

## **DISPENSING FEES HAVE PHARMACIES ON OFFENSIVE**

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Chain pharmacies say they'll be financially harmed, and small ones say they could be forced out of business, when new federal rules reducing the reimbursements paid to pharmacies that dispense generic Medicaid-related prescriptions take effect.

The result is that, around the country, pharmacies are lobbying state governments to make up the difference by increasing so-called dispensing fees, the money paid to a pharmacy unrelated to the cost of acquiring the drug.

In Pennsylvania, pharmacies have been sounding alarms for the past year, but to little effect.

"I would be say it would be a very difficult year to try to get it done," said Scott Paterno, of Duane Morris Government Affairs, the firm that lobbied for Rite Aid Corp. until a few months ago. "You're just fighting to get priority" on a list of bigger issues that includes a transit bailout and property tax reduction.

Each time a Rite Aid or an independent neighborhood drugstore fills a prescription paid for by a state prescription plan, the government's reimbursement to the druggist comes in two parts -- the first is the ingredient cost, the second is the dispensing fee.

The ingredient reimbursement is about to go down, which means pharmacies want states to make up the difference by increasing the dispensing fee to what an amount they say more accurately reflects the cost of running a pharmacy.

Pennsylvania's reimbursement is \$4 for each Medicaid prescription -- and has been for years. But the actual cost of dispensing medication, said Pat Epple of the Pennsylvania Pharmacists Association, is closer to \$10.

The dispensing fee is supposed to cover the cost of doing business -- the pharmacists' time and salary, electricity, rent and so on.

"It does not," Ms. Epple said.

Why is the reimbursement on the ingredient side going down?

Drug-pricing is a complicated thing. But the gist of it is that the White House's Deficit Reduction Act of 2005 proposed a new method for calculating drug costs as a way of reducing the cost of generic drugs for the government, which alleged that Medicaid wasn't getting the same deal on drugs that large private-market buyers do.

Previously, federal guidelines calculated the "upper limit" of a drug store's rebate using wholesale commercial prices; now the government will use average manufacturing price -- the price at which various drug makers sell the pills to wholesalers, who then resell to the pharmacies.

States still are allowed to set their own reimbursement levels, but the federally mandated ceiling effectively reduces what drugstores will receive.

The U.S. Centers for Medicare and Medicaid Services, charged with promulgating the new rates, is supposed to do so July 2; the actual rebates are scheduled to take effect by December.

The National Association of Chain Drug Stores says the new rates will represent "a significant and possibly devastating threat to their financial viability."

One known effect of the new pricing methodology is that states will save money. The entire Medicaid system, jointly funded by the state and federal governments, could save \$8.4 billion over five years, while Pennsylvania will save between up to \$17 million next budget year on its Medicaid prescription costs.

Lobbyists for drugstores and pharmacists groups hoped that Pennsylvania would use the savings to boost the dispensing fees, but that won't happen this year.

Other states have made such a commitment -- Iowa and Kansas have agreed to move whatever savings are gleaned into the funds that pay dispensing fees.

Texas plans to increase its dispensing fee to at least \$7.50, with triggers that could lift it to \$12.50. The average dispensing fee across the country is about \$4.50.

Chain drugstores have their worries, but independent druggists are doubly concerned. They have slimmer profit margins, and can't rely on upfront sales -- the cosmetics, soft drinks, picture frames and other products -- to the same extent that chains do.

And because a quarter of their business is Medicaid related, pharmacists now have perverse incentive to talk doctors into prescribing name-brand drugs, instead of the generic scrips. They offer this doomsday scenario -- thousands of mom-and-pop drugstores will close, yielding to impersonal service from huge providers such as Wal-Mart. (That concern isn't a new one, by the way, dating back a decade.)

Community pharmacies point to reports from the U.S. General Accountability Office and other federal agencies, which say the new rules would result in pharmacies being reimbursed at a rate 36 percent below what it costs to buy the generic drugs.

"Not only did they cut to the bone, they cut into the bone," said Charlie Sewell, of the National Community Pharmacists Association, representing 23,000 drugstores. Mr. Sewell's group will consider litigation to change the new rules.

On a federal level, legislation that would increase dispensing fees for Medicare Part D drugs has been introduced.

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