less than Idaho Medicaid). The ingredient reimbursement for brand name drug products under Idaho Medicaid falls at approximately the 78th percentile of all state Medicaid ingredient reimbursement rates for brand name drug products (i.e., 78% of states pay equal to or less than Idaho Medicaid).

Prescription Charges Survey

Methodology

Myers and Stauffer performed a survey of prescription drug charges that pharmacies that participate in the Idaho Medicaid program charged to customers of all payer types (e.g., Medicaid, private insurance, cash paying customers). This survey of charges was performed in conjunction with the survey of pharmacy dispensing cost. Further detail on the survey of pharmacy dispensing cost is presented in Chapter 2. The survey of prescription charges provided useful data that we used to analyze payments received from payers other than Medicaid.

A prescription charges survey was included as an attachment to the dispensing cost survey mailed to each pharmacy (see Exhibits 1 and 2). The survey instrument requested that each pharmacy list the first 50 new prescriptions filled on or immediately following a sampled date, excluding compounded prescriptions. The information requested for each prescription was the prescription number, the name and the strength of the drug, the National Drug Code (NDC), the quantity filled, the actual selling price of the prescription, and a code indicating whether the prescription was paid for by a cash-paying customer or a third party reimbursement plan. The actual selling price is the amount actually received for the prescription, net of all discounts.

The prescription charges survey was utilized for the following purposes:

- First, it was used as a test of the pharmacy's reported prescription sales and/or number of prescriptions dispensed.
- Second, it was used to estimate average reimbursement received by the pharmacy from third party reimbursement plans as well as cash-paying customers, since the payer type for each prescription was noted by the pharmacy on the survey form.

Not all pharmacies filed a usable prescription charge survey and not all pharmacies provided exactly 50 prescriptions; however, a sufficient number of surveys were available. After data entry and editing, the selling price data from approximately 8,000 prescriptions (consisting of single source and multi-source drugs) was analyzed.

Analysis and Findings

The data in the prescription charges survey made it possible to estimate the reimbursement paid by other payers. In order to derive the typical reimbursement from other payers, a bivariate statistical regression technique was used. This technique allowed us to use the reimbursement reported on the survey, and the known Average Wholesale Price of the drug to estimate both the ingredient and dispensing reimbursement components of other payers.

This technique is shown in Exhibit 13. In this example, commercial third party prescriptions for single source products were priced at the applicable AWP price and subjected to analytical procedures to identify statistical outliers. The ensuing data was plotted using the AWP price and the amount of reimbursement to the pharmacy. A linear regression was performed on the data resulting in the equation of a line that best fits the data points. **The slope of the regression line, 0.857, provides an estimate for the average ingredient reimbursement for single source drugs for commercial third party payers: AWP minus 14.3%. The y-intercept of the regression line, \$2.07, serves as an estimate for the average dispensing fee.**

As the graph indicates, there is some variability in the actual reimbursement both above and below the regression line. This is measured by the equation's *standard error of the estimate*: \$0.95. The correlation coefficient (i.e., the R^2 value) for this regression is relatively high, indicating a strong linear relationship in the data. Results of this example and other subsets of the charge survey data are summarized in Table 3.3.

Table 3.3 Regression Analysis of Reimbursement by Pharmaceutical Payers for Single Source Drug Products

Payer Type	Number of Prescriptions in the Sample	Estimated Ingredient Reimb. % of AWP	Estimated Dispensing Fee	Standard Error of the Estimate
Commercial Insurance (i.e. PBM)	1,021	85.7%	\$2.07	\$0.95
Medicaid Fee For Service	199	88.0%	\$4.94	\$0.54
Medicare Part D	254	85.5%	\$2.61	\$1.58

Note: Pharmacies were requested to include prescriptions to cash customers in the prescription charge survey. However, the number of prescriptions reported for single source drugs to cash customers was insufficient to use the regression technique.

To validate the bivariate methodology, we tested the process using data from prescriptions dispensed to Idaho Medicaid recipients, a payer with known reimbursement rates. A comparison of Idaho Medicaid's fee for service rates provides confirmation that the bivariate methodology produces meaningful results. This is confirmed since the estimated dispensing fee (\$4.94) and estimated discount below AWP (100% - 0.880% = 12.0%), match the actual dispensing fee (\$4.94), and actual discount below AWP (12.0%) for single source drug products.

The survey shows that commercial third party payers are reimbursing pharmacies at lower dispensing fees than are currently paid by Idaho Medicaid.

A similar analysis on multi-source products revealed higher variation of reimbursement. Accordingly, estimates of the average reimbursement for these types of products are less conclusive. This can be attributed to the greater variation of actual acquisition cost by item versus the AWP for multi-source products. The data suggests that more varied reimbursement systems (e.g., alternative MAC²¹ pricing schedules) are used by many third party payers for multi-source products.

Pharmacy reimbursement rates paid by private third party payers (typically through networks operated by pharmaceutical benefits managers, or PBMs) have been researched and reported in other publications. One recent survey of pharmacy reimbursement rates from third-party payers reported an average dispensing fee to retail pharmacies for brand name drugs of \$1.62 and average ingredient reimbursement of AWP minus 17.5%.²²

²¹ "Maximum Allowable Cost"

²² See 2010-2011 Prescription Drug Benefit Cost and Plan Design Report, Pharmacy Benefits Management Institute, LP and Takeda Pharmaceuticals North America, Inc.

Exhibit 1
Idaho Medicaid
Pharmacy Cost Report

Idaho Medicaid Pharmacy Cost of Dispensing Survey

Provider No. (NPI)

Return Completed Forms to:
Myers and Stauffer LC
9265 Counselors Row, Suite 200
Indianapolis, Indiana 46240

2011

Under Contract with the Idaho Department of Health and Welfare

ROUND ALL AMOUNTS TO NEAREST DOLLAR OR WHOLE NUMBER

Complete and return by **May 6, 2011**

Instructions are enclosed. Call toll free (800) 374-6858 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 (j).

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

(a)	1. New _____	2. Refill _____	3. Total _____
------------	--------------	-----------------	----------------

(b)	What is the approximate percentage of prescriptions dispensed for the following classifications?		
	1. Medicaid _____%	2. Other 3rd Party _____%	
	3. Cash _____%		
	What is the approximate percentage of payments received from the following classifications?		
	1. Medicaid _____%	2. Other 3rd Party _____%	
	3. Cash _____%		
(c)	Ownership Affiliation		
	1. <input type="checkbox"/> Independent (1 to 10 units)	2. <input type="checkbox"/> Chain (11 or more units nationally)	
	3. <input type="checkbox"/> Institutional (service to LTC facilities only)	4. <input type="checkbox"/> Other (specify) _____	
(d)	Type of Ownership		
	1. <input type="checkbox"/> Individual	2. <input type="checkbox"/> Corporation	3. <input type="checkbox"/> Partnership
			4. <input type="checkbox"/> Other (specify) _____
(e)	Location		
	1. <input type="checkbox"/> Medical Office Building	2. <input type="checkbox"/> Shopping Center	
	3. <input type="checkbox"/> Separate or downtown	4. <input type="checkbox"/> Grocery Store / Mass Merchant	
	5. <input type="checkbox"/> Other (specify) _____		

(f)	Do you own your building or lease from a related party (i.e., yourself, family member, or related corporation)? If so, 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No
(g)	How many hours per week is your pharmacy open? _____ Hours
(h)	How many years has a pharmacy operated at this location? _____ Years
(i)	Do you provide 24-hour emergency services for pharmaceuticals? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No
(j)	What percentage of prescriptions dispensed were generic products? _____%

If your pharmacy dispenses prescriptions to long-term care facilities, complete lines (k) through (m).

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

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

(n)	What percent of total prescriptions filled are delivered? _____%
(o)	What percent of Medicaid prescriptions filled are delivered? _____%
Does your pharmacy dispense prescriptions by mail? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No	
(p)	If yes, what is the approximate percentage of the total number of prescriptions that are dispensed by mail? _____%
Are you presently providing any of the following specialty products or services: IV, infusion, enteral nutrition and/or blood factors or derivatives?	
(q)	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 \$ _____ and blood factors or derivatives \$ _____
(r)	What is the approximate percent of your prescriptions dispensed that are compounded? _____%

SECTION IB -- OTHER INFORMATION

List any additional information you feel contributes significantly to your cost of filling a prescription. Also, if you have a significant amount of non-retail sales of drugs at cost, please note the amount and if it is included in line (1), column (1) on page 3.

Round all amounts to nearest dollar or whole number.

SECTION IIA -- SALES AND FLOOR SPACE

	Prescription Drugs Only	Total Store Including Prescription Drugs	Line No.
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

					Total Expense	Myers and Stauffer Use Only	Line No.
1040C	1065	1120	1120S				
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 Taxes	_____	_____	(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)
15	20	26	19	(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)

SECTION IIB -- OVERHEAD EXPENSES, CONTINUED

Other non-labor expenses not included on lines (5) through (21)

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

Specify each item and the corresponding amount. Note that labor expenses are reported on Page 5.

	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)

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	Average Weekly Hours		Line No.
				No. Weeks Employed This Fiscal Year	Total Store Including Rx Dept.	
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, 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)
TOTAL - Salaries and Benefits		=====				(7)

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)

Survey
Date

SECTION III -- IDAHO PHARMACY PRESCRIPTION CHARGES SURVEY

Medicaid
Provider No.

January 25, 2011

New Prescriptions Only - Exclude Compounded Rx's and OTC Products

Please review the instructions prior to completing this form.

Line Number	Rx Number	Payer Code See Codes Below	Drug Name, Strength	NDC Number									Quantity Filled Use Medicaid Units	Actual Selling Price (amount received)
				Mfr			Drug			Pkg				
1														
2														
3														
4														
5														
6														
7														
8														
9														
10														
11														
12														
13														
14														
15														
16														
17														
18														
19														
20														
21														
22														
23														
24														
25														

Payer Codes: Cash – C; Medicaid – M; Private Insurance – P; Medicare Part D – MD; Other -- O



Survey
Date

SECTION III -- IDAHO PHARMACY PRESCRIPTION CHARGES SURVEY

Medicaid
Provider No.

January 25, 2011

New Prescriptions Only - Exclude Compounded Rx's and OTC Products

Please review the instructions prior to completing this form.

Line Number	Rx Number	Payer Code See Codes Below	Drug Name, Strength	NDC Number									Quantity Filled Use Medicaid Units	Actual Selling Price (amount received)
				Mfr			Drug			Pkg				
26														
27														
28														
29														
30														
31														
32														
33														
34														
35														
36														
37														
38														
39														
40														
41														
42														
43														
44														
45														
46														
47														
48														
49														
50														

Payer Codes: Cash – C; Medicaid Fee for Service – MF; CHAMPUS – CH; Workers Compensation – W; Private Insurance – P; Medicare Part D -- MD; Other -- O



Exhibit 2
Idaho Medicaid
Pharmacy Cost Report
Instructions

Idaho Medicaid Pharmacy Cost of Dispensing Survey

Instructions

Survey Forms by

Myers and Stauffer LC
Certified Public Accountants
9265 Counselors Row, Suite 200
Indianapolis, Indiana 46240
800-374-6858

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

WHO SHOULD FILE THIS FORM

Except for the following, all Idaho Medicaid 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, provide a contact telephone number, sign your name and return only this page to the address above.

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

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 May 6, 2011**. Most retail pharmacies can complete the survey form by using their most recent annual financial statement or federal 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 4, for you. **You will still need to fill in the remaining sections of the cost survey.** If

Idaho Medicaid Pharmacy Cost Survey – Instructions

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 should be reported on lines (22a)-(22r). Report the expense allocated to each store. Methods of allocation should be reasonable and conform to generally accepted accounting principles. Warehousing expense should be separately identified and entered on lines (22a)-(22r).

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 this 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.

Line (2) **Cost of Goods Sold.** 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 (e.g., basement, attic, off-the-premises areas or freight in-out areas). When measuring the prescription department, exclude patient waiting area, counseling area, prescription department office space and prescription department storage. These should be included in total store area. A factor will be added to the prescription department to account for waiting area, counseling area, prescription department office space and prescription department storage.

SECTION IIB --- OVERHEAD EXPENSES

[FINANCIAL STATEMENT OR TAX RETURN CAN BE SUBSTITUTED]

Overhead costs reported on the cost survey should 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.

Idaho Medicaid Pharmacy Cost Survey – Instructions

- Line (6c)** **Payroll Taxes.** Include the employer’s share of Social Security, Medicare and state/federal unemployment taxes.
- Line (6d)** **Sales Tax.** Include sales tax only if it is included in expenses reported on your financial statement or tax return. If sales tax is not included in expenses reported on your financial statement or tax return, leave this line blank.
- 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 (13)** **Bad Debts.** Include bad debt expense for this fiscal year only – not accumulated bad debts.
- 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)** 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 (1a)-(2j)** **Percent of Prescriptions Dispensed.** Provide your best estimate of the percentage of prescriptions dispensed by each pharmacist. This column should total 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 Related Duties Only” column should 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. Pharmacists providing consultation to long-term care facilities should be identified and listed separately.

Idaho Medicaid Pharmacy Cost Survey – Instructions

- Lines (1a)-(1e) Owners.** All individual proprietors, partners, or stockholders should 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 should 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 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.

SECTION III --- PHARMACY PRESCRIPTION CHARGES SURVEY

List the appropriate information for the first 50 NEW prescriptions dispensed on the day shown in the box in the upper left corner of the survey form. If 50 new prescriptions were not dispensed on that day, list the first new prescriptions dispensed on the following day(s) until 50 are listed. DO NOT list compounded or OTC prescriptions. Skip these and proceed to the next prescription. All other new prescriptions must be listed - including loss leaders, third party paid prescriptions, special rates, sale prices, and controlled substances. Actual selling price shown should be the amount received for the prescription. The selling price for third party prescriptions should be shown as the amount received from the third party plus any co-pay collected from the patient. Complete the Payer Code column using the following codes:

Cash	C
Medicaid	M
Private Insurance (e.g. BC/BS, through PBM etc.)	P
Medicare Part D	MD
Other	O

If preferred, you may send a computer generated report (e.g., a dispensing log or spreadsheet) . Please ensure all required data is included on the computer-generated listing and identify any special codes used on the listing, i.e., M for Medicaid.

NOTE: For quantity filled, report the unit of issue used when requesting Medicaid prescription reimbursement.

Exhibit 3
Letter from the
Idaho Department of
Health and Welfare
for Pharmacy
Cost Survey



IDAHO DEPARTMENT OF
HEALTH & WELFARE

C.L. "BUTCH" OTTER – Governor
RICHARD M. ARMSTRONG – Director

LESLIE M. CLEMENT – Administrator
DIVISION OF MEDICAID
Post Office Box 83720
Boise, Idaho 83720-0036
PHONE: (208) 334-5747
FAX: (208) 364-1811

April 6, 2011

Dear Pharmacy Owner/Manager:

The Idaho Department of Health and Welfare (IDHW) has contracted with Myers and Stauffer LC, a national consulting firm, to perform an acquisition cost survey and a cost of dispensing survey. IDHW requires participation in these surveys to ensure that pharmacy reimbursement accurately reflects the marketplace in Idaho (see House Bill 708 Section 5, 56-209g). Instructions for participating in both of these surveys are provided below.

SURVEY #1: Acquisition Cost Survey of Drug Ingredient Cost

One of the goals of the state's contract with Myers and Stauffer is to improve drug ingredient reimbursement by bringing more consistency, openness, and accuracy to the process. On behalf of IDHW, Myers and Stauffer is surveying Idaho pharmacy providers so that ingredient reimbursement rates will reflect current market conditions.

Please forward the following information by May 6, 2011:

Copies of records, such as invoices, reflecting all (brand and generic) drug purchases transacted with your wholesale suppliers(s) or drug manufacturers between **March 1, 2011 and March 31, 2011.**

These records are to be limited to drug ingredient costs only. Invoices that are not drug ingredient costs, such as those for shipping, storage, warehousing or other administrative costs are not to be included with these records.

Information can be submitted in printed or electronic format and should include the following information:

- 1) National Drug Code (NDC)
- 2) Purchase price of drug (drug ingredient cost only)
- 3) Quantity purchased
- 4) Purchase date for each product
- 5) "Item number"-to-NDC crosswalk, if item numbers or other proprietary nomenclature is used on your invoices.

In lieu of you or your pharmacy staff manually submitting invoice records, you may contact your supplier and request that the supplier forward a copy of your purchasing history (as described above) for the requested period directly to Myers and Stauffer.

Copies or electronic files of records are preferred, as information submitted will not be returned.

SURVEY #2: Pharmacy Cost of Dispensing Survey

In addition to an evaluation of the cost associated with drug products, the IDHW is collecting financial data from pharmacies to perform an analysis of the overhead and labor cost incurred by pharmacies to dispense prescription medications to Medicaid recipients. This survey will provide important information to evaluate Medicaid fees for prescription medication dispensed in the state of Idaho.

After reviewing the survey instructions, you should complete the enclosed “Idaho Medicaid Pharmacy Cost of Dispensing Survey”. You should report information regarding your costs and the number of prescriptions dispensed based on your most recent fiscal year for which complete financial records are available. If your financial records have not yet been completed for your most recent fiscal year, file a cost survey using your prior year’s financial statements and the corresponding prescription data for that year. The data will be adjusted accordingly. For individual stores (i.e., non-chain pharmacies), Myers and Stauffer offers the option that we will complete Section IIB “Overhead Expenses” for you if you wish to submit a copy of your store financial statements or your business federal income tax return (i.e., Forms 1065, 1120, 1120S or Schedule C of Form 1040 and accompanying schedules). You will still need to complete other sections of the cost of dispensing survey.

Myers and Stauffer recommends that you retain a copy of the completed survey forms for your records. 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.

Copies of invoice information and completed Cost of Dispensing Survey forms should be mailed or emailed to the following address by May 6, 2011:

**Myers and Stauffer LC
Attention: Idaho Pharmacy Study
9265 Counselors Row, Ste. 200
Indianapolis, Indiana 46240**

-OR-

pharmacy@mslc.com

Please indicate “Idaho Pharmacy Survey” in the subject line

You may respond to the Acquisition Cost Survey of Drug Ingredient Costs and the Pharmacy Cost of Dispensing Survey separately or together according to your preference.

Assistance for completing both the State MAC Survey of Drug Ingredient Costs and the Pharmacy Cost of Dispensing Survey is available from Myers and Stauffer:

For questions regarding the Acquisition Cost Survey of Drug Ingredient Costs please contact James Shin, Pharm.D. or Meghan Lunsford, CPhT, at (800) 591-1183.

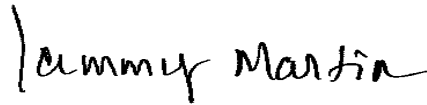
For questions regarding the Pharmacy Cost of Dispensing Survey please contact Shelly Schmitz or Lesley Weaverling at (800) 374-6858.

Your cooperation in providing the information for these surveys is greatly appreciated.

Sincerely,



Paul Leary
Deputy Administrator
Division of Medicaid



Tammy Martin
Manager
Myers and Stauffer LC

Exhibit 4a
Second Letter from
Idaho Department of
Health and Welfare for
Pharmacy Survey
(Independent Pharmacies)



C.L. "BUTCH" OTTER – Governor
RICHARD M. ARMSTRONG – Director

IDAHO DEPARTMENT OF HEALTH & WELFARE

LESLIE M. CLEMENT – Administrator
DIVISION OF MEDICAID
Post Office Box 83720
Boise, Idaho 83720-0036
PHONE: (208) 334-5747
FAX: (208) 364-1811

REMINDER NOTICE

April 25, 2011

Dear Pharmacy Owner/Manager:

The Idaho Department of Health and Welfare (IDHW) has contracted with Myers and Stauffer LC, a national consulting firm, to perform an acquisition cost survey and a cost of dispensing survey. IDHW requires participation in these surveys to ensure that pharmacy reimbursement accurately reflects the marketplace in Idaho (see House Bill 708 Section 5, 56-209g).

Instructions for participating in both of these mandatory surveys were previously sent to your pharmacy. This letter serves as a reminder that responses for both surveys are due by May 6, 2011. If you have recently mailed your survey response to Myers and Stauffer, we thank you for your participation and ask that you disregard this letter. Please feel free to contact Myers and Stauffer if you would like to confirm receipt of your submitted survey.

SURVEY #1: Acquisition Cost Survey of Drug Ingredient Cost

To respond to the acquisition cost survey, you should submit copies of records, such as invoices, reflecting all (brand and generic) drug purchases transacted with your wholesale suppliers(s) or drug manufacturers **between March 1, 2011 and March 31, 2011**. These records are to be limited to drug ingredient costs only. Invoices that are not drug ingredient costs, such as those for shipping, storage, warehousing or other administrative costs are not to be included with these records.

Information can be submitted in printed or electronic format and should include the following information:

- 1) National Drug Code (NDC)
- 2) Purchase price of drug (drug ingredient cost only)
- 3) Quantity purchased
- 4) Purchase date for each product
- 5) "Item number"-to-NDC crosswalk, if item numbers or other proprietary nomenclature is used on your invoices.

In lieu of you or your pharmacy staff manually submitting invoice records, you may contact your supplier and request that the supplier forward a copy of your purchasing history (as described above) for the requested period directly to Myers and Stauffer.

Copies or electronic files of records are preferred, as information submitted will not be returned.

SURVEY #2: Pharmacy Cost of Dispensing Survey

In addition to an evaluation of the cost associated with drug products, the IDHW is collecting financial data from pharmacies to perform an analysis of the overhead and labor cost incurred by pharmacies to dispense prescription medications to Medicaid recipients. You were previously sent a copy of the dispensing cost survey form and instructions. If you need a replacement survey form, please contact Myers and Stauffer.

On the cost of dispensing survey you should report information regarding your costs and the number of prescriptions dispensed based on your most recent fiscal year for which complete financial records are available. If your financial records have not yet been completed for your most recent fiscal year, file a cost survey using your prior year's financial statements and the corresponding prescription data for that year. The data will be adjusted accordingly. For individual stores (i.e., non-chain pharmacies), Myers and Stauffer offers the option that we will complete Section IIB "Overhead Expenses" for you if you wish to submit a copy of your store financial statements or your business federal income tax return (i.e., Forms 1065, 1120, 1120S or Schedule C of Form 1040 and accompanying schedules). You will still need to complete other sections of the cost of dispensing survey.

Myers and Stauffer recommends that you retain a copy of the completed survey forms for your records. 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.

Copies of invoice information and completed Cost of Dispensing Survey forms should be mailed or emailed to the following address by May 6, 2011:

**Myers and Stauffer LC
Attention: Idaho Pharmacy Study
9265 Counselors Row, Ste. 200
Indianapolis, Indiana 46240**

-OR-

pharmacy@mslc.com

Please indicate "Idaho Pharmacy Survey" in the subject line

You may respond to the Acquisition Cost Survey of Drug Ingredient Costs and the Pharmacy Cost of Dispensing Survey separately or together according to your preference.

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For questions regarding the Acquisition Cost Survey of Drug Ingredient Costs please contact James Shin, Pharm.D. or Meghan Lunsford, CPhT, at (800) 591-1183.

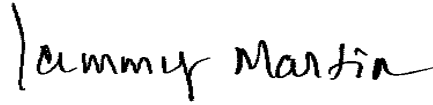
For questions regarding the Pharmacy Cost of Dispensing Survey please contact Shelly Schmitz or Lesley Weaverling at (800) 374-6858.

Your cooperation in providing the information for these surveys is greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read 'Paul Leary', with a stylized, cursive script.

Paul Leary
Deputy Administrator
Division of Medicaid

A handwritten signature in black ink, appearing to read 'Tammy Martin', with a cursive script.

Tammy Martin
Manager
Myers and Stauffer LC

Exhibit 4b
Second Letter from
Idaho Department of
Health and Welfare for
Pharmacy Survey
(Chain Pharmacies)



C.L. "BUTCH" OTTER – Governor
RICHARD M. ARMSTRONG – Director

IDAHO DEPARTMENT OF HEALTH & WELFARE

LESLIE M. CLEMENT – Administrator
DIVISION OF MEDICAID
Post Office Box 83720
Boise, Idaho 83720-0036
PHONE: (208) 334-5747
FAX: (208) 364-1811

REMINDER NOTICE

April 25, 2011

Dear Pharmacy Owner/Manager:

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Instructions for participating in both of these mandatory surveys were previously sent to your pharmacy. This letter serves as a reminder that responses for both surveys are due by May 6, 2011. If you have recently mailed your survey response to Myers and Stauffer, we thank you for your participation and ask that you disregard this letter. Please feel free to contact Myers and Stauffer if you would like to confirm receipt of your submitted survey.

You were previously sent a list of your stores that participate in the Idaho Medicaid pharmacy program. **Please note that the IDHW has determined that you need only respond for stores that are either in the state of Idaho or in a state that border Idaho (i.e., Utah, Wyoming, Montana, Washington, Oregon and Nevada).**

SURVEY #1: Acquisition Cost Survey of Drug Ingredient Cost

To respond to the acquisition cost survey, you should submit copies of records, such as invoices, reflecting all (brand and generic) drug purchases transacted with your wholesale suppliers(s) or drug manufacturers **between March 1, 2011 and March 31, 2011**. These records are to be limited to drug ingredient costs only. Invoices that are not drug ingredient costs, such as those for shipping, storage, warehousing or other administrative costs are not to be included with these records.

Information can be submitted in printed or electronic format and should include the following information:

- 1) National Drug Code (NDC)
- 2) Purchase price of drug (drug ingredient cost only)
- 3) Quantity purchased
- 4) Purchase date for each product

- 5) “Item number”-to-NDC crosswalk, if item numbers or other proprietary nomenclature is used on your invoices.

In lieu of you or your pharmacy staff manually submitting invoice records, you may contact your supplier and request that the supplier forward a copy of your purchasing history (as described above) for the requested period directly to Myers and Stauffer.

Copies or electronic files of records are preferred, as information submitted will not be returned.

SURVEY #2: Pharmacy Cost of Dispensing Survey

In addition to an evaluation of the cost associated with drug products, the IDHW is collecting financial data from pharmacies to perform an analysis of the overhead and labor cost incurred by pharmacies to dispense prescription medications to Medicaid recipients. You were previously sent a copy of the dispensing cost survey form and instructions. If you need a replacement survey form, please contact Myers and Stauffer.

On the cost of dispensing survey you should report information regarding your costs and the number of prescriptions dispensed based on your most recent fiscal year for which complete financial records are available. If your financial records have not yet been completed for your most recent fiscal year, file a cost survey using your prior year’s financial statements and the corresponding prescription data for that year. The data will be adjusted accordingly. For individual stores (i.e., non-chain pharmacies), Myers and Stauffer offers the option that we will complete Section IIB “Overhead Expenses” for you if you wish to submit a copy of your store financial statements or your business federal income tax return (i.e., Forms 1065, 1120, 1120S or Schedule C of Form 1040 and accompanying schedules). You will still need to complete other sections of the cost of dispensing survey.

Myers and Stauffer recommends that you retain a copy of the completed survey forms for your records. 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.

Copies of invoice information and completed Cost of Dispensing Survey forms should be mailed or emailed to the following address by May 6, 2011:

**Myers and Stauffer LC
Attention: Idaho Pharmacy Study
9265 Counselors Row, Ste. 200
Indianapolis, Indiana 46240**

-OR-

pharmacy@mslc.com

Please indicate “Idaho Pharmacy Survey” in the subject line

You may respond to the Acquisition Cost Survey of Drug Ingredient Costs and the Pharmacy Cost of Dispensing Survey separately or together according to your preference.

Assistance for completing both the State MAC Survey of Drug Ingredient Costs and the Pharmacy Cost of Dispensing Survey is available from Myers and Stauffer:

For questions regarding the Acquisition Cost Survey of Drug Ingredient Costs please contact James Shin, Pharm.D. or Meghan Lunsford, CPhT, at (800) 591-1183.

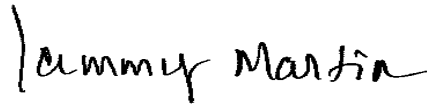
For questions regarding the Pharmacy Cost of Dispensing Survey please contact Shelly Schmitz or Lesley Weaverling at (800) 374-6858.

Your cooperation in providing the information for these surveys is greatly appreciated.

Sincerely,



Paul Leary
Deputy Administrator
Division of Medicaid



Tammy Martin
Manager
Myers and Stauffer LC

Exhibit 5
Construction and Application
of Owner Pharmacist Salary Limits

Construction and Application of Owner Pharmacist Salary Limits

Oregon Department of Human Services

Construction of Owner Pharmacist Salary Limits Based on Employee Pharmacist Salaries



Application of Owner Pharmacist Salary Limits

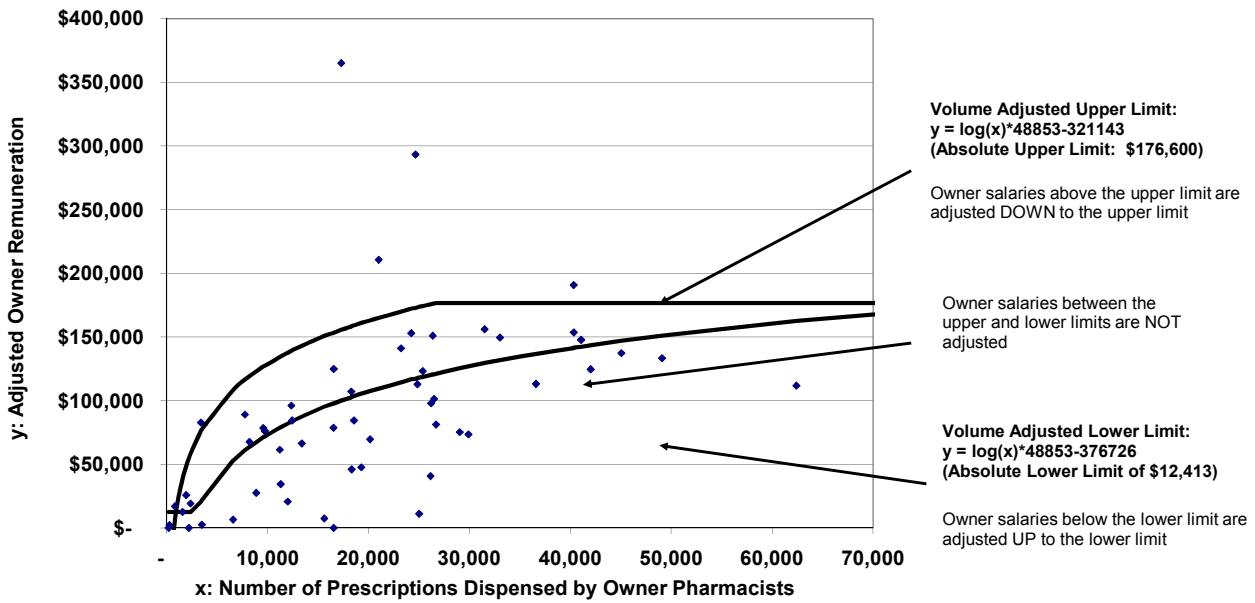


Exhibit 6
Table of Inflation Factors
for Dispensing Cost Survey

Table of Inflation Factors for Dispensing Cost Survey
Idaho Department of Health and Welfare

Fiscal Year End Date	Midpoint Date	Midpoint Index₁	Terminal Month Index (12/31/2010)₁	Inflation Factor	Number of Stores with Year End Date
12/31/2009	6/30/2009	110.3	113.3	1.027	1
1/31/2010	7/31/2009	110.4	113.3	1.026	13
2/28/2010	8/31/2009	110.5	113.3	1.025	0
3/31/2010	9/30/2009	110.6	113.3	1.024	6
4/30/2010	10/31/2009	110.8	113.3	1.023	0
5/31/2010	11/30/2009	110.9	113.3	1.022	0
6/30/2010	12/31/2009	111.1	113.3	1.020	4
7/31/2010	1/31/2010	111.3	113.3	1.018	40
8/31/2010	2/28/2010	111.6	113.3	1.015	0
9/30/2010	3/31/2010	111.8	113.3	1.013	3
10/31/2010	4/30/2010	112.0	113.3	1.012	2
11/30/2010	5/31/2010	112.2	113.3	1.010	0
12/31/2010	6/30/2010	112.4	113.3	1.008	55
1/31/2011	7/31/2010	112.5	113.3	1.007	3
2/28/2011	8/31/2010	112.7	113.3	1.005	53
3/31/2011	9/30/2010	112.8	113.3	1.004	1
4/30/2011	10/31/2010	113.0	113.3	1.003	1

Total Number of Stores	182
-------------------------------	------------

¹ 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.

Exhibit 7
Histogram of
Pharmacy Dispensing Cost

Histogram of Pharmacy Dispensing Cost

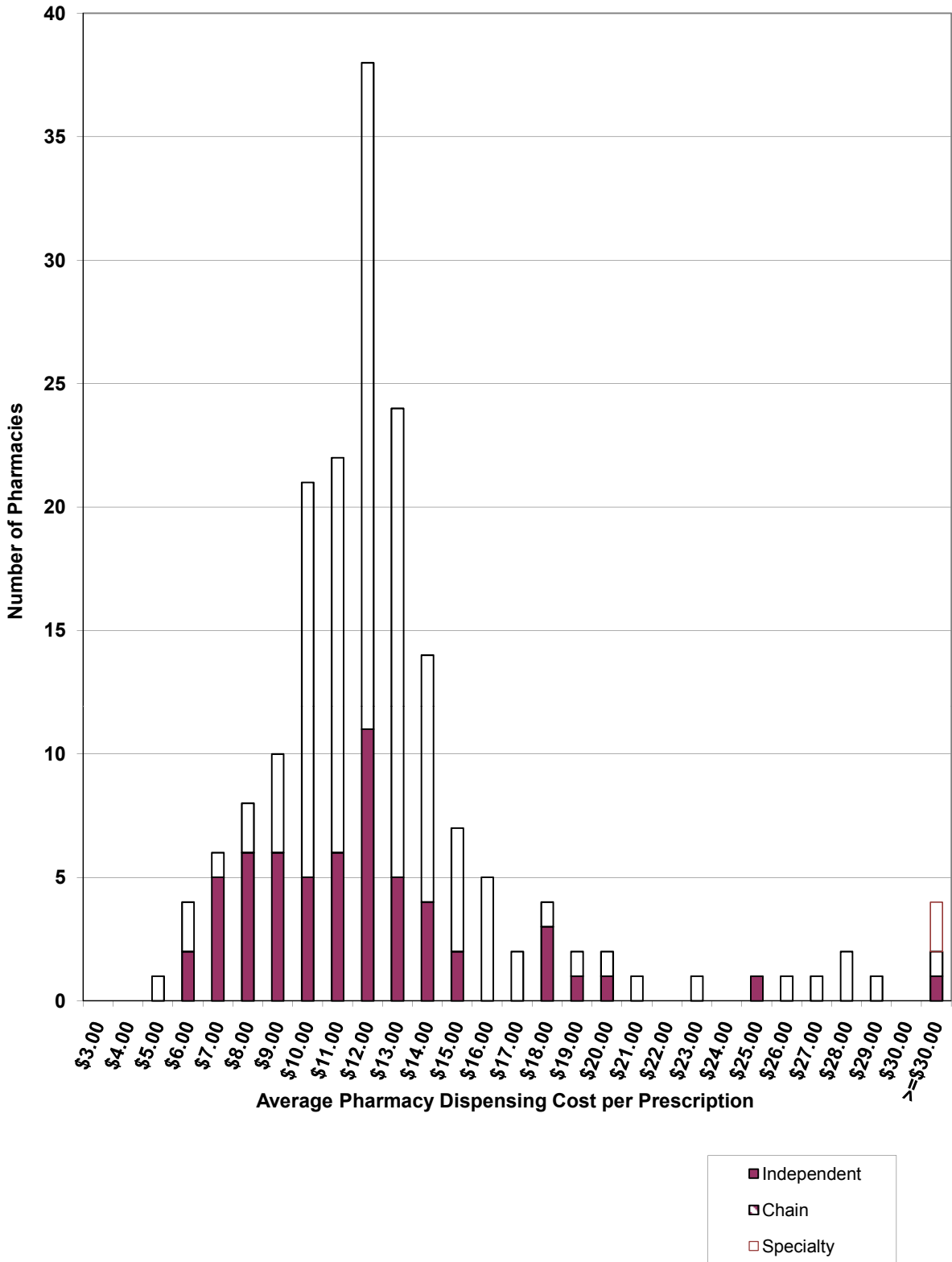


Exhibit 8
Pharmacy Dispensing
Cost Survey Data
Statistical Summary

**Pharmacy Cost of Dispensing Survey
Statistical Summary
Idaho Department of Health and Welfare**

Pharmacy Dispensing Cost per Prescription ¹											
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)
All Pharmacies in Sample	182	\$15.88	\$12.31	\$12.42	\$12.58	\$12.08	\$11.77	\$31.54	\$11.26	\$20.49	1.97
Non Specialty Pharmacies ²	180	\$13.22	\$12.19	\$12.29	\$12.58	\$12.08	\$11.77	\$4.85	\$12.51	\$13.94	1.97
Specialty Pharmacies ²	2	\$254.55	\$116.30	\$423.58	\$80.40	\$44.82	\$251.89	\$246.28			
<u>Non Specialty Pharmacies Only</u>											
Affiliation:											
Chain	121	\$13.63	\$12.55	\$12.57	\$12.71	\$12.14	\$12.02	\$4.83	\$12.76	\$14.50	1.98
Independent	59	\$12.40	\$11.44	\$11.38	\$11.79	\$11.74	\$10.44	\$4.84	\$11.14	\$13.66	2.00
Location (Urban vs. Rural): ³											
In State Urban	112	\$12.97	\$12.33	\$12.42	\$12.57	\$12.06	\$11.83	\$3.99	\$12.22	\$13.71	1.98
In State Rural	47	\$13.46	\$11.45	\$11.86	\$11.95	\$11.41	\$11.49	\$6.84	\$11.46	\$15.47	2.01
Border States	21	\$14.07	\$12.60	\$12.14	\$13.40	\$12.46	\$12.07	\$3.72	\$12.38	\$15.77	2.09
Institutional:											
LTC Institutional Pharmacies ⁴	7	\$12.23	\$12.16	\$12.20	\$11.94	\$12.42	\$13.49	\$2.78	\$9.65	\$14.81	2.45
Non-LTC Institutional Pharmacies ⁴	173	\$13.27	\$12.19	\$12.29	\$12.58	\$12.07	\$11.77	\$4.92	\$12.53	\$14.00	1.97
Unit Dose:											
Does not dispense unit dose	139	\$13.41	\$12.42	\$12.42	\$12.62	\$12.08	\$11.94	\$4.71	\$12.62	\$14.20	1.98
Does dispense unit dose	41	\$12.58	\$11.51	\$11.56	\$11.71	\$11.85	\$10.96	\$5.32	\$10.90	\$14.26	2.02

**Pharmacy Cost of Dispensing Survey
Statistical Summary
Idaho Department of Health and Welfare**

Pharmacy Dispensing Cost per Prescription ¹											
Characteristic	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)
Annual Rx Volume:											
0 to 39,999	47	\$16.77	\$15.11	\$16.29	\$14.24	\$14.03	\$14.19	\$7.22	\$14.65	\$18.89	2.01
40,000 to 69,999	76	\$12.40	\$12.35	\$12.55	\$12.76	\$12.70	\$12.74	\$2.57	\$11.81	\$12.98	1.99
70,000 and Higher	57	\$11.41	\$11.51	\$11.48	\$11.19	\$11.25	\$11.07	\$2.97	\$10.62	\$12.20	2.00
Annual Medicaid Rx Volume: ⁵											
0 to 2,499	52	\$15.02	\$12.87	\$14.95	\$13.15	\$12.57	\$13.01	\$6.41	\$13.24	\$16.81	2.01
2,500 to 5,999	60	\$13.23	\$12.43	\$13.11	\$12.72	\$12.28	\$12.74	\$4.52	\$12.07	\$14.40	2.00
6,000 and Higher	68	\$11.84	\$11.75	\$11.86	\$11.74	\$11.33	\$11.37	\$3.04	\$11.11	\$12.58	2.00
Medicaid Utilization Ratio: ⁵											
0.0% to 4.99%	39	\$13.33	\$12.37	\$11.96	\$13.01	\$12.58	\$12.06	\$3.76	\$12.11	\$14.55	2.02
5.0% to 9.99%	67	\$12.28	\$11.66	\$11.69	\$12.24	\$11.66	\$11.72	\$3.63	\$11.40	\$13.17	2.00
10.0% and Higher	74	\$14.02	\$12.46	\$12.52	\$12.51	\$11.80	\$11.74	\$6.09	\$12.61	\$15.43	1.99
Provision of Compounding Services											
Provides compounding (>=10% of Rxs)	10	\$11.90	\$11.69	\$11.23	\$11.60	\$10.94	\$9.51	\$3.17	\$9.63	\$14.16	2.26
Compounding <10% of Rxs	170	\$13.30	\$12.22	\$12.34	\$12.58	\$12.08	\$11.82	\$4.93	\$12.56	\$14.05	1.97

Notes:

- 1) All pharmacy dispensing costs are inflated to the common point of 12/31/2010 (i.e., midpoint of state fiscal year ending 6/30/2011).
- 2) For purposes of this report a "specialty pharmacy" is one that reported sales for intravenous, home infusion, enteral nutrition and/or blood factor 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 Idaho Medicaid claims data for the time period of February 1, 2010 to January 31, 2011.

Exhibit 9
Table of Zip Codes, Counties
and Urban Versus Rural
Designations

**Table of Zip Codes, Counties
and Metropolitan / Micropolitan / Rural Locations
for Surveyed Pharmacies**
Idaho Department of Health and Welfare

Zip Code	Parish	Census Status ^{2,3}
83201	BANNOCK	METRO
83202	BANNOCK	METRO
83203	BINGHAM	MICRO
83204	BANNOCK	METRO
83210	BINGHAM	MICRO
83211	POWER	METRO
83213	BUTTE	
83221	BINGHAM	MICRO
83226	CUSTER	
83241	CARIBOU	
83252	ONEIDA	
83254	BEAR LAKE	
83263	FRANKLIN	METRO
83274	BINGHAM	MICRO
83276	CARIBOU	
83301	TWIN FALLS	MICRO
83316	TWIN FALLS	MICRO
83318	CASSIA	MICRO
83330	GOODING	
83333	BLAINE	
83338	JEROME	MICRO
83340	BLAINE	
83341	TWIN FALLS	MICRO
83350	MINIDOKA	MICRO
83355	GOODING	
83401	BONNEVILLE	METRO
83402	BONNEVILLE	METRO
83404	BONNEVILLE	METRO
83406	BONNEVILLE	METRO
83420	FREMONT	MICRO
83422	TETON	MICRO
83440	MADISON	MICRO
83442	JEFFERSON	METRO
83445	FREMONT	MICRO
83467	LEMHI	
83501	NEZ PERCE	METRO
83522	IDAHO	
83530	IDAHO	
83536	LEWIS	
83537	LATAH	MICRO
83540	NEZ PERCE	METRO
83544	CLEARWATER	
83605	CANYON	METRO
83606	CANYON	METRO
83607	CANYON	METRO
83611	VALLEY	
83616	ADA	METRO
83617	GEM	METRO
83619	PAYETTE	MICRO
83628	OWYHEE	METRO
83634	ADA	METRO
83638	VALLEY	
83642	ADA	METRO
83644	CANYON	METRO
83646	ADA	METRO

Zip Code	Parish	Census Status ^{2,3}
83647	ELMORE	MICRO
83651	CANYON	METRO
83660	CANYON	METRO
83661	PAYETTE	MICRO
83669	ADA	METRO
83672	WASHINGTON	
83686	CANYON	METRO
83687	CANYON	METRO
83702	ADA	METRO
83703	ADA	METRO
83704	ADA	METRO
83705	ADA	METRO
83706	ADA	METRO
83707	ADA	METRO
83709	ADA	METRO
83712	ADA	METRO
83713	ADA	METRO
83714	ADA	METRO
83716	ADA	METRO
83805	BOUNDARY	
83814	KOOTENAI	METRO
83815	KOOTENAI	METRO
83835	KOOTENAI	METRO
83837	SHOSHONE	
83843	LATAH	MICRO
83844	LATAH	MICRO
83849	KOOTENAI	METRO
83850	SHOSHONE	
83852	BONNER	
83854	KOOTENAI	METRO
83855	LATAH	MICRO
83856	BONNER	
83858	KOOTENAI	METRO
83861	BENEWAH	
83864	BONNER	
83868	SHOSHONE	

Notes:

1) Table is limited to pharmacies located within the state of Idaho.

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.

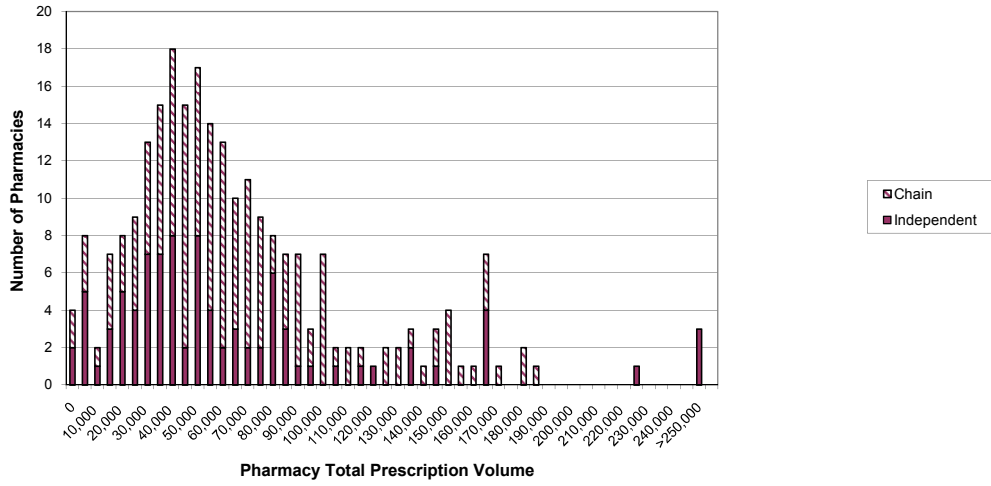
3) For purposes of the pharmacy dispensing cost survey, pharmacies not located in metropolitan statistical areas are considered to have a "rural" location.

Exhibit 10

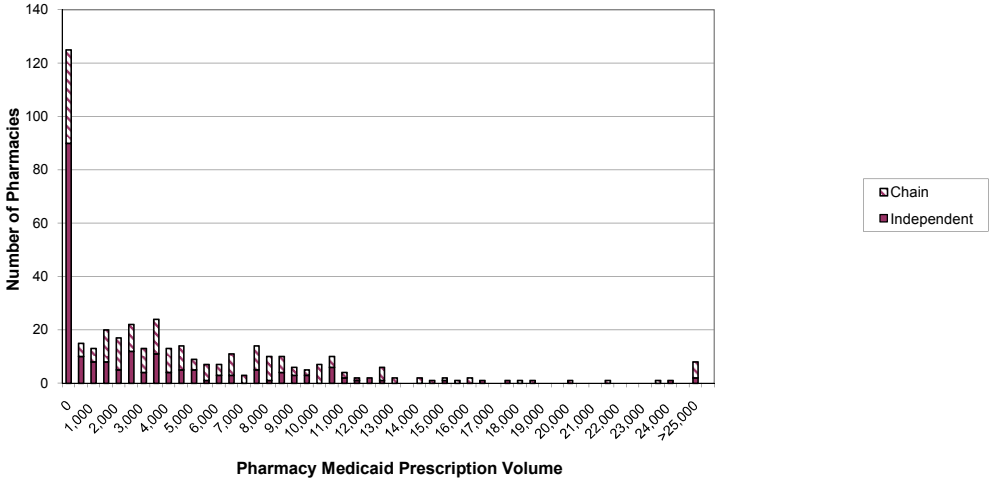
Charts Relating to Pharmacy Prescription Volume:

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

Histogram of Pharmacy Total Prescription Volume



Histogram of Pharmacy Medicaid Prescription Volume



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

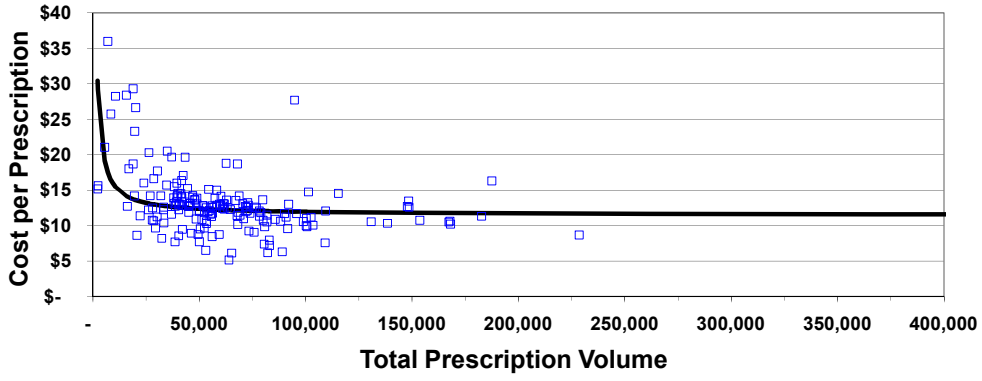


Exhibit 11
Summary of Pharmacy Attributes

Summary of Pharmacy Attributes
Idaho Department of Health and Welfare

Attribute	Number of Pharmacies Responding	Statistics for Responding Pharmacies		
		Response	Count	Percent
Payer Type: percent of prescriptions (averages)	180	Medicaid fee for service	N/A	10.8%
		Other third party	N/A	77.8%
		Cash	N/A	11.4%
		<i>Total</i>	N/A	100.0%
Payer Type: percent of payments (averages)	141	Medicaid fee for service	N/A	11.4%
		Other third party	N/A	79.0%
		Cash	N/A	9.6%
		<i>Total</i>	N/A	100.0%
Type of ownership	182	Individual	10	5.5%
		Corporation	166	91.2%
		Partnership	0	0.0%
		Other	6	3.3%
		<i>Total</i>	182	100.0%
Location	182	Medical office building	7	3.8%
		Shopping center	12	6.6%
		Downtown or individual building	43	23.6%
		Grocery store / mass merchant	113	62.1%
		Other	7	3.8%
		<i>Total</i>	182	100.0%
Building ownership (or rented from related party)	174	Yes, (own building or rent from related party)	84	48.3%
		No	90	51.7%
		<i>Total</i>	174	100.0%
Hours open per week	179	72.2 hours	N/A	N/A
Years pharmacy has operated at current location	169	18.6 years	N/A	N/A
Provision of 24 hour emergency services	182	Yes	41	22.5%
		No	141	77.5%
		<i>Total</i>	182	100.0%
Percent of prescriptions dispensed that were generic products	169	Percent of prescriptions dispensed that were generic products	N/A	71.5%
Percent of prescriptions to long-term care facilities	182	3.0% for all pharmacies; (15.3% for 36 pharmacies reporting > 0%)	N/A	N/A
Provision of unit dose services	182	Yes (average of 18.8% of prescriptions for pharmacies indicating provision of unit dose prescriptions. Approximately 94% of unit dose prescriptions were reported as prepared in the pharmacy with 6% reported as purchased already prepared from a manufacturer)	41	22.5%
		No	141	77.5%
		<i>Total</i>	182	100.0%
Percent of total prescriptions delivered	182	6.5% for all pharmacies; (19.7% for 60 pharmacies reporting > 0%)	N/A	N/A
Percent of Medicaid prescriptions delivered	182	6.8% for all pharmacies; (23.2% for 53 pharmacies reporting > 0%)	N/A	N/A
Percent of prescriptions dispensed by mail	182	2.0% for all pharmacies; (8.1% for 44 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)	182	Yes	8	4.4%
		No	174	95.6%
		<i>Total</i>	182	100.0%
Percent of prescriptions compounded	182	2.7% for all pharmacies; (8.2% for 61 pharmacies reporting >0 compounded Rx's)	N/A	N/A

Exhibit 12
Chart of Components
of Dispensing Cost
per Prescription

Chart of Components of Dispensing Cost per Prescription

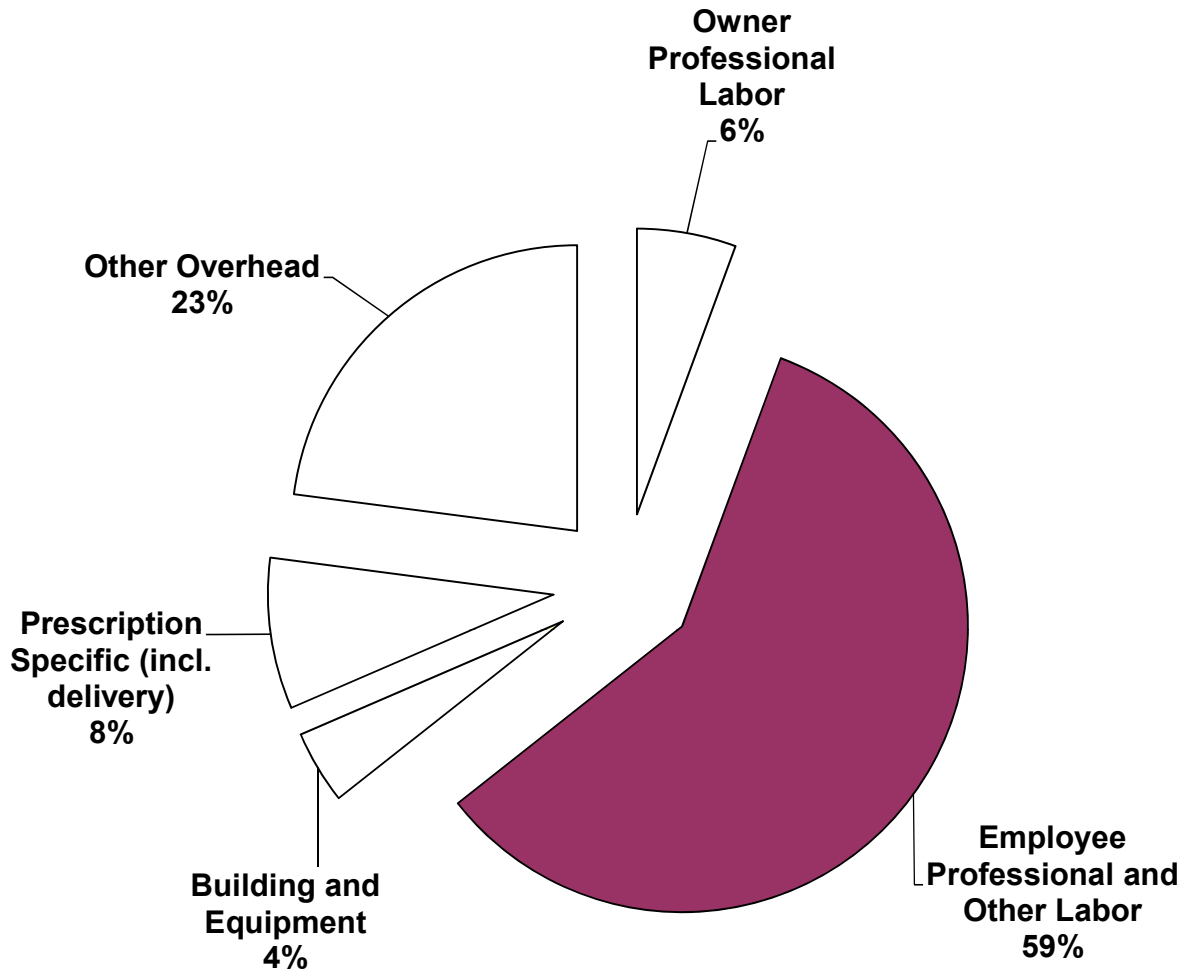


Exhibit 13
Prescription Charges Survey -
Commercial Insurance Third Party
Prescriptions
(Single Source Products Only)

Prescription Charges Survey

Commercial Insurance Third Party Prescriptions
(Single Source Products Only)

