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Executive Summary

The Oregon Health Authority (OHA) engaged Mercer Government Human Services Consulting (Mercer), a division of Mercer Health & Benefits LLC, to conduct a study on actual provider costs associated with professionally dispensing covered outpatient prescription drugs to Oregon Health Plan (OHP) members.

The objective of the study was to calculate the average cost of dispensing a prescription by pharmacy providers serving OHP members. Costs related to dispensing prescriptions were obtained through a survey process. All OHP-enrolled pharmacies and providers that dispense outpatient drugs were required to participate in the professional dispensing fee survey process. The survey was based on the most recent fiscal year completed by the providers, with the majority of periods of service distributed across 2015 and 2016. A pharmacy’s average cost of dispensing a prescription was calculated by dividing the prescription department’s operational, labor and allocated overhead costs by the number of prescriptions dispensed.

Summary of Findings

Statistically significant differences between pharmacy provider types caused us to create several models to identify the true average cost of professional dispensing. Based on the analysis of survey responses, Mercer believes that the winsorized mean weighted by response probability ($10.99) represents the average cost of dispensing a prescription across Retail Community pharmacies within the State of Oregon (State). Retail Community pharmacies, for the purposes of this study, are defined as Independent pharmacies and Retail Chain pharmacies that are not 340B Covered Entities. The winsorized mean weighted by response probability tiered by annual prescription volume provides additional accuracy regarding reimbursing professional dispensing fee for OHA.

The winsorized mean is a more robust estimator that is less sensitive to outliers, and weighting the results by response probability is a method to account for those pharmacies that did not respond to the survey. These approaches are used in tandem to produce dispensing fee results that Mercer believes are the most accurate reflection of the average cost to dispense across the State.

Additionally, in order to ensure that lower volume pharmacies in underserved areas are adequately compensated, Mercer recommends OHA continue to use a tiered reimbursement structure. The tiered structure will reimburse low-volume pharmacies with a professional dispensing fee of $14.30 per claim, while medium and high-volume pharmacies would receive professional dispensing fees of $11.91 and $9.80, respectively. Using a lower reimbursement rate for providers with high prescription volumes effectively reimburses high volume provider expenses but efficiently uses the State’s funds. A tiered reimbursement structure based on the
winsorized mean weighted by response probability results in the most equitable distribution and reimbursement, assuming that higher volume pharmacies continue to produce the largest volumes of pharmacy claims as shown in Table 1.

Table 1: Winsorized Average Costs of Dispensing Weighted Mean Results

<table>
<thead>
<tr>
<th>Annual Prescription Volume</th>
<th>Response Probability</th>
<th>Total Prescription Volume</th>
<th>Medicaid Prescription Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Community</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0 – 29,999</td>
<td>$14.30</td>
<td>$13.82</td>
<td>$13.22</td>
</tr>
<tr>
<td>30,000 – 69,999</td>
<td>$11.91</td>
<td>$11.66</td>
<td>$11.37</td>
</tr>
<tr>
<td>70,000 or more</td>
<td>$9.80</td>
<td>$9.58</td>
<td>$8.91</td>
</tr>
<tr>
<td>Total</td>
<td>$10.99</td>
<td>$10.23</td>
<td>$9.61</td>
</tr>
<tr>
<td>340B Covered Entity</td>
<td>$21.56</td>
<td>$19.43</td>
<td>$18.58</td>
</tr>
</tbody>
</table>

The weighted mean cost of dispensing by total prescription volume and the weighted mean cost by Medicaid prescription volume are also viable options to consider when evaluating the total cost of prescription drugs, including both the cost of ingredients and a reasonable dispensing fee based on prescription volume, as shown in Table 1. Weighting by Medicaid prescription volume and total prescription volume means that pharmacies that fill more prescriptions for Medicaid and in total, respectively, will contribute more to the results than those with fewer prescriptions. This approach under-weights the costs related to pharmacies with low prescription volume and over-weights the costs related to pharmacies with high prescription volume. Weighting by Medicaid or total prescription volume would likely cause underpayment to low volume pharmacies, which may reduce access in underserved areas. Alternatively, weighting by response probability accounts for the pharmacies that did not respond to the survey, resulting in a dispensing fee structure that Mercer believes more accurately reflects the costs of all pharmacies participating in the OHA program.

**Recommendation**

To reach a recommendation, Mercer separately analyzed multiple factors to determine which factors had a statistically significant impact on the average cost to dispense a prescription. Our analysis found the primary attributes causing variation in the cost of dispensing for OHP providers were pharmacy type and prescription volume. Our observations include:

- Certain pharmacy types have significantly different costs of dispensing.
- Pharmacies with lower volume have significantly higher costs of dispensing.

Based on these results, we believe the winsorized mean weighted by response probability using tiers based on overall prescription volume would provide the most efficient and equitable reimbursement model for Retail Community pharmacies.
As an alternative, the State could also consider reimbursing a single-rate method based on the overall average cost of dispensing of $10.99. Using a single-rate dispensing fee is less burdensome administratively and incentivizes efficiency. However the single-rate method may leave some lower volume pharmacies, often in rural or underserved areas, with a reimbursement rate under their cost of dispensing which may hamper access for Medicaid members.

340B Covered Entity pharmacies, that were Clinic/Outpatient, Federal Qualified Health Center (FQHC), or Independent Retail pharmacies, show a significantly higher cost of dispensing than Retail Community pharmacies. We calculated a single-rate dispensing fee of $21.56 based on the winsorized mean weighted by response probability based on the data received. It should be noted that other factors may exist at these pharmacies that may not be properly captured by the dispensing fee survey. For example, the staffing model used in these pharmacies may result in higher payroll expenses but also results in additional reimbursement from providing services separate from dispensing prescriptions, including services included in a prospective payment system rate or a fee-for-service medical claim. A detailed analysis of the staffing model was not feasible due to incomplete data received for FTE counts and non-pharmacy revenue reported. Mercer recommends OHA consider further analysis of these pharmacies prior to implementation of a separate professional dispensing fee.

There were no usable survey responses for non-340B Clinic/Outpatient or FQHC pharmacies. These pharmacy types may require further study.

Long Term Care (LTC), Home Infusion, and Specialty pharmacies are not subject to the final Covered Outpatient Drug rule. The dispensing costs for these pharmacy provider types reported in this study exhibit high variability. Given the high variability, we recommend the state seek additional information in determining a reimbursement methodology adequate to ensure continued access for OHA members in need of LTC, Specialty and Home Infusion prescriptions.

**Limitations of Analysis**

In preparing this document, Mercer has used and relied upon data supplied by OHA and by the pharmacies participating in the Oregon Medicaid program. OHA and participating pharmacies are responsible for the validity and completeness of this supplied data and information. We have reviewed the data and information for consistency and reasonableness. In our opinion, it is appropriate for the intended purposes. If the data and information are incomplete or inaccurate, the values shown in this analysis may need to be revised accordingly.

All estimates are based upon the information available at a point in time, and are subject to unforeseen and random events. Therefore, any projection must be interpreted as having a likely range of variability from the estimate. Any estimate or projection may not be used or relied upon by any other party or for any other purpose than for which it was issued by Mercer. Mercer is not responsible for the consequences of any unauthorized use.
Professional Dispensing Fee Survey

Introduction
On January 21, 2016, the Centers for Medicare and Medicaid Services (CMS) published the federal Covered Outpatient Drugs final rule (CMS-2345-FC). The federal regulation addresses the rise in prescription drug costs by ensuring that Medicaid programs reform payment methodologies for prescription drugs. Under the final rule, states must reimburse covered outpatient drugs at actual acquisition cost plus a professional dispensing fee for drugs dispensed in Retail Community pharmacies and 340B enrolled pharmacies that carve-in Medicaid. The regulation requires all states to be in compliance with the reimbursement requirements of the final rule by April 1, 2017.

To continue to comply with the final rule, OHA contracted with Mercer to conduct a Professional Dispensing Fee (PDF) survey. The survey obtained information on the costs associated with purchasing covered outpatient drugs and dispensing them to OHP members.

Methodology
The study methodology included the following tasks:

- Held a project kick-off meeting with OHA to identify the population to be surveyed, review the survey objectives, tools and identified timelines to complete the survey and a final report.
- Requested a list of active providers who billed the state for prescription drugs from OHA, including available contact and address information and identified the universe of providers (study population) to be surveyed.
- Held stakeholder meetings and gave providers an opportunity to provide input on the survey and survey process.
- Created an informational website to communicate with stakeholders.
- Developed and updated the professional dispensing fee survey tool based on the project objectives and feedback from the kick-off meeting and stakeholder comments/input.
- Distributed the dispensing fee survey tool, instructions and a letter from OHA to all pharmacy providers. OHA’s letter was used to highlight the importance of the survey and provide methods for submission of the requested information needed for the dispensing fee analysis, and to reiterate the legal requirement for participation.
- Received completed surveys from pharmacies and sent follow-up reminder letters (email, and direct mail), and placed phone calls to pharmacies that had not submitted the survey by the due date.
- Screened survey responses for completeness of the data and contacted pharmacies if needed.
- Compiled data into a Mercer database and performed initial cost analysis of the data.
- Conducted a statistical analysis of the PDF data to determine an average cost and percentile distribution of cost of dispensing a prescription to OHP members within the State.
• Prepared the draft report.
• Reviewed the draft report with OHA.
• Finalized the report. The final report includes:
  — Executive summary.
  — Dispensing cost study and actual acquisition cost methodology.
  — Results and conclusion.
  — Exhibits.

**Survey Instrument Development**

Mercer designed the survey to be transparent, comprehensive and well-designed tool that addresses a pharmacy provider’s cost to dispense the drug product to a member. The 2017 Oregon Health Authority Professional Dispensing Fee survey focused on collecting the actual cost incurred by providers that dispense prescribed drugs to OHP members. The survey tool was designed following review of dispensing fee surveys conducted both at the national and individual state levels and based on the needs identified by OHA.

Development and receipt of the dispensing fee survey tools included:
• Developed survey tool and instructions for completion and submission alternatives.
• Created an online web-based survey.
• Created an Excel®-based spread sheet as an alternative to the web-based survey for small chains.
• Created an Excel®-based spread sheet to accommodate retail pharmacy chains that submitted surveys for multiple locations.
• Established an email support mailbox.
• Established a toll-free number for technical assistance.

**Survey Population**

A list of active providers obtained from OHA data served as the main data source to identify the study population. Available population data included ownership type (chain vs. independent). Geographic type (urban vs. rural) was determined by mapping zip codes to county data collected by the Health Resources and Services Administration (HRSA) and available in the HRSA’s Area Health Resources Files. The survey asked respondents to self-select a pharmacy type. The pharmacy types included Independent and Retail Chain pharmacies, clinic/outpatient pharmacies, Federally Qualified Health Centers and Rural Health Centers (FQHCs/RHCs), Home Infusion therapy pharmacies, LTC pharmacies, mail order pharmacies, and Specialty pharmacies. The pharmacies were grouped into populations with similar results and to meet the definition of Retail Community from the Covered Outpatient Drug rule. Pharmacies that self-selected a pharmacy type of Independent, clinic/outpatient, or FQHC/RHC that were also 340B Covered Entities were grouped into one 340B Covered Entity pharmacy type. Retail Community pharmacies include non-340B Covered Entity Independent and Retail Chain pharmacies.

**Survey Distribution and Follow-Up**

A stakeholder meeting was held on February 1, 2017 to allow for provider input into the survey process. Mercer mailed the survey packet, with secure links to the survey tool and survey...
instructions, on February 15, 2017, to independent provider locations (organizations with three or fewer locations). An electronic file was sent to the chain pharmacy providers. A reminder letter or email was sent to the non-responding pharmacies on March 3, 2017. Reminder phone calls were placed on March 6, 2017 to remaining non-respondent pharmacies.

**Survey Response Rate and Non-Response Bias**

Of 659 pharmacies in the study population, 608 pharmacies responded to the survey, representing a total response rate of 92.3%. Figure 1 shows the distribution of the survey respondents.

Figure 1 — Geographic Distribution of Survey Respondents

![Map showing geographic distribution of survey respondents](image-url)
Of the 608 pharmacies that responded, 560 pharmacies provided usable responses to the study, representing a usable response rate of 85.0%. 48 pharmacies provided non-usable responses.

Usable responses were defined as responses that contain sufficient data to permit calculation of the following variables:

- A 12 month reporting period.
- Measurable financial reporting period.
- Years open.
- Pharmacy is open at least one year.
- Prescription area square footage.
- Total square footage.
- Total number of prescriptions.
- Prescription sales [not including over-the-counter (OTC) sales].
- Total sales.
- Prescription department payroll.
- Total prescription department costs.
- Total overhead costs.
- Total sales less than total costs of dispensing.

Responses that were missing critical information required to calculate cost of dispensing were unusable and excluded from the analysis. In addition, responses which reported total costs of dispensing (which do not include the cost of drug inventory) greater than pharmacy sales were deemed unusable. Table 2 reports the numbers and reasons for responses excluded from the sample.

<table>
<thead>
<tr>
<th>Table 2 — Accounting of Unusable Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reason</td>
</tr>
<tr>
<td>Missing Number of Months Open</td>
</tr>
<tr>
<td>Missing Financial Period Beginning or End</td>
</tr>
<tr>
<td>Missing Pharmacy Department Area Square Footage</td>
</tr>
<tr>
<td>Missing Total Square Footage</td>
</tr>
<tr>
<td>Missing Total Number of Prescriptions</td>
</tr>
<tr>
<td>Missing Prescription Sales</td>
</tr>
<tr>
<td>Missing Total Sales</td>
</tr>
<tr>
<td>Missing Prescription Department Payroll</td>
</tr>
<tr>
<td>Missing Prescription Department Expenses</td>
</tr>
<tr>
<td>Missing Overhead Costs</td>
</tr>
<tr>
<td>Costs of Dispensing Greater Than Total Sales</td>
</tr>
<tr>
<td>Open Less Than a Year</td>
</tr>
</tbody>
</table>
The survey responses were examined for outliers. An initial cost of dispensing was calculated for each pharmacy. Costs of dispensing per prescription greater than $2,500 were identified, but initially kept in the analysis (two pharmacies). The survey responses were classified by pharmacy type. From preliminary multivariable regression analysis and calculation of average costs of dispensing by pharmacy type, it was determined that 340B Covered Entities should be grouped into one pharmacy category, and non-340B Independent Retail and Retail Chain pharmacies should be grouped into another pharmacy category. All remaining pharmacy types remain ungrouped. After regroupings were made, the multivariable regression was run again and regression diagnostics were examined to study possible outliers. The two pharmacies with costs of dispensing greater than $2,500 (one Home Infusion and one Specialty) were determined to be influential points with large effect on the estimation of the regression coefficients. The two pharmacies were located out of state, and had costs of dispensing much greater than the other Home Infusion and Specialty pharmacies. These pharmacies were flagged as outliers and excluded from this analysis.

Of the 560 pharmacies providing usable responses to the survey, 53 (9.5%) and 453 (80.9%) were classified as non-340B Independent pharmacies and Retail Chain, respectively.

To determine whether the distribution by pharmacy type of the responding sample differs from the distribution observed in the study population, Chi-square analysis and Fisher’s Exact test were performed, with results statistically significant (p < 0.05) for pharmacy type.

To adjust for non-response bias, we applied survey weights in the calculation of the dispensing cost. This adjustment allows the survey results to be generalized to the study population. The response weight was calculated as one divided by the probability of response as shown in Table 3. The approach yielded a higher survey weight for the responses received from Home Infusion providers, LTC pharmacies, non-340B Independent Retail pharmacies and Specialty pharmacies to create a mix in the sample that is representative of the mix of pharmacy types observed in the entire pharmacy provider population.

### Table 3 — Characteristics of pharmacy respondents and estimated pharmacy population by pharmacy type

<table>
<thead>
<tr>
<th>Pharmacy Type</th>
<th>Population</th>
<th>Sample (Usable Responses)</th>
<th>Usable Response Rate</th>
<th>Mean Weighting</th>
<th>Sum of Weights of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>340B Covered Entity</td>
<td>26</td>
<td>22</td>
<td>84.62%</td>
<td>1.18</td>
<td>26</td>
</tr>
<tr>
<td>Clinic/Outpatient (non-340B)</td>
<td>5</td>
<td>0</td>
<td>0.0%</td>
<td>NA</td>
<td>0</td>
</tr>
</tbody>
</table>

These counts are non-unique. Pharmacies that had multiple missing essential data elements are counted multiple times.
### Costs and Expenses Elements

Costs included in the calculation include those defined in 42 CFR 447.502, which states:

“Professional 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 beneficiary. 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, overhead associated with maintaining the facility and equipment necessary to operate the pharmacy.”

The expenses included in the cost of dispensing calculation are classified as: prescription department payroll expenses, prescription department expenditures, facility expenses and other non-facility administrative expenses. Prescription department payroll expenses and prescription department expenditures are allocated fully to the cost to dispense. Facility expenses and other non-facility administrative expenses are allocated using several methods to the costs to the average dispensing fee calculation. The allocation can be made based on area ratio of square footage, prescription versus non-prescription sales ratio or, if sales are not available, prescription versus non-prescription cost of goods sold ratio. Area ratio is calculated by dividing the prescription department square footage by total square footage. Sales ratio is calculated by dividing prescription sales (not including OTC sales) by total sales for the reporting period. Cost of goods sold ratio is calculated by dividing prescription ingredient costs by total cost of goods sold.
Salary expenses included in the cost of dispensing calculation are those related to prescription department payroll, including compensation, benefits and payroll taxes.

Prescription department expenditures, allocated at 100%, included:
- Prescription containers, label and other pharmacy supplies.
- Professional liability insurance for pharmacists.
- Prescription department licenses, permits and fees.
- Dues and subscriptions for the prescription department.
- Delivery expenses (prescription-related only).
- Computer systems (related only to the prescription department).
- Depreciation directly related to the prescription department.
- Professional education and training.
- Other prescription department-specific costs not identified elsewhere.

Facility expenses, allocated based on area ratio, included:
- Rent.
- Utilities (gas, electric, water and sewer).
- Real estate taxes.
- Facility insurance.
- Maintenance and cleaning.
- Depreciation (not included depreciation directly related to the prescription department).
- Mortgage interest.
- Other facility-specific costs not identified elsewhere.

Other non-facility administrative expenses, allocated based on sales ratio, included:
- Professional services (for example, accounting, legal, consulting).
- Telephone and data communication.
- Transaction fees, merchant fees and credit card fees.
- Security Services.
- Other depreciation not captured elsewhere.
- Amortization.
- Office supplies.
- Other insurance.
- Franchise fees.
- Other interest.
- Other costs not included elsewhere.

Total pharmacy operational expenses, including overhead and labor costs, are obtained by summing payroll expenses, prescription or pharmacy department expenses, facility expenses and other store expenses allocated to the prescription department. Cost of dispensing a prescription is obtained by dividing the total pharmacy operational expenses by total number of prescriptions reported in the time period.

In the calculation of average cost of dispensing, the following expenses were not included, although they were requested as part of the survey. These were uncollected copays for
Medicaid recipients, bad debts for prescriptions, marketing and advertising expenditures, charitable contributions, and income taxes. These expenses were excluded from the analysis based on the interpretations of CMS’s definition of cost of dispensing described in 42 CFR 447.502, which is consistent with treatment in other states as well as provisions of the Federal Provider Reimbursement Manual CMS Pub 15-1, Section 304 (bad debt), Section 2136.2 (advertising), and Section 2122.2 (tax). We note that these expenses are different across pharmacy types, as shown in Table 4. Retail Community and Specialty pharmacies report higher costs for marketing and advertising, and Specialty and Home Infusion pharmacies report very high costs for bad debts.

Table 4 — Costs per prescription not included based on CMS cost of dispensing guidelines

<table>
<thead>
<tr>
<th>Unallowable Cost</th>
<th>Retail Community</th>
<th>Long Term Care</th>
<th>Specialty</th>
<th>340B Covered Entity</th>
<th>Home Infusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bad Debts</td>
<td>$0.14</td>
<td>$0.35</td>
<td>$8.43</td>
<td>$0.50</td>
<td>$12.78</td>
</tr>
<tr>
<td>Charitable Contributions</td>
<td>$0.00</td>
<td>$0.01</td>
<td>$0.10</td>
<td>$0.09</td>
<td>$0.00</td>
</tr>
<tr>
<td>Marketing and Advertising</td>
<td>$0.51</td>
<td>$0.06</td>
<td>$1.52</td>
<td>$0.01</td>
<td>$0.11</td>
</tr>
<tr>
<td>Unallowable Taxes (Income)</td>
<td>$0.02</td>
<td>$0.02</td>
<td>$1.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

Of the average cost of dispensing observed for Retail Community pharmacies, 41.8% of costs were accounted for by prescription department payroll, 16.2% by other store costs, 11.9% by prescription department costs, and 30.1% by facility-related costs. Components of the cost of dispensing varied considerably between pharmacy types, with prescription department costs making up more of the cost and facility-related costs making up less. Costs are shown below for all pharmacy types with usable responses (See Figure 2).
**Inflation Adjustments**

The Consumer Price Index (CPI) published by Bureau of Labor Statistics was used to standardize total pharmacy operational expenses, including overhead and labor costs, to the same time period ending on February 28, 2017 for all urban consumers. Fiscal period end dates reported by pharmacies ranged from December 31, 2015 to March 3, 2017. Table 4 shows the fiscal period begin and end dates, mid-point CPI index (CPI index for midpoint between fiscal period begin and end dates), terminal month CPI index, inflation factor, and number of pharmacies, with the corresponding year end date included in the analysis.
Table 5 — Inflation factors used to standardize costs to February 2017

<table>
<thead>
<tr>
<th>Fiscal Period Begin Date</th>
<th>Fiscal Period End Date</th>
<th>Mid-point CPI</th>
<th>Terminal Month CPI (Feb. 2017)</th>
<th>Inflation Factor</th>
<th>Number of Pharmacies</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/01/2015</td>
<td>12/31/2015</td>
<td>238.654</td>
<td>243.603</td>
<td>1.0207371</td>
<td>13</td>
</tr>
<tr>
<td>03/01/2015</td>
<td>02/27/2016</td>
<td>237.945</td>
<td>243.603</td>
<td>1.0237786</td>
<td>241</td>
</tr>
<tr>
<td>04/01/2015</td>
<td>03/01/2016</td>
<td>237.945</td>
<td>243.603</td>
<td>1.0237786</td>
<td>1</td>
</tr>
<tr>
<td>04/01/2015</td>
<td>03/31/2016</td>
<td>237.838</td>
<td>243.603</td>
<td>1.0242392</td>
<td>4</td>
</tr>
<tr>
<td>07/01/2015</td>
<td>06/30/2016</td>
<td>236.916</td>
<td>243.603</td>
<td>1.0282252</td>
<td>14</td>
</tr>
<tr>
<td>09/01/2015</td>
<td>08/31/2016</td>
<td>238.132</td>
<td>243.603</td>
<td>1.0229747</td>
<td>73</td>
</tr>
<tr>
<td>09/28/2015</td>
<td>10/02/2016</td>
<td>239.261</td>
<td>243.603</td>
<td>1.0181475</td>
<td>1</td>
</tr>
<tr>
<td>10/01/2015</td>
<td>09/30/2016</td>
<td>239.261</td>
<td>243.603</td>
<td>1.0181475</td>
<td>8</td>
</tr>
<tr>
<td>11/01/2015</td>
<td>10/31/2016</td>
<td>240.229</td>
<td>243.603</td>
<td>1.0140449</td>
<td>2</td>
</tr>
<tr>
<td>12/27/2015</td>
<td>12/31/2016</td>
<td>240.628</td>
<td>243.603</td>
<td>1.0123635</td>
<td>18</td>
</tr>
<tr>
<td>01/01/2016</td>
<td>12/31/2016</td>
<td>240.628</td>
<td>243.603</td>
<td>1.0123635</td>
<td>84</td>
</tr>
<tr>
<td>01/31/2016</td>
<td>01/28/2017</td>
<td>240.849</td>
<td>243.603</td>
<td>1.0114346</td>
<td>54</td>
</tr>
<tr>
<td>02/01/2016</td>
<td>01/31/2017</td>
<td>240.849</td>
<td>243.603</td>
<td>1.0114346</td>
<td>46</td>
</tr>
<tr>
<td>03/01/2016</td>
<td>03/03/2017</td>
<td>241.428</td>
<td>243.603</td>
<td>1.0090089</td>
<td>1</td>
</tr>
</tbody>
</table>

Analysis and Findings

Our initial analysis caused us to focus on the differences in costs between pharmacy types, with 340B Covered Entities grouped into one pharmacy type. Table 6 presents means, medians, winsorized means, twenty-fifth percentile and seventy-fifth percentile for each pharmacy type weighted by response probability. For the remainder of the report we group non-340B Independent Retail and Retail Chain into one category: Retail Community pharmacies, and leave the remaining pharmacy types ungrouped.

Table 6 — Means, medians and percentile distribution of cost of dispensing by pharmacy type weighted by response probability

<table>
<thead>
<tr>
<th>Pharmacy Type</th>
<th>Number in Sample</th>
<th>Mean</th>
<th>Winsorized Mean*</th>
<th>Median</th>
<th>Twenty-Fifth Percentile</th>
<th>Seventy-Fifth Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>340B Covered Entity</td>
<td>22</td>
<td>$21.68</td>
<td>$21.56</td>
<td>$21.33</td>
<td>$17.64</td>
<td>$26.48</td>
</tr>
<tr>
<td>Non-340B Independent Retail</td>
<td>53</td>
<td>$13.16</td>
<td>$12.01</td>
<td>$10.31</td>
<td>$8.52</td>
<td>$13.62</td>
</tr>
<tr>
<td>Retail Chain</td>
<td>453</td>
<td>$11.05</td>
<td>$10.94</td>
<td>$10.63</td>
<td>$9.08</td>
<td>$12.62</td>
</tr>
</tbody>
</table>

* Winsorization approach was used to minimize the impact of outliers by setting the cost of dispensing that was below the fifth percentile to fifth percentile and those that were higher than ninety-fifth percentile to ninety-fifth percentile.

Descriptive statistics and measures of central tendency, namely means and medians, are used to determine an average cost of dispensing a prescription by OHP providers. Tables 6–11
present means and medians weighted by: unweighted, response probability, total number of prescriptions and total number of OHP prescriptions for all pharmacy types.

Unweighted means and medians represent an average cost per prescription per pharmacy for pharmacies in the sample. Means and medians weighted by the response probability allow these measures to be generalized to the full population pharmacies and denote an average cost per prescription per pharmacy for all pharmacies meeting the study criteria across the State. This approach gives equal weight to each individual pharmacy meeting the study criteria.

Alternatively, means and medians weighted by the total number of prescriptions or number of Medicaid prescriptions are used to determine an average cost for all prescriptions in the sample, rather than the average cost per prescription across all pharmacies. This method is equivalent to summing all of the total pharmacy operational costs in the sample divided by the total of all prescriptions in the sample. This approach gives a higher weight to pharmacies with a high volume relative to pharmacies with a low volume.

To minimize the impact of low or high outliers in the calculation of average costs, a winsorization approach was used by setting the cost of dispensing that was below the fifth percentile to the fifth percentile and those that were higher than the ninety-fifth percentile to the ninety-fifth percentile prior to calculating the statewide average costs. Winsorization was performed separately for 340B Covered Entities and Retail Community pharmacies, with Retail Chain and non-340B Independent pharmacies grouped together as a Retail Community pharmacy type. The unadjusted means, winsorized means, medians and twenty-fifth and seventy-fifth percentiles of the average cost per prescription estimated according to each weighting method are shown in Table 7.

In addition to calculating the cost of dispensing a prescription on a statewide basis, the study determined the average costs of dispensing for subgroups of pharmacies classified by various pharmacy characteristics (Appendix A).

Table 7 — Means, medians and percentile distribution of cost of dispensing

<table>
<thead>
<tr>
<th>Method</th>
<th>Mean</th>
<th>Winsorized Mean*</th>
<th>Median</th>
<th>Twenty-Fifth Percentile</th>
<th>Seventy-Fifth Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>340B Covered Entity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted by response probability</td>
<td>$21.68</td>
<td>$21.56</td>
<td>$21.33</td>
<td>$17.64</td>
<td>$26.48</td>
</tr>
<tr>
<td>Weighted by Medicaid prescription volume</td>
<td>$18.45</td>
<td>$18.58</td>
<td>$18.59</td>
<td>$11.25</td>
<td>$24.20</td>
</tr>
<tr>
<td>Weighted by total prescription volume</td>
<td>$19.50</td>
<td>$19.43</td>
<td>$18.96</td>
<td>$15.54</td>
<td>$23.24</td>
</tr>
</tbody>
</table>

MERCER 14
Regression Analysis of Pharmacy Characteristics

A multivariable linear regression model was carried out to examine the relationship between a set of pharmacy characteristics and the average cost of dispensing for each pharmacy, weighted by response probability to generate results that are representative of all 656 pharmacies meeting the study criteria across the State. This statistical method simultaneously considers a set of pharmacy characteristics and their relationship with the average cost of dispensing a prescription. The model performance, adjusted R-squared, measures how well the model fits the data and denotes the percentage of variation in average cost of dispensing accounted for by a set of the pharmacy characteristics. The regression analysis is used to measure the error rate from the model, and therefore, the data in the regression is not winsorized. Because costs are right skewed and great differences in costs were seen between pharmacy types, the cost of dispensing was log normal transformed. The regression coefficient for each predictor variable represents a multiplier of the average cost of dispensing per unit change in the predictor variable, holding all other variables constant.

The following pharmacy characteristics were included in the regression model:
- Type of pharmacies.
- Years open.
- Whether the business owns the building.
- Pharmacist(s) also an owner.
- Total prescription volume.
- Urban or rural designation.
- Percent of prescriptions accounted for by Medicaid.
- Percent prescriptions compounded.
- Whether enhanced services, including delivery of Medicaid prescriptions are offered.

<table>
<thead>
<tr>
<th>Method</th>
<th>Mean</th>
<th>Winsorized Mean*</th>
<th>Median</th>
<th>Twenty-Fifth Percentile</th>
<th>Seventy-Fifth Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Community</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted by response probability</td>
<td>$11.31</td>
<td>$10.99</td>
<td>$10.59</td>
<td>$8.97</td>
<td>$12.72</td>
</tr>
<tr>
<td>Weighted by Medicaid prescription volume</td>
<td>$9.74</td>
<td>$9.61</td>
<td>$9.72</td>
<td>$7.31</td>
<td>$11.30</td>
</tr>
<tr>
<td>Weighted by total prescription volume</td>
<td>$11.36</td>
<td>$10.23</td>
<td>$9.95</td>
<td>$8.43</td>
<td>$11.85</td>
</tr>
</tbody>
</table>

* Winsorization approach was used to minimize the impact of outliers by setting the cost of dispensing that was below the fifth percentile to fifth percentile and those that were higher than ninety-fifth percentile to ninety-fifth percentile.
Table 8 shows the results of the regression analysis, examining the relationship between pharmacy characteristics and an average cost of dispensing, which was log normal transformed. Each pharmacy characteristic is represented as a categorical variable, where the reference (base) case is a pharmacy with the following characteristics:
- Retail chain.
- Does not own its building.
- No owner-pharmacist(s).
- 30,000–69,999 total prescriptions annually.
- < 10% of prescriptions accounted for by Medicaid.
- < 1% prescriptions compounded.
- No delivery of Medicaid prescriptions.
- Urban location.

In the regression model, the intercept represents the average cost per prescription for a pharmacy with these characteristics. For each characteristic, the results for the reference pharmacy are displayed as Base, since they are captured by the intercept. The result for each non-reference category represents the additional cost of dispensing compared to the base case, holding all other characteristics constant. For each characteristic that varies from the base case, the base cost is increased (decreased) by its associated coefficient.

Table 8 — Regression analysis examining the relationship between pharmacy characteristics and an average cost of dispensing

<table>
<thead>
<tr>
<th>Model Predictor</th>
<th>Level</th>
<th>Base and Multipliers</th>
<th>95% Confidence Interval</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>Intercept</td>
<td>$12.14</td>
<td>10.51</td>
<td>14.02</td>
</tr>
<tr>
<td></td>
<td>340B Covered Entity</td>
<td>1.58</td>
<td>1.05</td>
<td>2.40</td>
</tr>
<tr>
<td></td>
<td>Home Infusion</td>
<td>8.20</td>
<td>3.19</td>
<td>21.12</td>
</tr>
<tr>
<td></td>
<td>LTC</td>
<td>1.22</td>
<td>0.57</td>
<td>2.63</td>
</tr>
<tr>
<td></td>
<td>Non-340B Independent Retail</td>
<td>1.13</td>
<td>0.77</td>
<td>1.66</td>
</tr>
<tr>
<td></td>
<td>Retail Chain</td>
<td>Base</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>Specialty</td>
<td>7.62</td>
<td>4.50</td>
<td>12.90</td>
</tr>
<tr>
<td>Building Owned</td>
<td>No</td>
<td>Base</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>0.99</td>
<td>0.83</td>
<td>1.18</td>
</tr>
<tr>
<td>Model Predictor</td>
<td>Level</td>
<td>Base Multipliers</td>
<td>Lower Bound</td>
<td>Upper Bound</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>------------</td>
<td>-----------------</td>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Pharmacist Owner</td>
<td>No</td>
<td>Base</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>0.77</td>
<td>0.53</td>
<td>1.11</td>
</tr>
<tr>
<td>Total Prescriptions Filled</td>
<td>0 – 29,999</td>
<td>1.34</td>
<td>0.97</td>
<td>1.84</td>
</tr>
<tr>
<td></td>
<td>30,000 – 69,999</td>
<td>Base</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>70,000 or more</td>
<td>0.80</td>
<td>0.67</td>
<td>0.94</td>
</tr>
<tr>
<td>Percent Prescriptions Medicaid</td>
<td>0 – 9.99%</td>
<td>Base</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>10% – 19.99%</td>
<td>1.10</td>
<td>0.72</td>
<td>1.67</td>
</tr>
<tr>
<td></td>
<td>20% or more</td>
<td>0.67</td>
<td>0.27</td>
<td>1.64</td>
</tr>
<tr>
<td>Percent Prescriptions Compounded</td>
<td>0 – 0.99%</td>
<td>Base</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>1% – 4.99%</td>
<td>1.05</td>
<td>0.57</td>
<td>1.93</td>
</tr>
<tr>
<td></td>
<td>5% or more</td>
<td>1.28</td>
<td>0.69</td>
<td>2.37</td>
</tr>
<tr>
<td>Prescriptions Delivered</td>
<td>No</td>
<td>Base</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>0.97</td>
<td>0.79</td>
<td>1.19</td>
</tr>
<tr>
<td>County Type</td>
<td>Rural</td>
<td>0.98</td>
<td>0.80</td>
<td>1.19</td>
</tr>
<tr>
<td></td>
<td>Urban</td>
<td>Base</td>
<td>1.00</td>
<td>1.00</td>
</tr>
</tbody>
</table>

* Indicates that p < 0.05
** Indicates that p < 0.01
*** Indicates that p < 0.001
NS Indicates that the characteristic is not significant

Overall, the model explained 68.6% of the variance in average cost of dispensing a prescription. Based on the tests of the regression coefficients, five comparisons to the reference case were significantly related to cost of dispensing.

The characteristics that had a significant relationship to the cost of dispensing included:
- Pharmacy type compared to Retail Chain:
  - 340B Covered Entity.
- Prescription volume compared to 30,000 – 69,999:
  - 70,000 or more.
Figure 3 shows the generally inverse relationship between average cost of dispensing and total prescriptions dispensed for all pharmacies in the study. Volume tiers with breaks at 30,000 and 70,000 total annual prescriptions are highlighted with dotted lines.

**Figure 3 — Total Prescriptions Filled versus Average Cost of Dispensing**

![Graph showing the inverse relationship between total prescriptions filled and average cost of dispensing.]

**Recommendations**

Given the significant effect of prescription volume on the cost of dispensing, the study also examined a three-tier rate structure for Retail Community pharmacies based on annual total prescription volume, using the winsorized mean weighted by response probability as the rate within each tier (Table 9). Based on our analysis, we recommend using the tiered reimbursement structure based on the winsorized mean weighted by response probability for Retail Community pharmacies. This approach provides the most equitable distribution and reimbursement ensuring access to low volume and rural pharmacies with low volumes but sharing in the efficiencies of large volume pharmacies. Weighting the mean by total prescription volume would likely cause underpayment to rural and low volume pharmacies which may reduce access in underserved areas.
Table 9 — Tiered rate structure for Retail Community pharmacies and clinic/outpatient based on annual total prescription volume

<table>
<thead>
<tr>
<th>Annual Total Prescription Volume</th>
<th>Cost of Dispensing Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 29,999</td>
<td>$14.30</td>
</tr>
<tr>
<td>30,000 – 69,999</td>
<td>$11.91</td>
</tr>
<tr>
<td>70,000 or more</td>
<td>$9.80</td>
</tr>
</tbody>
</table>

The significant effect of pharmacy type also leads us to recommend pharmacy classifications. 340B Covered Entity pharmacies, including Clinic/outpatient, FQHCs, and Independent Retail pharmacy types had significantly higher dispensing costs than Retail Community pharmacies. Mercer recognizes that other factors may exist at these pharmacies that may not be properly captured by a dispensing fee survey and allow for appropriate allocation of direct expenses. For example, it is possible that the staffing model used in these pharmacies results in higher payroll expenses but also results in additional reimbursement from providing services separate from dispensing prescriptions such as providing Medication Therapy Management or consulting with physicians. A detailed analysis of the staffing model was not feasible due to incomplete reporting of FTE counts. Mercer recommends OHA consider further analysis of these pharmacies prior to implementation of a separate professional dispensing fee.

Clinic/outpatient refers to pharmacies operating in health care clinics or outpatient hospital settings. Because there were no usable survey responses for non-340B Clinic/outpatient or FQHC pharmacies, these pharmacy types may require further study.

LTC, Home Infusion, and Specialty pharmacies are not subject to the Covered Outpatient Drug rule. Because of the low response rate for these pharmacies in addition to the wide ranges in average cost to dispense for each, Mercer recommends further study for these pharmacy types.

Comparison to Other States
Table 10 shows other states’ reimbursement strategies.

Table 10 — Medicaid Comparator Dispensing Fees for States Reimbursing AAC Based Ingredient Cost

<table>
<thead>
<tr>
<th>State</th>
<th>Ingredient Cost</th>
<th>Dispensing Fee</th>
<th>State MAC (Yes/No)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State of Alabama</td>
<td>Ingredient cost is AAC or if not available WAC, or U/C; ASP + 6% (blood clotting factors)</td>
<td>Dispensing fee is $10.64</td>
<td>Yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>State of Alaska</th>
<th>Ingredient cost is NADAC or if not available WAC + 1%</th>
<th>Dispensing fee is $13.36 (pharmacy located on the road system); $16.58 (mediset pharmacy); $21.28 (pharmacy not located on the road system); $10.76 (out-of-state pharmacy)</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>State of Colorado</td>
<td>Ingredient cost for all drugs for retail pharmacies, 340B pharmacies, institutional pharmacies, government pharmacies, and mail order pharmacies shall be based upon the lower of: 1. The usual and customary charge to the public minus the client’s copayment; or 2. The allowed ingredient cost. The allowed ingredient cost is the lesser of AAC or submitted ingredient cost. If AAC is not available the allowed ingredient cost is the lesser of WAC or the submitted drug ingredient cost. Submitted Ingredient Cost means a pharmacy’s calculated ingredient cost. For drugs purchased through the 340B Drug Pricing Program, the submitted ingredient cost means the 340B purchase price. Ingredient cost for designated rural pharmacies: • The allowed ingredient cost shall be AAC. If AAC is not available, the allowed ingredient cost shall be WAC.</td>
<td>The dispensing fees for retail pharmacies, 340B pharmacies, institutional pharmacies, and mail order pharmacies shall be tiered based upon annual total prescription volume. The dispensing fees shall be tiered at: • Less than 60,000 total prescriptions filled per year = $13.40 • Between 60,000 and 90,000 total prescriptions filled per year = $11.49 • Between 90,000 and 110,000 total prescriptions filled per year = $10.25 • Greater than 110,000 total prescriptions filled per year = $9.31 Dispensing fee is $14.41 (rural pharmacies); no dispensing fee (government pharmacies)</td>
<td>No</td>
</tr>
<tr>
<td>State of Delaware</td>
<td>Ingredient cost is NADAC</td>
<td>Dispensing fee is $10.00</td>
<td>Yes</td>
</tr>
<tr>
<td>State of Idaho</td>
<td>Ingredient cost is AAC, or where there is no AAC reimbursement is WAC</td>
<td>Tiered dispensing fees: • Less than 39,999 claims a year = $15.11 • Between 40,000 and 69,999 claims per year = $12.35 • 70,000 or more claims per year = $11.51</td>
<td>Yes</td>
</tr>
<tr>
<td>State</td>
<td>Ingredient cost</td>
<td>Dispensing fee</td>
<td>Dispensing fee includes additional costs</td>
</tr>
<tr>
<td>-----------------------</td>
<td>---------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------</td>
<td>--------------------------------------------</td>
</tr>
<tr>
<td>Iowa</td>
<td>Ingredient cost is AAC as determined from surveys or where there is no AAC reimbursement is WAC</td>
<td>Dispensing fee is $11.73</td>
<td>Yes</td>
</tr>
<tr>
<td>Louisiana</td>
<td>Ingredient cost is AAC of the drug dispensed or where there is no AAC reimbursement is WAC</td>
<td>Reimbursement for Cost of the Influenza Vaccine at: $17.37 for intramuscular injected influenza vaccine – preservative free, $13.22 for intramuscular injected influenza vaccine, and $22.03 for intranasal influenza vaccine or billed charges, whichever is the lesser amount</td>
<td>Yes</td>
</tr>
<tr>
<td>Michigan</td>
<td>Ingredient cost is AWP - 13.5% or WAC + 3.80% (independent pharmacy (and chain pharmacies fewer than 5 stores); AWP - 15.1% or WAC + 1.88% (chain pharmacies and pharmacies serving nursing facilities)</td>
<td>Dispensing fee is $3.00 (LTC); $2.75 all other providers; $6.00 (cream, emulsion, nasal drops, ointments or optic drugs); $10.00 (compounded capsules, powders or suppositories)</td>
<td>Yes</td>
</tr>
<tr>
<td>Nevada</td>
<td>Ingredient cost is NADAC</td>
<td>Dispensing fee is $9.47</td>
<td>No</td>
</tr>
<tr>
<td>North Carolina</td>
<td>Ingredient cost is NADAC. If NADAC pricing is not available, AAC will be WAC + 0%. Physician administered drugs ASP + 6% or AWP - 10%; for the contraceptive drugs (Implanon and Mirena) WAC + 6%</td>
<td>Tiered professional dispensing fee: $13.00 when 85% or more of claims per quarter are for generic or preferred brand drugs $7.88 when less than 85% of claims per quarter are for generic or preferred brand drugs and $3.98 for non-preferred brand drugs.</td>
<td>Yes</td>
</tr>
<tr>
<td>North Dakota</td>
<td>Ingredient cost is WAC + 8%, DP + 8% (if no WAC available)</td>
<td>Dispensing fee is $5.60 (generic legend drugs); $4.60 (brand legend drugs); 1.5 times the allowed amount (EAC, FUL, or MAC) up to a maximum of $4.60 (non-legend drugs that are prescribed); $10 (compounds); plus $0.15 per pill (pill splitting)</td>
<td>Yes</td>
</tr>
<tr>
<td>State of Virginia</td>
<td>Ingredient cost is the lower of NADAC, WAC, FUL, U/C (legend, non-legend, specialty drugs, long-term care); Lower of NADAC, WAC, U/C (clotting factor); AAC (340B, 340B physician administered drugs, FSS, Nominal Price); ASP + 6% (physician administered drugs); 340B contract pharmacies not covered; investigational drugs not covered.</td>
<td>Professional dispensing fee is $10.65</td>
<td>No</td>
</tr>
</tbody>
</table>
### Appendix A

**Pharmacy Statistics**

Table A1 — Pharmacy characteristics and average cost of dispensing a prescription by pharmacy type

<table>
<thead>
<tr>
<th>Pharmacy Type</th>
<th>n</th>
<th>N</th>
<th>%*</th>
<th>Unweighted Response Probability</th>
<th>Total Rx Volume</th>
<th>Medicaid Rx Volume</th>
<th>Unweighted Response Probability</th>
<th>Total Rx Volume</th>
<th>Medicaid Rx Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-340B Independent Retail</td>
<td>53</td>
<td>72</td>
<td>11.06%</td>
<td>$12.01</td>
<td>$20.81</td>
<td>$7.28</td>
<td>$10.31</td>
<td>$9.18</td>
<td>$5.70</td>
</tr>
<tr>
<td>Retail Chain</td>
<td>453</td>
<td>507</td>
<td>77.88%</td>
<td>$10.94</td>
<td>$10.17</td>
<td>$10.21</td>
<td>$10.63</td>
<td>$9.97</td>
<td>$10.01</td>
</tr>
</tbody>
</table>

*n = number in sample

N = estimated number in population

*Percents do not sum to 100% due to excluded pharmacy types
Table A2 — Pharmacy characteristics and average cost of dispensing a prescription by pharmacy type category

<table>
<thead>
<tr>
<th>Pharmacy Type</th>
<th>n</th>
<th>N</th>
<th>%*</th>
<th>Unweighted</th>
<th>Response Probability</th>
<th>Total Rx Volume</th>
<th>Medicaid Rx Volume</th>
<th>Winsorized Means Weighted By:</th>
<th>Medians Weighted By:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Community</td>
<td>506</td>
<td>579</td>
<td>88.94%</td>
<td>$10.98</td>
<td>$10.99</td>
<td>$10.23</td>
<td>$9.61</td>
<td>$10.59</td>
<td>$10.59</td>
</tr>
</tbody>
</table>

n = number in sample  
N = estimated number in population  
*Percents do not sum to 100% due to excluded pharmacy types
Table A3 — Pharmacy characteristics and average cost of dispensing a prescription by pharmacy type (Retail Community)

<table>
<thead>
<tr>
<th>Pharmacy Type</th>
<th>Winsorized Means Weighted By:</th>
<th>Medians Weighted By:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>n</td>
<td>N</td>
</tr>
<tr>
<td>Non-340B Independent Retail</td>
<td>53</td>
<td>72</td>
</tr>
<tr>
<td>Retail Chain</td>
<td>453</td>
<td>507</td>
</tr>
<tr>
<td>Building is Owned</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>142</td>
<td>163</td>
</tr>
<tr>
<td>No</td>
<td>364</td>
<td>416</td>
</tr>
<tr>
<td>Pharmacist is Also Owner</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>49</td>
<td>64</td>
</tr>
<tr>
<td>No</td>
<td>457</td>
<td>515</td>
</tr>
<tr>
<td>Total Yearly Prescription Volume</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30,000 – 69,999</td>
<td>219</td>
<td>252</td>
</tr>
<tr>
<td>70,000 or more</td>
<td>258</td>
<td>292</td>
</tr>
<tr>
<td>Percent Medicaid Prescriptions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20% or more</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

MERCER
### Winsorized Means Weighted By:

<table>
<thead>
<tr>
<th></th>
<th>n</th>
<th>N</th>
<th>%</th>
<th>Unweighted</th>
<th>Response Probability</th>
<th>Total Rx Volume</th>
<th>Medicaid Rx Volume</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>10% – 19.99%</td>
<td>8</td>
<td>10</td>
<td>1.73%</td>
<td>$12.07</td>
<td>$11.91</td>
<td>$12.10</td>
<td>$11.46</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0 – 9.99%</td>
<td>496</td>
<td>567</td>
<td>97.93%</td>
<td>$10.96</td>
<td>$10.98</td>
<td>$10.30</td>
<td>$10.09</td>
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<td></td>
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</table>

### Medians Weighted By:

|          | Unweighted | Response Probability | Total Rx Volume | Medicaid Rx Volume |          |          |          |
|----------|------------|----------------------|----------------|--------------------|----------|----------|
| 10% – 19.99% | $11.20 | $10.31 | $12.09 | $10.31 |          |          |
| 0 – 9.99% | $10.59 | $10.59 | $9.99 | $9.95 |          |          |

### Percent Compounded Prescriptions

<table>
<thead>
<tr>
<th></th>
<th>n</th>
<th>N</th>
<th>%</th>
<th>Unweighted</th>
<th>Response Probability</th>
<th>Total Rx Volume</th>
<th>Medicaid Rx Volume</th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>5% or more</td>
<td>8</td>
<td>10</td>
<td>1.73%</td>
<td>$13.42</td>
<td>$13.47</td>
<td>$12.59</td>
<td>$11.86</td>
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<td></td>
<td></td>
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<tr>
<td>1% – 4.99%</td>
<td>8</td>
<td>11</td>
<td>1.90%</td>
<td>$10.44</td>
<td>$10.44</td>
<td>$9.91</td>
<td>$11.27</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0 – 0.99%</td>
<td>490</td>
<td>558</td>
<td>96.37%</td>
<td>$10.95</td>
<td>$10.96</td>
<td>$10.21</td>
<td>$9.57</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Deliver Medicaid Prescriptions

|          | Unweighted | Response Probability | Total Rx Volume | Medicaid Rx Volume |          |          |          |
|----------|------------|----------------------|----------------|--------------------|----------|----------|
| Yes      | $10.59 | $10.62 | $9.66 | $8.78 |          |          |          |
| No       | $10.81 | $10.81 | $10.06 | $9.94 |          |          |          |

### County Type

|          | Unweighted | Response Probability | Total Rx Volume | Medicaid Rx Volume |          |          |          |
|----------|------------|----------------------|----------------|--------------------|----------|----------|
| Rural    | $11.08 | $11.07 | $10.39 | $10.51 |          |          |
| Urban    | $10.95 | $10.97 | $10.19 | $9.37 |          |          |

n = number in sample
N = estimated number in population
APPENDIX B

Survey Template and Instructions

Providers could submit responses either online or using an Excel template. The Excel Template questions are shown below.

<table>
<thead>
<tr>
<th>Pharmacy Profile</th>
<th>Store Location Number/Identifier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provider Name</td>
<td></td>
</tr>
<tr>
<td>Store Address</td>
<td></td>
</tr>
<tr>
<td>Store Address (Alternative)</td>
<td></td>
</tr>
<tr>
<td>City</td>
<td></td>
</tr>
<tr>
<td>State</td>
<td></td>
</tr>
<tr>
<td>Zip Code</td>
<td></td>
</tr>
<tr>
<td>County</td>
<td></td>
</tr>
<tr>
<td>Contact Person</td>
<td></td>
</tr>
<tr>
<td>Contact Person (Email)</td>
<td></td>
</tr>
<tr>
<td>Telephone Number</td>
<td></td>
</tr>
<tr>
<td>Fax Number</td>
<td></td>
</tr>
<tr>
<td>Type of Business</td>
<td></td>
</tr>
<tr>
<td>Was there a change in pharmacy ownership during the reporting period?</td>
<td></td>
</tr>
<tr>
<td>Does the pharmacy supply 340B Drug Pricing Program (340B) drugs?</td>
<td></td>
</tr>
<tr>
<td>Did the number of total prescriptions dispensed change?</td>
<td></td>
</tr>
<tr>
<td>Amount of change in prescriptions dispensed</td>
<td></td>
</tr>
<tr>
<td>How many years has the location been in business as a pharmacy?</td>
<td></td>
</tr>
<tr>
<td>How many of the pharmacist's 30 prescriptions at this location were refills at the time of the survey?</td>
<td></td>
</tr>
<tr>
<td>Gross Sales</td>
<td></td>
</tr>
<tr>
<td>Gross Profit</td>
<td></td>
</tr>
<tr>
<td>Gross Margin</td>
<td></td>
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</tbody>
</table>

Survey Notes: Required: Survey responses for this section should use the same time period as reported in the Financial Information section.

<table>
<thead>
<tr>
<th>What was the square footage for the following areas at the end of the reporting period?</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Transcription area</td>
<td></td>
</tr>
<tr>
<td>Dispensation area</td>
<td></td>
</tr>
<tr>
<td>Total square footage (Run of a week)</td>
<td></td>
</tr>
</tbody>
</table>

MERCER
### PROFESSIONAL DISPENSING FEE ANALYSIS FOR MEDICAID MEMBERS — PHARMACY SURVEY REPORT

#### OREGON HEALTH AUTHORITY

**PROFESSIONAL DISPENSING FEE SURVEY**

**SECTION A — PHARMACY SCRIPTS**

<table>
<thead>
<tr>
<th>Pharmacy Profile</th>
<th>Store Location Number/Identifier</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>23. What was the total number of prescriptions filled by this pharmacy for the following categories during the reporting period?</td>
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<tr>
<td>3. Medicaid FFS or open-cast fee-for-service prescriptions (60 or less, DPN OR OHSFP)</td>
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<tr>
<td>4. Medicaid Form 3 or 4, and Formulary exceptions (if applicable)</td>
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<tr>
<td>6. All other prescriptions (Not Medicaid FFS or open-cast or Medicaid Form 3</td>
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<tr>
<td>7. Total prescriptions (sum of 2 through 6)</td>
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<tr>
<td>24. How many medications were compounded?</td>
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<tr>
<td>25. How many Medicaid FFS or open-cast prescriptions were compounded?</td>
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</tr>
</tbody>
</table>

**SECTION B — SAME SPECIFIC PRESCRIPTION PHARMACY INFORMATION**

<table>
<thead>
<tr>
<th>Pharmacy Profile</th>
<th>Store Location Number/Identifier</th>
<th>1</th>
<th>2</th>
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<th>5</th>
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</tr>
</thead>
<tbody>
<tr>
<td>30. Type of MED Provider</td>
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<tr>
<td>31. Non-Medicaid Medicaid or Medicaid</td>
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<td>32. Does the pharmacy receive a discount through the Medicaid pharmacy program?</td>
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<tr>
<td>33. Does the pharmacy use a data collection system?</td>
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<tr>
<td>34. Enter the total number of Medicaid prescriptions filled during the reporting period</td>
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<tr>
<td>35. Enter the total number of Medicaid prescriptions filled to Medicaid CAR or Special Care beneficiaries</td>
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**SECTION C — SPECIALTY DISPENSING INFORMATION**

<table>
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<th>Pharmacy Profile</th>
<th>Store Location Number/Identifier</th>
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<tbody>
<tr>
<td>36. Home Infusion/Intravenous Therapy</td>
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<td>37. Blood Bank</td>
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<td>38. Other Specialty</td>
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**OREGON HEALTH AUTHORITY**

**PROFESSIONAL DISPENSING FEE SURVEY**

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**SECTION C — SPECIALTY DISPENSING INFORMATION**

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</tr>
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<tbody>
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</tbody>
</table>

**MERCER**
## Financial Information — Sales and Direct Expenses

<table>
<thead>
<tr>
<th>City Location</th>
<th>Store Location Number/Identifier</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

### Prescription Sales
- 1. Prescription sales by a pharmacist or proxy
- 2. OTC sales by pharmacy department
- 3. All other sales (this includes delivery, delivery fees, and any other sales not specified)
- 4. Total sales of a pharmacy

### Total Cost of Sales

### Pharamaceutical Inventory/Stocks
- 1. Prescription Compounds, Lab, and Other Pharmacy Supplies
- 2. Professional, Legal, and Related Services
- 3. Pharmacy Department Salaries, Benefits, and Fees
- 4. Taxes and Licenses
- 5. Delivery Services (including delivery fees)
- 6. Expenses for Computing
- 7. Other Costs

### Compensations — Directly Related to Pharmacy Department (including computer, software, and technology)

### Professional Education and Training

### Number of Pharmacy Employees (Full-Time Equivalent)

### Total Pharmacy Expenses (Sum of 27 through 56)

## Financial Information — Payroll Expenses

<table>
<thead>
<tr>
<th>City Location</th>
<th>Store Location Number/Identifier</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

### Direct Compensation
- 1. Wages, Salaries, and Benefits for Pharmacy Staff (including delivery)
- 2. Wages, Salaries, and Benefits for Pharmacy Staff (excluding delivery)

### Total Compensation Expense (Sum of 1 and 2)

### Total Pharmacy Expenses (Sum of 27 through 56)
### PROFESSIONAL DISPENSING FEE ANALYSIS FOR MEDICAID MEMBERS — PHARMACY SURVEY REPORT

#### SECTION VIII — FINANCIAL INFORMATION — OVERHEAD

<table>
<thead>
<tr>
<th>Pharmacy Profile</th>
<th>Store Location Number/Identifier</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Sales</td>
<td></td>
</tr>
<tr>
<td>123 Total sales from your financial statements</td>
<td>-</td>
</tr>
<tr>
<td>124 Total sales reported in the survey</td>
<td>-</td>
</tr>
<tr>
<td>125 Sales variance (please explain in comments)</td>
<td>-</td>
</tr>
<tr>
<td>126 Total payroll expense</td>
<td>-</td>
</tr>
<tr>
<td>127 Payroll variance (please explain in comments)</td>
<td>-</td>
</tr>
<tr>
<td>128 Total expenses reported</td>
<td>-</td>
</tr>
<tr>
<td>129 Total expenses from your financial statements</td>
<td>-</td>
</tr>
<tr>
<td>130 Total expenses variance (please explain in comments)</td>
<td>-</td>
</tr>
</tbody>
</table>

**Oregon Health Authority**

**Mercer**
SECTION IX — COMMENTS

This comments section is for comments and clarifications. If reporting more than one location, be specific as to which location the comment pertains. If comments are provided in response to a question, be specific as to which question the comment pertains.

OREGON HEALTH AUTHORITY
PROFESSIONAL DISPENSING FEE SURVEY

SECTION X — CERTIFICATION

I declare that I have examined this cost report including accompanying schedules and to the best of my knowledge and belief, it is true, correct and complete.

Name and Signature
Position/Title

OREGON HEALTH AUTHORITY
PROFESSIONAL DISPENSING FEE SURVEY

SECTION X — STATEMENT OF PREPARER (If the preparer is someone other than the provider.)

I have prepared this cost report and to the best of my knowledge and belief, it is true, correct and complete.

Name and Signature
Position/Title

Name — Company
PROFESSIONAL DISPensing Fee (PDF) Survey Completion Instructions for Oregon Pharmacies

Survey Overview

Purpose of This Survey
The Oregon Health Authority (OHA) engaged Mercer Government Human Services Consulting (Mercer), part of Mercer Health & Benefits LLC, to conduct a survey of Medicaid FFS or ‘open-card’-enrolled providers to better understand and determine the approximate cost of dispensing prescription drugs to OHA beneficiaries.

Provider participation and timely response are crucial, as the information collected from this survey will be critical data for OHA to better understand the current pharmacy cost of dispensing. Submit any questions about this survey via email to RxSurvey@mercer.com or call the Pharmacy Survey Hotline at +1 844 679 7737.

Who Should Participate
All OHA-enrolled providers must participate.

How to Submit Completed Surveys

- Surveys may be completed online. The link to the online survey can be found on the survey homepage at https://ghscapps.mercer.com/ORpharmacy starting February 17, 2017.
- A username and password for the online tool will be mailed to providers with three or fewer locations separately. Providers may call +1 844 679 7737 for assistance with the assigned password.
- For providers with multiple locations, or if the provider is unable to submit the survey information online, he or she may access and download the Microsoft Excel version of the survey on the survey homepage. Completed Excel surveys should be emailed to RXSurvey@mercer.com.
- The survey must be received no later than March 10, 2017.

Average Professional Dispensing Fee Calculation
The survey is created using Medicare and Medicaid FFS or ‘open-card’ cost principles as defined in 42 CFR 200.400–475, but is governed by the definition of a professional dispensing fee as defined in 42 CFR 447.502:

Professional dispensing fee means the professional 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 FFS or ‘open-card’ beneficiary. 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 activities, measurement or mixing of the covered outpatient drug, filling the container, beneficiary counseling, physically providing the completed prescription to the Medicaid FFS or ‘open-card’ beneficiary, delivery, special packaging and overhead associated with maintaining the facility and equipment necessary to operate the pharmacy.

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.

To calculate the portion of costs allocable to a professional dispensing fee, costs are categorized as direct pharmacy expenses, direct non-pharmacy expenses, indirect costs (overhead) and unallowable costs. Indirect costs are then allocated into direct pharmacy expenses or direct non-pharmacy expenses by either a percentage of square footage (for facility costs) or a percentage of sales (for non-facility costs). The average dispensing fee is calculated as the direct pharmacy expenses plus the allocated indirect expenses divided by the number of scripts.

Section I — Pharmacy Profile
The purpose of the Pharmacy Profile is to report provider-specific information used for identification and for statistical categorization. Providers that have multiple locations should enter the information for the location that serves as their administrative location.

1 — National Provider Identifier (NPI)
Enter the NPI of the Oregon Medicaid FFS or ‘open-card’ provider.

2 — Provider Name
Enter the name of the Oregon Medicaid FFS or ‘open-card’ provider.

3–7 — Address (Street, City, State, ZIP Code)
Enter the street address, suite or second address (if applicable), address suite or mail stop, city, state and five-digit ZIP code where the provider is located.

8 — County
Enter the county where the provider is located.

9 — Contact Person
Enter the name of the individual to contact if there are any questions about the survey responses.

10 — Contact Person Email
Enter an email address where the contact person may be reached.

11 — Telephone Number
Enter the telephone number, including area code, where the contact person may be reached.
12 — Fax Number
Enter the fax number, including area code, for the contact person.

13 — 340B Program Participation
Indicate whether or not the provider dispenses drugs under the 340B Drug Pricing Program. Drugs dispensed under this program are reduced price outpatient drugs provided by drug manufacturers to eligible health care organizations or covered entities with disproportionately high Medicaid FFS or ‘open-card’ populations.

14 — Type of Ownership
Indicate the type of ownership (e.g., proprietorship, partnership, limited partnership, corporation, s-corporation, non-profit or other).

15 — Change of Ownership
Indicate whether or not there was a change in pharmacy ownership during the reporting period that affects reporting of financial or prescription information.

16 — Pharmacy Open/Closed
Indicate whether or not the pharmacy was open the entire year.

16a — Pharmacy Partially Open
If the pharmacy was not open the entire year, enter the number of months the pharmacy was open.

Note: For pharmacy locations that have been open less than 12 months, only complete questions 1–21 and the certification tab. The remainder of the survey should not be completed.

17 — Provider Type
Select the provider type from the following list. If more than one provider type applies, select the type that represents the provider’s highest percentage of sales. Hospital pharmacies that also dispense outpatient drugs should choose Outpatient/Clinic Pharmacy:

- **340B Covered Entity** — A provider participating in the 340B discount program as a covered entity. Contracted pharmacies participating in 340B should NOT select this provider type option.

- **Specialty Pharmacy** — A provider who dispenses prescription drugs for more than half of the revenue generated for the business. Specialty pharmacies generally have low-volume and high-cost medicinal preparations for Medicaid FFS or ‘open-card’ beneficiaries who are undergoing intensive therapies for illnesses that are generally chronic, complex and potentially life threatening.

- **Long-Term Care (LTC) Pharmacy** — A provider that dispenses medicinal preparations delivered to beneficiaries residing in an Intermediate or Skilled Nursing facility, including Facilities for the Developmentally Disabled, Hospices, Assisted Living facilities, Group Homes and other forms of congregate living arrangement.

- **Home Infusion Pharmacy** — A provider with expertise in sterile drug compounding that provides care to beneficiaries with acute or chronic conditions pertaining to parenteral administration of drugs, biologics and nutritional formulae administered through catheters and/or needles in home and alternate sites. (Extensive professional provider services, care coordination, infusion nursing services, supplies and equipment are provided to optimize effectiveness and compliance.)
• **Federally Qualified Health Center (FQHC)/Rural Health Center (RHC)** — A site other than a pharmacy that dispenses medicinal preparations under the supervision of a physician to patients for self-administration. (i.e., physician offices, Emergency Room, Urgent Care Centers, Rural Health Facilities, etc.).

• **Compounding Pharmacy** — A provider that specializes in the preparation of components into a drug preparation as the result of a practitioner’s prescription drug order or initiative based on the practitioner/beneficiary/pharmacist’s relationship in the course of professional practice, or when a beneficiary’s need cannot be met by commercially available drugs. (A compounding provider utilizes specialized equipment and specially designed facilities necessary to meet the legal and quality requirements of its scope of compounding practice.)

• **Mail Order** — A provider who fills faxed, emailed, or phoned prescriptions, sending the medications to the patient through US Mail or a courier service.

• **Clinic/Outpatient Pharmacy** — A provider in a clinic or hospital outpatient setting who dispenses medications to outpatient Medicaid FFS or ‘open-card’ beneficiaries.

• **Independent Retail Pharmacy** — A provider whose ownership group(s) owns three or fewer locations in which pharmacists store, prepare and dispense medicinal preparations and/or prescriptions for a local Medicaid FFS or ‘open-card’ beneficiary population in accordance with federal and state law; counsel Medicaid FFS or ‘open-card’ beneficiaries and caregivers (sometimes independent of the dispensing process); and provide other professional services associated with pharmaceutical care, such as health screenings, consultative services with other health care providers, collaborative practice, disease state management and education classes.

• **Retail Chain** — A provider whose ownership group(s) owns four or more locations in which pharmacists store, prepare and dispense medicinal preparations and/or prescriptions for a local Medicaid FFS or ‘open-card’ beneficiary population in accordance with federal and state law; counsel Medicaid FFS or ‘open-card’ beneficiaries and caregivers (sometimes independent of the dispensing process); and provide other professional services associated with pharmaceutical care, such as health screenings, consultative services with other health care providers, collaborative practice, disease state management and education classes.

18 — Location Type
Select the location type of the provider from the following list:

• Designated space in a medical office building
• Free standing building
• Designated space in a shopping center
• Embedded in a grocery store/mass merchandiser
• Hospital outpatient
• Other

19 — Years at Location
Indicate the number of years a pharmacy has operated at this location. This information is used in demographic analysis of the data. The response allows Mercer to understand depreciation, or lack of depreciation, for older buildings where market-based rent may need to be substituted if a building is fully depreciated.
20 — Pharmacist Owner
Indicate whether or not one or more of the pharmacists who fill prescriptions has been an owner of the pharmacy at any time during the reporting period.

21 — Pharmacy Open Hours
Enter the number of hours per week the pharmacy department is open. The maximum number of hours is 168 (24 hours x 7 days per week).

Square Footage
Required: Survey responses for this section should use the same time period as reported in the financial information section.

For the purposes of this survey, the prescription area will be defined as the medication receiving, storage, preparation, packaging, sales and professional service areas, regardless of whether or not the pharmacist is present. Square footage is used to allocate indirect facility costs such as rent, utilities and real estate taxes between pharmacy and non-pharmacy expenses.

22 — Department Square Footage
Enter the pharmacy department’s square footage as of the end of the reporting period:

a. Prescription area. List the actual square footage of the prescription area. Measure; do not estimate. The prescription area will be defined as the medication receiving, storage, preparation, packaging, sales and professional service areas, regardless of whether or not the pharmacist is present.

b. Non-prescription area. List the actual square footage of the rest of the pharmacy.

c. Total square footage (sum of a and b).

Section II — Pharmacy Prescriptions
Prescription information is required: Survey responses for this section should use the same time period as reported in the financial information section.

23 — Total Prescriptions
Enter the total number of prescriptions filled by this pharmacy for the following categories during the reporting period:

a. Prescriptions provided to Medicaid FFS or ‘open-card’ fee-for-service beneficiaries. Count only prescriptions billed to BIN: 014203, PCN: ORDHSSFFS.

b. Medicare Parts B, C and D-covered prescriptions (if available). If Medicare prescriptions are not easily available, please provide a reasonable estimate.

c. All other prescriptions (not Medicaid FFS or ‘open-card’ or Medicare).

d. Total prescriptions (sum of a through c).

24 — Compounded Prescriptions
Enter the number of prescriptions compounded.

25 — Medicaid FFS or ‘open-card’ Compounded Prescriptions
Enter the number of Medicaid FFS or ‘open-card’ prescriptions compounded. Count only prescriptions billed to BIN: 014203, PCN: ORDHSSFFS.
26 – Long Term Care (LTC) Facility Prescriptions
Enter the number of prescriptions dispensed to LTC facilities

27 – Medicaid FFS or ‘open-card’ LTC Prescriptions
e. Enter the number of Medicaid FFS prescriptions dispensed to LTC facilities Count only prescriptions billed to BIN: 014203, PCN: ORDHSFFS.

28 — Prescriptions Delivered
a. Enter the number of prescriptions delivered during the reporting period. Do not include mailed prescriptions.
b. Enter the number of Medicaid FFS or ‘open-card’ prescriptions delivered to Medicaid FFS or ‘open-card’ beneficiaries. Do not include mailed prescriptions. Count only prescriptions billed to BIN: 014203, PCN: ORDHSFFS.
c. Enter the radius of the delivery area, expressed in miles.

29 – Open 24-Hours
Enter whether the facility is open 24 hours per day.

SECTION III — 340B DRUG PRICING PROGRAM (340B) PHARMACY INFORMATION

The purpose of the 340B Drug Pricing Program (340B) Pharmacy Information section is to better understand the provider’s involvement with the 340B program. Provide the following detail regarding which drugs are prescribed under the 340B program and how those drugs are obtained.

30 — Type of 340B Provider
Enter the type of 340B provider from the following list:
• Black lung clinic
• Children’s hospital
• Comprehensive hemophilia treatment center
• Consolidated health center program
• Contract pharmacy
• Critical access hospital
• Disproportionate share hospital
• Family planning
• FQHC look-alike
• HIV/AIDS clinic
• Rural health clinic
• Urban Indian organization
• Other (if this option is selected, please provide type of entity on the Comments page)

31 — Covered Entity or Contract
Select whether or not this is a covered entity or contract.

32 — 340B Prime Vendor Program
Select whether or not the provider purchases drugs through the 340B prime vendor program
33 — Administrator for 340B
Select whether or not the provider uses a 340B administrator.

34 — Total 340B Prescriptions Filled
Enter the total number of 340B prescriptions filled during the reporting period.

35 — Total 340B Prescriptions Billed
Enter the total number of 340B prescriptions billed to Medicaid FFS or ‘open-card’ (BIN: 014203, PCN: ORDHSFFS).

SECTION IV – SPECIALTY DISPENSING INFORMATION
The purpose of the Specialty Dispensing Information section is to better understand the provider’s proportion of scripts and sales related to specialty drug classes. Provide the following detail regarding scripts and revenue received for the following drug classes.

As a subset of the prescription counts entered in number 26, enter script counts from the reporting period for the following drug classes:

36 — Home Infusion/Sterile Compounding
37 — Blood Factor
38 — All Other
39 — Total Specialty Scripts
Enter the total number of all Specialty scripts (sum of 36 through 38).

Enter revenue from the reporting period for the following drug classes:

40 — Home Infusion/Sterile Compounding
41 — Blood Factor
42 — All Other
43 — Total Specialty Revenue
Enter the total revenue for all Specialty prescriptions (sum of 40 through 42).

SECTION V — FINANCIAL INFORMATION — SALES AND DIRECT EXPENSES
Expenses such as administration, central operating or other general expenses incurred by multiple location pharmacies should be allocated to individual locations. Methods of allocation must be reasonable and conform to generally accepted accounting principles. Explain any allocation procedures used to allocate expenses in the Comments section. Enter the following financial information.

44 — Reporting Period
Enter the dates of the reporting period. This should be the provider’s last complete fiscal year and should correspond to the report dates of your financial statements or tax returns:

a. Beginning date range of financial reports.
b. Ending date range of financial reports.

Sales
Sales are reported for validation and for allocating overhead costs. Percentages of sales in the categories below determine allocation rates for certain administrative costs to the pharmacy department as a cost of dispensing. Enter the following sales information rounded to the nearest dollar.

45 — Sales by Category
Enter the sales for this location for the following categories:
- a. Prescription sales other than over-the-counter (OTC) sales dispensed by a pharmacist or 340B sales. Do not include revenue for compounding or special packaging.
- b. OTC sales dispensed by pharmacy department.
- c. OTC sales dispensed by staff not in pharmacy department.
- d. Sales of drugs purchased through the 340B program.
- e. Portion of federal grants attributable to pharmacy, if any.
- f. Professional pharmacy services billed through medical claims.
- g. Other sales, such as retail sales and services. If amounts exceed 5.0% of total sales, comment on the nature of the other sales and provide more detail.
- h. Total sales (sum of a through g).

Costs and Expenses
Enter the following costs and expenses information. Cost of goods sold information is used for validation purposes only and does not affect the average dispensing fee calculation.

46 — Cost of Goods Sold
Cost of goods sold (COGS) is used for reference in validating the provider’s responses to his or her financial statements or tax returns, as requested:
- a. COGS: Pharmaceuticals. Note: This will not be included in the dispensing fee calculation.
- b. Non-pharmacy COGS.
- c. Total COGS (sum of a and b).

Pharmacy Department Expenditures
Do not include ingredient costs in any of the questions in this section.

47 — Prescription Containers, Labels and Other Pharmacy Supplies
Enter the costs of the prescription containers, labels and other pharmacy supplies in whole dollar amounts.

48 — Professional Liability Insurance for Licensed Personnel
Enter the costs of the professional liability insurance for pharmacists and other licensed personnel in whole dollar amounts.

49 — Pharmacy Department Licenses, Permits and Fees
Enter the costs of the pharmacy department licenses, permits and fees in whole dollar amounts.
50 — Dues, Subscriptions and Continuing Education for the Pharmacy Department
Enter the costs of the dues, subscriptions and continuing education for the pharmacy department in whole dollar amounts.

51 — Delivery Expenses
Enter the costs of prescription-related delivery expenses in whole dollar amounts.

52 — Expenses Related to Compounding Drugs
Enter the expenses related to compounding drugs, including depreciation on compounding equipment or compounding supply costs, in whole dollar amounts.

53 — Bad Debts for Prescriptions
Enter the costs of any bad debts for prescriptions, including uncollected copayments, in whole dollar amounts.

54 — Computer System Costs Related only to the Pharmacy Department
Enter the costs of the computer system costs, not including depreciation, related only to the pharmacy department in whole dollar amounts.

55 — Claims Processing Fees
Enter the costs of the claims processing, in whole dollar amounts.

56 — Depreciation – Directly Related to Pharmacy Department (Including computers, software and equipment)
Enter the costs of depreciation directly related to the pharmacy department, including computers, software and equipment, in whole dollar amounts.

57 — Professional Education and Training
Enter the costs of professional education and training in whole dollar amounts.

58 — Costs Directly Attributable to 340B
Enter the costs directly attributable to 340B, including 340B program management or other, in whole dollar amounts. If “Other”, list in the Comments section of this survey.
   a. 340B program management.
   b. Other (list other costs in the Comments section).

59 — Other Pharmacy Department-Specific Costs Not Identified Elsewhere
Enter other pharmacy department-specific costs not identified elsewhere in whole dollar amounts. If the amount is greater than 5.0% of total pharmacy department non-payroll costs (line 57), attach supporting details in the Comments section.

60 — Total Pharmacy Department Non-payroll Costs
Enter the total pharmacy department non-payroll costs in whole dollar amounts (sum of 47 through 59).

SECTION VI — PAYROLL INFORMATION
Pharmacy Personnel and Labor Costs

Note: Store costs should be categorized into three distinct areas — direct costs related to pharmacy services, direct costs related to non-pharmacy services and indirect costs related to all product lines. For 63 through 67, include wages only for direct costs for pharmacy services (pharmacy department).

For 63 through 70, round to the nearest whole dollar amount:
• For each employee group, list wages, salary, bonuses and guaranteed payments.
• List payroll taxes to reflect the employer’s share of payroll tax expense.
• List pension/profit-sharing/retirement expenses to include any employer contributions to profit-sharing, pensions or retirement accounts.
• List other employee benefits, such as employer’s contribution toward health insurance.

61 — Pharmacist FTEs
Enter the number of Pharmacist full-time employees (FTEs) (2,080 hours per year).

62 — Other Pharmacy Department FTEs
Enter the number of Other Pharmacy Department FTEs (do not include pharmacist(s) counted in 59).

Enter the salaries, wages, bonuses and guaranteed payments for employees listed in 61 through 65.

63 — Pharmacist Manager (Owner)
Enter the salaries, wages, bonuses and guaranteed payments for owner/pharmacists with greater than 2% ownership of the pharmacy.

64 — Pharmacist Manager (Non-owner)

65 — Staff Pharmacists

66 — Technicians

67 — Other Personnel (Describe in comments sections)

68 — Pharmacy Department Payroll Taxes

69 — Pharmacy Department Benefits (Including health insurance and pension / profit sharing / retirement expenses)

70 — Pharmacy Department Payroll
Enter the total pharmacy department payroll amount (sum of 64 through 69).

Non-Pharmacy Personnel
Note: Store costs should be categorized into three distinct areas — direct costs related to pharmacy services, direct costs related to non-pharmacy services and indirect costs related to all product lines. For 71, include wages only for direct costs to non-pharmacy services. For example, retail marketing personnel costs would be considered a direct cost for non-pharmacy services. For 72, include indirect personnel costs such as accounting, information technology (IT), legal or human resources.

71 — Wages for Personnel Directly Attributed to Non-Pharmacy Services
Enter wages, payroll taxes and benefits for personnel directly attributed to non-pharmacy services. This is for personnel who do not provide any services to the pharmacy department, but are dedicated to non-pharmacy sales. Do not include wages for administrative personnel (accounting, legal, IT, human resources, corporate).

72 — Wages for Personnel Directly Attributed to Administrative or Shared Services
Enter wages, payroll taxes and benefits for personnel directly attributed to administrative or shared services.

73 — General Employee Expenses Attributable to All Employee Types
Enter general employee expenses attributable to all employee types.
74 — Non-pharmacy department Payroll
Enter non-pharmacy department payroll (sum of 71 through 73).

75 — Total Payroll Expense
Enter the total payroll expense (sum of 70 and 74).

SECTION VII — FINANCIAL INFORMATION — OVERHEAD

Facility
Background information is needed to ensure appropriate expenses are captured and to identify potential outliers that require adjustment or exclusion.

76 — Ownership or Leasing
Enter yes if the provider or a related party owns the building. If yes, answer questions a and b:

a. Is the building fully depreciated – Enter yes or no.
b. If the building is owned by you or a related party, enter the amount of depreciation recorded by the related party for the building during the reporting period.

Facility Expenses
Allowable facility expenses are allocated to the pharmacy dispensing fee calculation as a percentage of square footage. Enter, in whole dollar amounts, the costs of the following:

77 — Rent
Enter the cost of rent in whole dollar amounts. If the building is owned by the provider, the rent is $0.

78 — Utilities
Enter the cost of utilities (e.g., gas, electric, water and sewer) in whole dollar amounts.

79 — Real Estate Taxes
Enter the cost of real estate taxes in whole dollar amounts.

80 — Facility Insurance
Enter the cost of property, general liability and other facility insurance costs (but not including professional liability insurance costs or health insurance costs) in whole dollar amounts.

81 — Maintenance and Cleaning
Enter the cost of maintenance and cleaning in whole dollar amounts.

82 — Depreciation Expense
Enter the cost of depreciation for the facility only (e.g., building, leasehold improvements) in whole dollar amounts.

83 — Mortgage Interest
Enter the mortgage interest in whole dollar amounts.

84 — Other Facility-Specific Costs Not Identified Elsewhere
Enter the other facility-specific costs not identified elsewhere in whole dollar amounts. If the amount is greater than 5.0% of total facility cost (line 85), attach supporting details in the Comments section of this survey.
85 — Total Facility Costs
Enter the total facility costs (sum of 77 through 84).

Non-Facility Overhead Expenses
Allowable other store/location expenses not directly attributed to the pharmacy department are allocated to the pharmacy dispensing fee calculation as a percentage of sales.

86 — Marketing and Advertising
Enter the marketing and advertising costs in whole dollar amounts.

87 — Professional Services
Enter the cost for professional services (e.g., accounting, legal, consulting) in whole dollar amounts.

88 — Security Costs
Enter the cost for security systems and monitoring in whole dollar amounts.

89 — Telephone and Data Communication
Enter the costs for telephone and data communication in whole dollar amounts.

90 — Transaction Fees/Merchant Fees/Credit Card Fees
Enter the costs for transaction, merchant and credit card fees in whole dollar amounts.

91 — Computer Systems and Support
Enter the costs for computer systems and support in whole dollar amounts.

92 — Depreciation
Enter the costs for depreciation for all other items, including equipment, furniture and computers that are not captured elsewhere in whole dollar amounts.

93 — Amortization
Enter the costs for amortization in whole dollar amounts.

94 — Office Supplies
Enter the costs for office supplies in whole dollar amounts.

95 — Office Expense
Enter the costs for office expenses in whole dollar amounts.

96 — Other Insurance
Enter the costs for other insurance in whole dollar amounts.

97 — Taxes Other Than Real Estate, Payroll, or Sales
Enter the costs for any taxes other than real estate, payroll or sales in whole dollar amounts.

98 — Franchise Fees (If Applicable)
Enter the costs for franchise fees, if applicable, in whole dollar amounts.

99 — Other Interest
Enter the costs for other interest in whole dollar amounts.

100 — Charitable Contributions
Enter the amount of charitable contributions for the report period in whole dollar amounts.

101 — Corporate Overhead
Enter the costs of corporate overhead in whole dollar amounts.
102 — Other Costs Not Included Elsewhere
Enter any other costs not included elsewhere in whole dollar amounts. If the amount is greater than 5.0% of total other store/location costs (line 103), attach supporting details in the Comments section.

103 — Total non-facility overhead Costs
Enter the total other store/location costs (sum of 86 through 102).

104 — Total Overhead
Enter the total overhead (sum of 85 and 103).

SECTION VIII — RECONCILIATION
The Reconciliation section is to verify that all sales, payroll and total expenses are accounted for in the survey response. The survey is designed to capture all of the pharmacy’s income statement accounts, although not all categories will be used to calculate the average cost to dispense. The line items below are included only for verification that amounts included are accurate.

105 — Total Net Sales
Enter the total sales less returns from your financial statements or tax returns for the reporting period.

106-107 – Total Net Sales and Sales Variance
These two data fields are automatically calculated by the survey tool; there is no need to enter values.

108 — Total Payroll
Enter the total payroll cost, including wages and bonuses from your financial statements or tax returns for the reporting period.

109-110 – Total Payroll and Payroll Variance
These two data fields are automatically calculated by the survey tool; there is no need to enter values.

111 — Total Expenses
Enter the total expenses from your financial statements or tax returns for the reporting period.

112-113 – Total Expenses and Expense Variance
These two data fields are automatically calculated by the survey tool; there is no need to enter values.

SECTION IX — COMMENTS
The Comments section is for comments and clarifications. If reporting more than one location, be specific as to which location the comment pertains. If comments are provided in response to a question, be specific as to which question the comment pertains.

Although providers spend time providing value-added services, few providers track the time spent providing such services. Respondents are encouraged to provide information about value-added services and identify time spent on value-added services in this section.
SECTION X — CERTIFICATION
The Certification section requires the signature of a certifier declaring that he or she has thoroughly examined the survey and cost report and believes the information is true, correct and complete. Printed name and position/title are also required of the certifier.

SECTION XI — STATEMENT OF THE PREPARER
This section requires a statement of the preparer if the preparer of the survey and cost report is different than the provider listed on the survey. The preparer’s signature, printed name, position/title and company name is required in this section.
Sample Letters

HEALTH SYSTEMS DIVISION

Date: January 26, 2017
From: Don Ross, Physical and Oral Health Programs manager
Integrated Health Programs, Health Systems Division
Subject: Mandatory dispensing fee survey planned for February 2017

Please join the Oregon Health Authority (OHA) for a webinar about our upcoming survey on Oregon Health Plan prescription dispensing fees.
- **Date:** February 2, 2017
- **Time:** 11 a.m. Pacific Standard Time
- **Link to register:** https://mmc.webex.com/mmc/onstage/g.php?MTID=e9ab812221a9294f63aaab7e92d87

OHA has contracted with Mercer to conduct the survey. The survey results will help the state determine the professional fee for dispensing covered outpatient medications to Oregon Health Plan members.

Your participation is required in the survey, which will launch in mid-February.

**Why is this happening?**
The federal Covered Outpatient Drugs Final Rule (CMS-2345-FC) requires all state Medicaid programs to reimburse covered outpatient drugs at actual acquisition cost (AAC) plus a professional dispensing fee, starting no later than April 1, 2017.

OHA’s fee-for-service reimbursement of covered outpatient drugs has used an AAC formula since 2011.

Pursuant to OHA General Rules 410-120-1260, 410-120-1360, 410-120-1400, and 410-120-1460, participation in the professional dispensing fee survey is mandatory.

**What should you do?**
Please join us for the February 2 webinar, and watch for another letter about the survey in mid-February. You can also learn more about the survey at https://glscsprs.mercer.com/ORpharmacy/

Thank you for your continued support of the Oregon Health Plan and your participation in this important survey.
Date: February 13, 2017

To: Oregon Health Plan (OHP) pharmacy owners or managers

From: Don Ross, Physical and Oral Health Programs manager
Integrated Health Programs, Health Systems Division

Subject: Please complete OHA’s Cost to Dispense survey by March 10, 2017

As you may know from our January letter and February 2 webinar, the Oregon Health Authority (OHA) has contracted with Mercer Government Human Services Consulting (Mercer), a part of Mercer Health & Benefits LLC, to conduct a survey on Oregon Health Plan (OHP) prescription dispensing fees.

The survey period is now open, and ends March 10, 2017. You can begin completing surveys for each of your pharmacy locations using the following information:

- **Username**: [username]
- **Password**: [password]
- **Link to secure online survey tool**: [https://survey.mercer.com/OHA2017PDPS.survey](https://survey.mercer.com/OHA2017PDPS.survey)

OHA and Mercer will also host a webinar to help you better understand the survey, and answer any questions you have about the survey.

- **Date**: February 28, 2017
- **Time**: 11:00 AM PT
- **Link to webinar**: [https://record.webex.com/ehrc/j.php?MTID=s8ec991177209627c6347906e87f11896](https://record.webex.com/ehrc/j.php?MTID=s8ec991177209627c6347906e87f11896)
- **This link can also be found on the Survey Homepage at [https://absapps.mercer.com/OHP pharmacy/](https://absapps.mercer.com/OHP pharmacy/)**

**Why is this happening?**

The data from the survey will help OHA to:

- Better understand the current cost of dispensing fee-for-service prescription medications to OHP members, and
- Determine the professional dispensing fee for fee-for-service prescriptions effective April 1, 2017.

Your participation in this survey is critical to ensuring Oregon Medicaid’s reimbursement methodology is accurate, consistent, and transparent. Your participation is mandatory, pursuant to OHA General Rules 410-120-1260, 410-120-1360, 410-120-1400, and 410-120-1460.

**What should you do?**

Please complete the survey for each of your pharmacy locations by **March 10, 2017**.
This is to ensure that we collect information for any price and cost differences that may or may not exist between different locations for your pharmacies.

You may use the same username and password to do the survey for each location.

If you prefer not to use the online survey, you can complete Mercer’s spreadsheet template and send it via secure email to Mercer at RsSurvey@mercer.com.

To get the template, go to https://ghscupps.mercer.com/ORpharmacy/ or request a copy via email (RsSurvey@mercer.com).

You can enter information for all locations into a single spreadsheet.

All information collected through this survey will remain protected and confidential. Neither OHA nor Mercer will release or otherwise make public any information collected in the course of this survey that names and/or discloses the business, financial, personnel, or other information provided by individual pharmacies or chains.

Questions?
If you have any questions prior to the webinar, contact Mercer at RsSurvey@mercer.com or 1-844-679-7737. You can also visit the project’s Web page at https://ghscupps.mercer.com/ORpharmacy/ to learn more about the survey.

As always, we greatly appreciate all that you do for our members and our state. Thank you, in advance, for your participation in this survey.
Date: February 27, 2017

To: Oregon Health Plan (OHP) pharmacy owners or managers

From: Don Ross, Physical and Oral Health Programs manager
Integrated Health Programs, Health Systems Division

Subject: Reminder: Please complete OHA’s Cost to Dispense survey by March 10, 2017

If you have already submitted your survey to us, thank you. You may disregard this reminder.

If you have not submitted your survey to us, please do so by March 10, 2017. The week of February 13, we invited you to complete a mandatory survey about Oregon Health Plan (OHP) prescription dispensing fees. As of this date, we have not received information for your pharmacy location(s).

Why is this happening?
The data from the survey will help the Oregon Health Authority (OHA) to:

- Better understand the current cost of dispensing fee-for-service prescription medications to OHP members, and
- Determine the professional dispensing fee for fee-for-service prescriptions effective April 1, 2017.

Your participation is mandatory, pursuant to OHA General Rules 410-120-1260, 410-120-1360, 410-120-1400, and 410-120-1460.

What should you do?
Please complete the survey for each of your pharmacy locations by March 10, 2017. Go to https://ghsapps.mercer.com/ORPharmacy/ and complete the survey in one of these ways:

- Use the secure online survey tool. You will need the username and password we mailed you in our February letter.
- Complete Mercer’s spreadsheet template. Email it to Mercer at RxSurvey@mercer.com.

All information collected through this survey will remain protected and confidential. Neither OHA nor Mercer will release or otherwise make public any information collected in the course of this survey that names and/or discloses the business, financial, personnel, or other information provided by individual pharmacies or chains.

Questions?
If you need help with your online username and password, or need a copy of the spreadsheet template, contact Mercer at RxSurvey@mercer.com or 1-844-679-7737.

Again, we thank you in advance for completing this important survey. Your participation helps ensure that our fee-for-service reimbursement methodology is accurate, consistent, transparent, and inclusive of all pharmacies serving Oregon Health Plan members.