DEPARTMENT OF HUMAN SERVICES

Legislative Report

2020 Minnesota Fee-for-Service Cost of Dispensing Survey

Division of Purchasing and Service Delivery

December 2020

For more information contact:

Minnesota Department of Human Services
Division of Purchasing and Service Delivery
P.O. Box 64984
St. Paul, MN 55101

651-431-2504

For accessible formats of this information or assistance with additional equal access to human services, write to DHS.info@state.mn.us, call 651-431-2504, or use your preferred relay service. ADA1 (2-18)

Minnesota Statutes, Chapter 3.197, requires the disclosure of the cost to prepare this report. The estimated cost of preparing this report is $99,500.

Printed with a minimum of 10 percent post-consumer material. Please recycle.

Contents

I. Executive summary

To comply with the federal Covered Outpatient Drug Rule from 2016, the Minnesota Department of Human Services (DHS) was required to revise the previous dispensing fee ($3.65) paid to fee-for-service (FFS) pharmacy providers to a new fee that was based on a survey of Minnesota pharmacy providers, or pharmacy providers in a similarly situated state. As no survey of Minnesota providers existed at that time, the revised dispensing fee ($10.48) that was adopted by the 2019 legislature was based on the 2017 Indiana Medicaid Cost of Dispensing Survey. In addition to adopting the new dispensing fee, the legislature requires DHS to complete a Cost of Dispensing Survey of Minnesota pharmacy providers every three years and advise the legislature whether any changes to the dispensing fee(s) for the Medical Assistance program are recommended. DHS must contract with a vendor that has experience in conduction Cost of Dispensing Surveys and in 2019, DHS contracted with Mercer Government Human Services Consulting (Mercer) to complete the survey and report. The survey began in the early summer of 2020, concluded in the fall of 2020, and the final report is due to the legislature by January 1, 2021.

The Cost of Dispensing Survey report measures the cost of dispensing by pharmacy providers based on a number of different provider attributes and different measures of central tendency. The Minnesota 2020 Cost of Dispensing Survey had a strong response rate of nearly 85% of enrolled pharmacies responding despite the ongoing COVID-19 pandemic. The report details the results in a series of tables (Tables 5A-5E) and found that the median cost of dispensing for all pharmacies, when weighted by total prescription volume, was $9.91. The median weighted by total prescription volume means that half of prescriptions dispensed by pharmacies that responded to the survey had a higher cost to dispense, and half had a lower cost to dispense, than $9.91 per prescription. While $9.91 was the median weighted by total prescription volume for all pharmacies and is statistically significant, all of the results in Tables 5A-5E are also valid and statistically significant results.

II. Legislation

Minnesota Statutes 2019, section 256B.0625, subdivision 13(e), paragraph (h): The commissioner shall contract with a vendor to conduct a cost of dispensing survey for all pharmacies that are physically located in the state of Minnesota that dispense outpatient drugs under medical assistance. The commissioner shall ensure that the vendor has prior experience in conducting cost of dispensing surveys. Each pharmacy enrolled with the department to dispense outpatient prescription drugs to fee-for-service members must respond to the cost of dispensing survey. The commissioner may sanction a pharmacy under section 256B.064 for failure to respond. The commissioner shall require the vendor to measure a single statewide cost of dispensing for all responding pharmacies to measure the mean, mean weighted by total prescription volume, mean weighted by medical assistance prescription volume, median, median weighted by total prescription volume, and median weighted by total medical assistance prescription volume. The commissioner shall post a copy of the final cost of dispensing survey report on the department's website. The initial survey must be completed no later than January 1, 2021, and repeated every three years. The commissioner shall provide a summary of the results of each cost of dispensing survey and provide recommendations for any changes to the dispensing fee to the chairs and ranking members of the legislative committees with jurisdiction over medical assistance pharmacy reimbursement.

III. Introduction

To comply with the federal Covered Outpatient Drug Rule from 2016, the Department of Human Services (DHS) was required to revise the previous dispensing fee ($3.65) paid to fee-for-service pharmacy providers to a new fee that was based on a survey in Minnesota pharmacy providers, or pharmacy providers in a similarly situated state. As no survey of Minnesota providers existed at that time, the revised dispensing fee ($10.48) that was adopted by the 2019 legislature was based on the 2017 Indiana Medicaid Cost of Dispensing Survey. In addition to adopting the new dispensing fee, the legislature directed DHS to conduct a Cost of Dispensing Survey of Minnesota pharmacy providers every three years.

Purpose of report

The purpose of the Minnesota Cost of Dispensing Survey report is to evaluate the current pharmacy dispensing fee of $10.48 to the costs associated with Minnesota pharmacy providers dispensing prescriptions to fee-for-service members in 2020.

IV. Results

Mercer surveyed 1,034 pharmacies enrolled with DHS to provide pharmacy services to fee-for-service members. Of those surveyed, 875 pharmacies responded (84.6%) and 765 pharmacies were included in the final analysis (74.0%). Reasons for pharmacies not being included in the final analysis are detailed in Table 1 of Appendix A. The top three reasons for a pharmacies survey not being included were: the pharmacy's physical location was not located in Minnesota, the pharmacy did not have a full year of financial information to submit because it was open less than one year, and the submitted costs of dispensing exceeded the pharmacy's total sales.

A. No Statistically Significant Difference

Of the pharmacy attributes measured in the survey, there was no statistically significant difference in the average cost of dispensing between a retail chain pharmacy and the following pharmacy types:

- Independent pharmacy
- 340B covered entity; and
- Long term care pharmacy.

There was also no statistically significant difference between the cost of dispensing for a rural and urban pharmacy.

B. Statistically Significant Difference

There was a statistically significant difference between the cost of dispensing between a retail chain pharmacy and specialty pharmacies. Specialty pharmacies in the survey were self-identified and had to have at least 25% of their prescription count and sales from specialty drugs. Mercer did not define what constituted a specialty drug so respondents used their own definitions. A definition of what drugs or pharmacies qualify for a specialty drug or specialty pharmacy was not predefined as there isn't a standardized or widely accepted national definition of this designation. Some pharmacies self-identify as being specialty pharmacies because they are engaged in services such as sterile or non-sterile compounding, dispensing high cost drugs, dispensing drugs delivered by a non-oral route of administration (e.g. intravenous infusion), centralized mail order distribution of a particular universe of drugs, or dispensing drugs with limited distribution channels. Similarly, pharmacies in Minnesota are not licensed or regulated differently by the Board of Pharmacy based on whether or not they self-identify as a specialty pharmacy.

C. Community Retail Pharmacies – Means and Medians

Tables 5A through 5E of Appendix A show the breakdown in costs by various measures of central tendency and pharmacy type. For the purpose of the Cost of Dispensing Survey and this report, the term "community retail pharmacies" includes all pharmacy types that were surveyed unless otherwise noted in a table. Below is a summary of the Mean and Median for all community retail pharmacies, with no pharmacies being excluded from the definition:

Method	Mean	Median
Unweighted	$14.36	$10.67
Weighted by total prescription volume	$12.05	$9.91
Weighted by Medicaid prescription volume	$14.30	$10.77

V. Report recommendations

Based on the results of the 2020 Minnesota Cost of Dispensing Survey, DHS recommends revising the current dispensing fee ($10.48) to the Median weighted by prescription volume ($9.91) for all community retail pharmacies. DHS recommends using the Median weighted by prescription volume over the other measures because it represents the midpoint cost of dispensing where half of all prescriptions dispensed by the survey respondents have a lower cost of dispensing, and half have a higher cost of dispensing. This approach aligns with other methodologies utilized by DHS for establishing rates which use a 50th percentile of costs (e.g. M.S. 256B.0626). DHS also believes that this rate is fair, as it is significantly higher than the dispensing fees paid by commercial payers, but also efficient.

DHS does not recommend a separate dispensing fee for specialty pharmacies from community retail pharmacies because of the lack of a standardized definition for identifying pharmacies engaged in that business, a lack of a specialty pharmacy license that would identify the population of pharmacies eligible for the separate dispensing fee, and a lack of transparency into the necessary revisions that would need to be made to the drug reimbursement to ensure the reimbursement rate would comply with the "actual acquisition cost" reimbursement requirement in 42 C.F.R. 447.502 - 518. As self-identified specialty pharmacies have historically derived a large percentage of their operating income from the drug reimbursement, and not the dispensing fee, DHS would need to show CMS how a higher specialty dispensing fee is offset by an appropriate reduction in the drug reimbursement during the State Plan Amendment process. The lack of transparency into the drug reimbursement relative to costs for specialty drugs or specialty pharmacies would make securing federal approval for a specialty pharmacy dispensing fee uncertain. However, DHS does recommend that a workgroup of pharmacy providers, payers, and the Board of Pharmacy be convened to define a standard definition of what a specialty pharmacy is so that future Cost of Dispensing surveys could measure differential drug and dispensing costs for this provider group versus other community retail pharmacies. DHS recommends that the Board of Pharmacy be resourced to lead the workgroup as the impact of defining what is a specialty pharmacy impacts the industry at large and not just DHS.

DHS also does not recommend establishing different dispensing fees for different pharmacy types (e.g. long-term care or chain vs. independent) as the provider enrollment file in the Medicaid Management Information System does not contain the necessary information to operationalize multiple dispensing fees across a single provider type without significant modifications and enhancements. The administrative costs of gathering new provider information, storing it in a usable manner in the claims system, and coding the claims process logic would be both time consuming and costly for DHS and pharmacy providers.

VI. Appendix

Pharmacy Reimbursement: Cost of Dispensing Survey Results prepared by Mercer.