



Legislative Report

2023 Minnesota Fee-for-Service Cost of Dispensing Survey

**Pharmacy and Medicaid Decision Support
Division**

August 2023

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I. Executive summary

The Minnesota Department of Human Services (DHS) is required by state law to complete a Cost of Dispensing Survey of Minnesota pharmacy providers every three years and advise the legislature whether any changes to the dispensing fee(s) for the Medical Assistance program are recommended. In 2022, DHS contracted with Myers and Stauffer LC to complete the survey and report.

The Cost of Dispensing Survey measures the cost of dispensing by pharmacy providers based on a number of different provider attributes and different measures of central tendency. The Minnesota 2023 Cost of Dispensing Survey had a strong response rate of nearly 90% of enrolled pharmacies responding. The report details the results in **Exhibit 9a** and **Exhibit 9b** and found that the median cost of dispensing for all pharmacies, when weighted by Medicaid prescription volume, was \$11.55 per prescription. The median weighted by Medicaid prescription volume means that half of the Medicaid prescriptions dispensed by pharmacies that responded to the survey had a higher cost to dispense, and half had a lower cost to dispense, than \$11.55 per prescription.

II. Legislation

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

III. Introduction

To comply with state statute, the Department of Human Services (DHS) conducted a Cost of Dispensing Survey (CODS). DHS contracted with Myers and Stauffer LC, through a competitive procurement, to conduct the survey.

Purpose of report

Pharmacies provide a number of clinical and healthcare services to public program members. Some services are reimbursed according to professional fee schedules and are separate from the reimbursement for dispensing activities. Examples of these clinical and healthcare services include conducting Medication Therapy Management reviews and administering medications like vaccines and injectable mental health drugs. Dispensing services are defined by federal rule 42 C.F.R .447.502 in the definition of the Professional dispensing fee:

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 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, and overhead associated with maintaining the facility and equipment necessary to operate the pharmacy; and

(3) Does not include administrative costs incurred by the State in the operation of the covered outpatient drug benefit including systems costs for interfacing with pharmacies.

The purpose of the Minnesota CODS is to evaluate the current pharmacy dispensing fee of \$10.77 to the costs associated with Minnesota pharmacy providers dispensing prescriptions to fee-for-service Medical Assistance members.

IV. Results

Myers and Stauffer surveyed 1,015 pharmacies enrolled with DHS to provide pharmacy services to fee-for-service members. Of those surveyed, 64 pharmacies were exempted due to factors such as a change in ownership or the pharmacy had been open for less than 6 months during the reporting time period. Of the remaining pharmacies that were eligible to be included in the survey, 853 responded (89.7%) and were included in the final report.

A. Vaccine Administration Costs

The scope of practice for pharmacists has included non-dispensing clinical activities for years; however, the costs and revenue associated with those services has historically not been significant enough to be material to the calculation of the cost of dispensing. During the COVID 19 pandemic there was a large increase in the number of vaccines administered by pharmacy staff members due to the expansion of the scope of practice under several amendments to the Public Readiness and Emergency Preparedness Act (PREP Act). Because of this, the 2023 CODS measured and includes adjustments to cost categories based on pharmacies reported vaccine administration activities. Additional information regarding the vaccine administrative cost adjustment can be found on page 17 of the CODS. For comparison, the statistical calculations and subgroup analyses were performed with the vaccine administrative costs both included, and excluded, in the costs of dispensing. The breakdown of both analyses can be found in **Exhibit 9a** and **Exhibit 9b** of the CODS.

B. Specialty Pharmacies

The 2020 CODS was limited in the recommendations that could be offered regarding reimbursement to specialty pharmacies for a number of reasons, most significantly, the lack of a standardized definition of what a “specialty pharmacy” and “specialty drug” are. DHS had suggested a workgroup be resourced and convened by the Board of Pharmacy to define these terms, but that was not possible due to numerous competing demands on the Board of Pharmacy over the last several years. As a result, the 2023 CODS faces many of the same issues that the 2020 CODS encountered. One issue that was partially resolved was the exclusive use of self-reporting to determine whether a pharmacy was, or was not, a specialty pharmacy. The 2023 CODS required at least 10% of a pharmacy’s reported sales to be derived from intravenous, home infusion, clotting factor and/or other specialty services in order to be included in the specialty pharmacy category.

C. Statewide Averages – Means and Medians

The current dispensing fee is \$10.77, which was the statewide median cost weighted by Medicaid prescription volume from the 2020 CODS. The table below summarizes a sample of the results from Exhibit 9a of the 2023 CODS for all pharmacies.

Method	Mean	Median
Unweighted	\$16.46	\$11.35
Weighted by Total RX Volume	\$13.44	\$11.13

Method	Mean	Median
Weighted by Medicaid RX Volume	\$13.37	\$11.55

The table below summarizes a sample of the results from Exhibit 9a of the 2023 CODS by specialty and non-specialty pharmacies.

	Specialty Pharmacies	Specialty Pharmacies	Non-Specialty Pharmacies	Non-Specialty Pharmacies
Method	Mean	Median	Mean	Median
Unweighted	\$65.19	\$16.19	\$13.10	\$11.25
Weighted by Total RX Volume	\$34.09	\$20.15	\$12.08	\$11.05
Weighted by Medicaid RX Volume	\$19.25	\$12.42	\$12.72	\$11.54

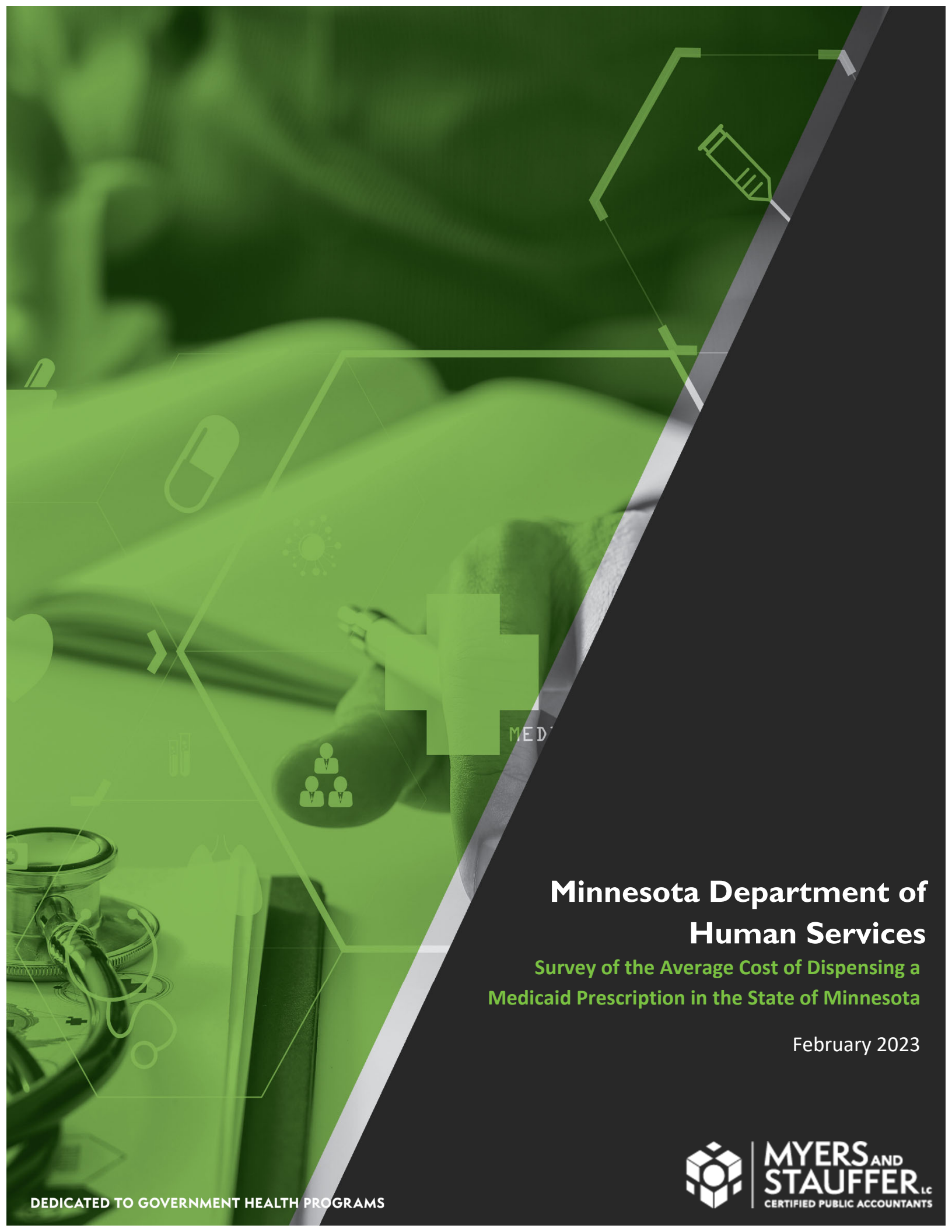
V. Report recommendations

Based on the results of the 2023 Minnesota Cost of Dispensing Survey, DHS recommends revising the current dispensing fee (\$10.77) to the median weighted by Medicaid prescription volume (\$11.55) for all community retail pharmacies. DHS recommends using the median weighted by Medicaid prescription volume because it is the midpoint cost of dispensing where half of all Medicaid prescriptions dispensed by the survey respondents have a lower cost of dispensing, and half have a higher cost of dispensing. Using the median weighted by Medicaid prescription volume also maintains consistency as this was the measurement used for the current dispensing fee from the 2020 Minnesota Cost of Dispensing Survey and it would not be expected to generate significant pushback from CMS during the State Plan Amendment process.

DHS does not recommend a separate dispensing fee for specialty pharmacies from community retail pharmacies because of the lack of a standardized definition for identifying pharmacies engaged in that business, a lack of a specialty pharmacy license that would identify the population of pharmacies eligible for the separate dispensing fee, and a lack of transparency into the necessary revisions that would need to be made to the drug reimbursement to ensure the reimbursement rate would comply with the “actual acquisition cost” reimbursement requirement in 42 C.F.R. 447.502 - 518. As self-identified specialty pharmacies have historically derived a large percentage of their operating income from the drug reimbursement, and not the dispensing fee, DHS would need to show CMS how a higher specialty dispensing fee is offset by an appropriate reduction in the drug reimbursement during the State Plan Amendment process. The lack of transparency into the drug reimbursement relative to costs for specialty drugs or specialty pharmacies would make securing federal approval for a specialty pharmacy dispensing fee uncertain. However, DHS does recommend that a workgroup of pharmacy providers, payers, and the Board of Pharmacy be convened to define a standard definition of what a specialty pharmacy is so that future Cost of Dispensing surveys could measure differential drug and dispensing costs for this provider group versus other community retail pharmacies. DHS recommends that the Board of Pharmacy be resourced to lead the workgroup as the impact of defining what is a specialty pharmacy impacts the industry at large and not just DHS. This recommendation is carried over from the 2020 Minnesota Cost of Dispensing Survey Legislative Report.

VI. Appendix

Survey of the Average Cost of Dispensing a Medicaid Prescription in the State of Minnesota prepared by Myers and Stauffer LC.



**Minnesota Department of
Human Services**
Survey of the Average Cost of Dispensing a
Medicaid Prescription in the State of Minnesota

February 2023





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EXHIBITS

- Exhibit 1 Minnesota Department of Human Services Pharmacy Cost of Dispensing Survey – Survey Form
- Exhibit 2 Informational Letter from the Minnesota Department of Human Services Regarding Pharmacy Cost of Dispensing Survey (Independent and Chain Pharmacies)
- Exhibit 3a Letter from Myers and Stauffer LC Regarding Pharmacy Cost of Dispensing Survey (Independent Pharmacies)
- Exhibit 3b Letter from Myers and Stauffer LC Regarding Pharmacy Cost of Dispensing Survey (Chain Pharmacies)
- Exhibit 4 Informational Meeting Flyer (Independent and Chain Pharmacies)
- Exhibit 5 First Survey Reminder Postcard (Independent and Chain Pharmacies)
- Exhibit 6 Second Survey Reminder / Extension Postcard (Independent and Chain Pharmacies)
- Exhibit 7 Table of Inflation Factors for Cost of Dispensing Survey
- Exhibit 8 Histogram of Pharmacy Cost of Dispensing
- Exhibit 9a Cost of Dispensing Survey Data – Statistical Summary: Cost of Dispensing Adjusted for Vaccine Administration
- Exhibit 9b Cost of Dispensing Survey Data – Statistical Summary: Cost of Dispensing (Not Adjusted for Vaccine Administration)
- Exhibit 10 Charts Relating to Pharmacy Total Prescription Volume:
 - A: Histogram of Pharmacy Total Prescription Volume
 - B: Scatter-Plot of Relationship between Cost of Dispensing per Prescription and Total Prescription Volume
- Exhibit 11 Chart of Components of Cost of Dispensing per Prescription
- Exhibit 12 Summary of Pharmacy Attributes



Chapter 1: Executive Summary

Introduction

Under contract to the Minnesota Department of Human Services (DHS), Myers and Stauffer LC performed a survey of pharmacy cost of dispensing. The cost of dispensing survey followed the methodology and used a survey instrument similar to those used by Myers and Stauffer in Medicaid pharmacy engagements in several other states. The methodology was consistent with guidelines from the Centers for Medicare and Medicaid Services (CMS) regarding the components of pharmacy cost that are appropriately reimbursed by the professional dispensing fee used within a state Medicaid fee-for-service pharmacy program.

To determine the pharmacies which would be included within the survey process, Myers and Stauffer obtained from DHS a list of pharmacy providers currently enrolled in the Minnesota Medicaid pharmacy program and located within the state borders. According to the provider list, there were 1,015 pharmacy providers that were enrolled in the Minnesota Medicaid program and located in the borders of Minnesota. Each of the 1,015 enrolled pharmacies were requested to submit survey information for this study.

For each cost of dispensing survey that was submitted, Myers and Stauffer performed desk review procedures to test completeness and accuracy of the submitted information. There were 853 pharmacies which filed cost surveys that could be included in the cost of dispensing analysis. Myers and Stauffer applied pharmacy-specific cost-finding algorithms to the submitted survey data in order to calculate the average cost of dispensing at each pharmacy. The results from all pharmacies participating in the survey were subjected to statistical analysis and various measures of average (mean and median) cost of dispensing were calculated for all pharmacies and for various categories of pharmacies.

Summary of Findings

Based on the survey for pharmacies participating in the Minnesota Medicaid program, the median cost of dispensing, weighted by Medicaid prescription volume, was \$11.55 per prescription for all pharmacies including specialty pharmacies.¹ For non-specialty pharmacies only, the median cost of dispensing, weighted by Medicaid prescription volume, was \$11.54 per prescription. Table 1.1

¹ For purposes of this report, “specialty” pharmacies are those pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 30 percent or more of total prescription sales. Within their survey responses, pharmacies were allowed to rely upon their own methods for categorizing products as “specialty” for the reporting of sales and summary counts of prescriptions dispensed.



summarizes these and selected additional measures of pharmacy cost of dispensing derived from the survey results.²

Table 1.1 Cost of Dispensing for Minnesota Pharmacies

	All Pharmacies Inclusive of Specialty	Non-specialty Pharmacies Only
Pharmacies Included in Analysis	853	798
Unweighted Median ^{A, C}	\$11.35	\$11.25
Weighted Median ^{A, B, C}	\$11.55	\$11.54

^A Inflated to common point of June 30, 2022 (midpoint of year ending December 31, 2022).

^B Weighted by Medicaid prescription volume.

^C Adjusted for vaccine administration.

Conclusions

Cost of Dispensing Trends

While recognizing that most input costs for pharmacies, including pharmacist and other staff salaries and benefits, are subject to inflationary factors, Myers and Stauffer has observed over the course of multiple cost of dispensing surveys in recent years that the overall average cost of dispensing *on a per prescription basis* has not followed the same inflationary trajectory. Increases in pharmacy efficiency associated with increased prescription volume and more efficient business practices have had a tempering impact on inflationary factors.

In general, total prescription volume within individual pharmacies has been on an upward trend. Furthermore, in recent years, many pharmacies have implemented changes to business operations that have increased efficiency. For example, more pharmacies are participating in e-prescribing, central fill dispensing and the use of automated dispensing methods. These changes have made pharmacists and other pharmacy staff more efficient at dispensing medications and have curtailed the rate of increase in the average cost of dispensing on a per prescription basis.

The vast majority of pharmacies which submitted data for this survey reported for a fiscal year period which included all or most of calendar year 2021. A notable event during this time period was the continuation of the COVID-19 pandemic and associated Public Health Emergency which has impacted many health care providers. Many pharmacies during this time period took on a significant role in the administering of COVID-19 vaccines.

² As discussed later within this report, the calculated cost of dispensing is based on the application of cost finding algorithms which attempt to isolate the cost associated with a specific activity, in this case, the dispensing of prescription medications, even though financial records gathered in the survey process typically reported shared expenses associated with all pharmacy activities. For this survey, Myers and Stauffer introduced methods to separately isolate and estimate the cost of administering vaccines distinct from the cost of dispensing prescription medications. Within the executive summary and body of this report, the measurements of the cost of dispensing cited include the application of algorithms to isolate the cost of dispensing prescription medications as distinct from the cost of vaccine administration. However, subsequent presentations within the exhibits to the report also present the calculations of the cost of dispensing without the application of algorithms to isolate cost associated with vaccine administration.



In addition to the impact of the COVID-19 pandemic on pharmacy operations, broader economic factors, including significant inflationary pressures, have had impacts on all businesses, including pharmacies. The cost of dispensing survey relied on the most recent data available from pharmacies in Minnesota, and as described in further detail in this report, short term inflation adjustments, based on the fiscal year dates of each pharmacy submitting a survey, were applied to adjust the cost of dispensing to the point of June 30, 2022, which would be the mid-point of a fiscal year period ending December 21, 2022.

Professional Dispensing Fee Options

Federal regulations at 42 CFR § 447.518(d) require that when states propose changes to either the ingredient portion of pharmacy reimbursement or the professional dispensing fee, states must consider both to ensure that total reimbursement to the pharmacy provider is in accordance with requirements of section 1902(a)(30)(A) of the Social Security Act. The Minnesota Medicaid program moved to a professional dispensing fee of \$10.48 in 2019 based on a review of surveys of the cost of dispensing performed in other states. In 2020 a cost of dispensing survey of Minnesota pharmacies was conducted; no changes were made to the professional dispensing fee based on the results of that survey.

The current survey results is intended to provide DHS with information to continue to evaluate its professional dispensing fee. Based on the results of the survey of pharmacy dispensing cost, a single dispensing fee of \$11.55 would align with the weighted median cost of dispensing prescriptions to Minnesota Medicaid members inclusive of prescriptions dispensed by both specialty and non-specialty pharmacies. A single dispensing fee of \$11.54 would align with the weighted median cost of dispensing prescriptions to Minnesota Medicaid members for non-specialty pharmacies but would not account for the cost of dispensing prescriptions by specialty pharmacies.

The use of a single dispensing fee for all pharmacies represents the simplest reimbursement option and is the most widely used methodology for pharmacy dispensing fees among state Medicaid programs.



Chapter 2: Cost of Dispensing Survey and Analysis

The Minnesota Department of Human Services (DHS) engaged Myers and Stauffer LC to perform a study of costs incurred by pharmacies participating in the Minnesota Medicaid pharmacy program to dispense prescription medications. There are two primary components related to the provision of prescription medications: cost of dispensing and drug ingredient cost. This report is focused on the cost of dispensing which consists of the overhead and labor costs incurred by a pharmacy to fill prescription medications.

Dispensing Fees in Medicaid Programs

Reimbursement for prescription drugs is generally based on two components: ingredient reimbursement and the professional dispensing fee. The ingredient reimbursement is intended to cover the cost a pharmacy incurs to acquire a drug from a manufacturer or wholesaler. A dispensing fee is generally considered to be associated with covering the labor and overhead costs incurred by a pharmacy and intended to reimburse the expenses associated with the transfer of a drug from the pharmacy to a patient.

State Medicaid FFS pharmacy programs must use pharmacy reimbursement methodologies outlined in the Final Rule for Covered Outpatient Drugs (CMS-2345-FC). A key point in CMS-2345-FC with respect to the pharmacy dispensing fee is the requirement, codified at 42 CFR § 447.518(d), is that when states propose changes to either the ingredient portion of pharmacy reimbursement or the professional dispensing fee for their FFS Medicaid pharmacy program, states must consider both aspects of reimbursement to ensure total payments to the pharmacy provider are in accordance with requirements of section 1902(a)(30)(A) of the Social Security Act.

Additionally, states must provide adequate data, such as an in-state or other survey of retail pharmacy providers, to support any proposed changes to either the professional dispensing fee or ingredient component of the pharmacy reimbursement methodology. In practice, CMS has required states to support a SPA submission changing the professional dispensing fee with the results of an in-state cost of dispensing (COD) survey (i.e., a survey which collects the labor and overhead cost incurred by pharmacies, and calculates an estimate of the average cost to dispense prescriptions) or to present an analysis based on the results of COD surveys performed in other states.

The Centers for Medicare and Medicaid Services (CMS) has provided some basic guidelines for appropriate costs to be reimbursed via a Medicaid pharmacy professional dispensing fee. CMS guidelines state:



“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 recipient. Pharmacy costs include, but are not limited to, reasonable costs associated with a pharmacist’s time in checking the computer for information about an individual’s coverage, performing drug utilization review and preferred drug list review activities, measurement or mixing of the covered outpatient drug, filling the container, beneficiary counseling, physically providing the completed prescription to the Medicaid beneficiary, delivery, special packaging, and overhead associated with maintaining the facility and equipment necessary to operate the pharmacy; and

(3) Does not include administrative costs incurred by the State in the operation of the covered outpatient drug benefit including systems costs for interfacing with pharmacies.”³

Since CMS published CMS-2345-FC in February 2016, states have transitioned their FFS programs to professional dispensing fees based on its requirements. There are 32 states that apply a single state-wide professional dispensing fee to all prescription claims. These single state-wide dispensing fees range from \$8.96 (Rhode Island) to \$12.46 (North Dakota). There are eight states which have adopted tiered professional dispensing fees which are based on annual pharmacy total prescription volume. In states with volume-based tiers for professional dispensing fees, there are between two and four dispensing fee tiers. Seven states have adopted differential professional dispensing fees that are based on other criteria. For example, in Alaska professional dispensing fees vary based on whether a pharmacy is located on or off of the state’s road system.

In contrast to Medicaid FFS programs, Medicaid managed care pharmacy programs typically have greater flexibility for setting reimbursement rates including dispensing fees. Although a limited number of states have required the reimbursement methodology of their FFS pharmacy programs to be used within the managed care pharmacy benefit, the typical practice used within Medicaid managed care in many states is for Medicaid health plans to contract with a Pharmacy Benefit Manager (PBM) to administer pharmacy benefits. Medicaid health plans and their contracted PBMs typically reimburse pharmacies using reimbursement methods similar to those used in commercial health plans and Medicare Part D plans. These reimbursement methodologies typically rely on dispensing fees that are significantly less than those paid by most Medicaid FFS programs. These PBMs do not typically use ingredient reimbursement methodologies that are based on average acquisition cost (AAC), as are used in Medicaid FFS programs, but rather use other industry standard benchmarks such as the Average Wholesale Price (AWP) to which various discounts are applied. Proprietary Maximum Allowable Cost (MAC) lists for pricing of generic products are also frequently utilized. Dispensing fees paid by PBMs contracted with Medicaid managed care plans, Medicare Part D plans and other commercial

³ See 42 CFR § 447.502 and “Medicaid Program; Covered Outpatient Drugs.” (CMS-2345-FC) Federal Register, 81: 20 (1 February 2016) p 5349.



PBMs are often less than \$1.00 and are markedly less than the average cost of dispensing, on a per prescription basis, incurred by most pharmacies.

Methodology of the Cost of Dispensing Survey

In order to determine costs incurred to dispense pharmaceuticals to members of the Minnesota Medicaid pharmacy program, Myers and Stauffer utilized a survey method consistent with federal regulations for the components of a pharmacy dispensing fee (42 CFR § 447.502) and the methodology of previous surveys conducted by Myers and Stauffer in several other states. Myers and Stauffer collaborated with DHS to refine the survey tool to best meet its objectives.

Survey Distribution

To determine the pharmacies which would be included within the survey process, Myers and Stauffer obtained from DHS a list of pharmacy providers currently enrolled in the Minnesota Medicaid pharmacy program. According to the provider list, there were 1,015 pharmacy providers enrolled in the program. Surveys were mailed and emailed to all 1,015 pharmacy providers on October 19, 2022. Each surveyed pharmacy received a copy of the cost of dispensing survey (Exhibit 1), a letter of introduction from DHS (Exhibit 2), an instructional letter from Myers and Stauffer (Exhibits 3a and 3b), and an invitation to participate in a webinar hosted by Myers and Stauffer (Exhibit 4).

Concerted efforts to encourage participation were made to enhance the survey response rate. A toll-free telephone number and email address were listed on the survey form and pharmacy providers were instructed to call or email a survey help desk to resolve any questions they had concerning completion of the survey form. For convenience in completing the cost of dispensing survey, the survey forms were made available in both a printed format and in an electronic format (Microsoft Excel). The survey instructions offered pharmacy providers the option of having Myers and Stauffer complete certain sections of the survey for those that were willing to submit copies of financial statements and/or tax returns.

Additionally, Myers and Stauffer hosted informational webinars on October 27, 2022 and November 1, 2022. Providers were invited to attend via a web application and a conference call. A brief presentation was given to provide pharmacy staff with instructions regarding completion of the cost of dispensing survey. Additional time was allowed following the presentation to address provider questions.

Reminder letters and emails were also used as tools to encourage provider response to the survey. Letters were sent to pharmacies the week of November 2, 2022 (Exhibit 5) and the week of November 14, 2022 (Exhibit 6). The second letter announced an extension of the original due date from November 16, 2022 to November 30, 2022. Weekly reminder emails were also sent to non-respondent pharmacies throughout the month of November.

Providers were given instructions to report themselves as ineligible for the survey if they met certain criteria. Pharmacies were to be deemed ineligible if they had closed their pharmacy, experienced a change of ownership, or had less than six months of cost data available (e.g., due



to a pharmacy that recently opened or changed ownership). Of the 1,015 surveyed pharmacies, 64 pharmacies were determined to be ineligible to participate based on the returned surveys.

Surveys were accepted through January 25, 2023. As indicated in Table 2.1, there were 853 surveyed pharmacies that submitted a usable cost survey for this study resulting in a response rate of 89.7 percent.

Some of the submitted cost surveys contained errors or did not include complete information necessary for full analysis. For cost surveys with such errors or omissions, the pharmacy was contacted for clarification. There were limited instances in which issues on the cost survey could not be resolved in time for inclusion in the final survey analysis.⁴

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

Table 2.1 Cost of Dispensing Survey Response Rate

Pharmacy Category	Medicaid Enrolled Pharmacies	Pharmacies Exempt or Ineligible from Filing	Eligible Pharmacies	Usable Cost Surveys Received	Response Rate
Chain ⁵	678	10	668	652	97.6%
Independent	183	22	161	93	57.8%
Hospital or Health System	154	32	122	108	88.5%
TOTAL	1,015	64	951	853	89.7%
In-State Urban ⁶	695	45	650	600	92.3%
In-State Rural	320	19	301	253	84.1%
TOTAL	1,015	64	951	853	89.7%

Tests for Reporting Bias

Since the overall response rate of the surveyed pharmacies was less than 100 percent, the possibility of bias in the response rate should be considered. To measure the likelihood of this possible bias, chi-square (χ^2) tests were performed. A χ^2 test evaluates differences between proportions for two or more groups in a data set. For the pharmacy traits of affiliation (i.e., chain

⁴ There were 22 incomplete surveys received on or before January 25, 2022 that were eventually determined to be unusable because they were substantially incomplete or missing essential information. These issues could not be resolved in a timely manner with the submitting pharmacy. These incomplete surveys were not included in the count of 853 usable surveys received.

⁵ For purposes of this survey, a chain was defined as an organization having four or more pharmacies under common ownership or control on a national level.

⁶ For measurements that refer to the urban or rural location of a pharmacy, Myers and Stauffer used the pharmacies zip code and the "Zip Code to Carrier Locality File" from the Centers for Medicare & Medicaid Services to determine if the pharmacy was located in an urban or rural area.



or independent) and location (i.e., urban or rural), the response rates of the submitted surveys were tested to determine if they were representative of the population of Medicaid provider pharmacies.

Of the 853 usable cost surveys, 652 were from chain pharmacies, 93 were from independent pharmacies, and 108 were from hospital or health system pharmacies. There was a response rate of 97.6 percent for chain pharmacies compared to a response rate of 57.8 percent for independent pharmacies and an 88.5% response rate from hospital and health system pharmacies. The results of the χ^2 test indicated that the difference in response rate between chain, independent, and hospital or health system pharmacies was statistically significant at the 95 percent confidence level. Notably, the response rate for independent pharmacies was markedly lower than for other pharmacy types. No adjustments to the cost of dispensing data were made as a result of this observation.

A χ^2 test was also performed with respect to the urban versus rural location for responding pharmacies that were located in the state of Minnesota. Of the 853 non-exempt pharmacies located in the state of Minnesota, 650 pharmacies (or 68 percent) were located in an urban area. The remaining 301 pharmacies (or 32 percent) were located in a rural area. There were 600 usable surveys submitted by in an urban location (a response rate of 92.3 percent). There were 253 usable surveys submitted by pharmacies in a rural location (a response rate of 84.1 percent). The results of the χ^2 test indicated that the difference in response rate between urban and rural pharmacy locations within the state was not statistically significant at the 95 percent confidence level.

Desk Review Procedures

A desk review was performed for 100 percent of surveys received. This review identified incomplete cost surveys; pharmacies submitting these incomplete cost surveys were contacted by telephone and/or email to obtain information necessary for completion. The desk review process also incorporated a number of tests to determine the reasonableness of the reported data. In many instances, pharmacies were contacted to correct or provide confirmation of reported survey data that was flagged for review as a result of these tests for reasonableness.

Cost Finding Procedures

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

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

Although the denominator of the cost of dispensing formula (i.e., the “total number of prescriptions dispensed”) is relatively straight-forward, the calculation of the numerator of the formula (i.e., “total allowable cost related to dispensing prescriptions”) can be complex. “Cost finding” principles must be applied since not all reported pharmacy expenses were strictly related



to the prescription dispensing function of the pharmacy. Most pharmacies are also engaged in lines of business other than the dispensing of prescription drugs. For example, many pharmacies have a retail business with sales of over-the-counter (OTC) drugs and other non-medical items such as groceries or other goods. Some pharmacies are involved in the sale of durable medical equipment and other medical supplies. The existence of these other lines of business necessitates that procedures be applied to estimate the portion of expenses that are associated with the prescription dispensing function of the pharmacy.

“Cost finding” is the process of recasting cost data using rules or formulas in order to accomplish an objective. In this study, the objective is to estimate the cost of dispensing prescriptions to Medicaid members. To accomplish this objective, some pharmacy expenses must be allocated between the prescription dispensing function and other business activities. This process identified the reasonable and allowable costs necessary for dispensing prescriptions to Medicaid members.

For purposes of the study, the cost of dispensing was considered as two primary components: overhead and labor. The cost finding rules employed to determine the cost of dispensing associated with the overhead and labor components are described in the following sections.

Overhead Cost

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

- **All, or 100 percent**

For overhead expenses that were considered to be entirely related to prescription functions, 100 percent of the expenses were allocated.

Overhead expenses that were considered entirely prescription-related include:

- Prescription department licenses.
- Prescription delivery expense.
- Prescription computer expense.
- Prescription containers and labels. (For many pharmacies the costs associated with prescription containers and labels are captured in their cost of goods sold. Subsequently, it was often the case that a pharmacy was unable to report expenses for prescription containers and labels. In order to maintain consistency, a minimum allowance for prescription containers and labels was determined to use for pharmacies that did not report an expense amount for containers and labels. The allowance was set at the 95th percentile of prescription containers and labels expense per prescription for pharmacies that did report prescription containers and labels expense: \$0.4778 per prescription).



- Certain other expenses that were separately identified on Lines (32a) to (32t) of Page 7 of the cost survey (Exhibit 1).⁷

- **None, or 0 percent**

For overhead expenses that are not considered to be related to prescription functions, none of the expenses were allocated.

Overhead expenses that were not allocated as a prescription expense include:

- Income taxes ⁸
- Bad debts ⁹
- Advertising ¹⁰
- Charitable Contributions ¹¹
- Credit Card Processing Fees ¹²

⁷ "Other" expenses were individually analyzed to determine the appropriate basis for allocation of each expense: sales ratio, area ratio, 100 percent related to cost of dispensing or 0 percent (i.e., not allocated).

⁸ Income taxes are not considered an operational cost because they are based upon the profit of the pharmacy operation.

⁹ Bad debt expense is not referenced in CMS guidelines for professional dispensing fees at 42 CFR § 447.502. Furthermore, the exclusion of bad debts from the calculation of the cost of dispensing is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15-1, Section 304:

"The allowance of unrecovered costs attributable to such bad debts in the calculation of reimbursement by the Program results from the expressed intent of Congress that the costs of services covered by the Program will not be borne by individuals not covered, and the costs of services not covered by the Program will not be borne by the Program."

It is recognized that some bad debts may be the result of Medicaid co-payments that were not collected. However, it was not possible to isolate the amount of bad debts attributable to uncollected Medicaid co-payments from the survey data. Additionally, there may be programmatic policy reasons to exclude uncollected Medicaid co-payments from the calculation of the cost of dispensing. Inclusion of cost for uncollected co-payments in the dispensing fee might serve to remove incentives for pharmacies to collect Medicaid co-payments when applicable. Given that co-payments were established to bring about some measure of cost containment, it may not be in the best interest of a Medicaid pharmacy program to allow uncollected co-payments to essentially be recaptured in a pharmacy professional dispensing fee.

¹⁰ Advertising expense is not referenced in CMS guidelines for professional dispensing fees at 42 CFR § 447.502. Furthermore, the exclusion of most types of advertising expense is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15.1, Section 2136.2:

"Costs of advertising to the general public which seeks to increase patient utilization of the provider's facilities are not allowable."

¹¹ Charitable contributions are not referenced in CMS guidelines for professional dispensing fees at 42 CFR § 447.502. Individual proprietors and partners are not allowed to deduct charitable contributions as a business expense for federal income tax purposes. Any contributions made by their business are deducted along with personal contributions as itemized deductions. However, corporations are allowed to deduct contributions as a business expense for federal income tax purposes. Thus, while Line 13 on the cost report recorded the business contributions of a corporation, none of these costs were allocated as a prescription expense. This provides equal treatment for each type of ownership.

¹² Credit card processing fees were not allowed on the basis that prescriptions for Medicaid members are not predominantly paid through credit or debit card payments.



- Certain expenses reported on Lines (32a) through (32t) of Page 7 of the cost survey (Exhibit 1) were excluded if the expense was not related to the dispensing of prescription drugs.

Most expenses were assumed to be related to both prescription and nonprescription functions of the pharmacy and were allocated using either an area ratio or a sales ratio as described below:

- **Area ratio**

In order to allocate expenses that were considered to be reasonably related to building space, an area ratio was calculated as prescription department floor space (in square feet) divided by total floor space. This initial ratio was increased by a factor of 2.0 from the square footage values reported on the cost survey. The use of this factor creates an allowance for waiting and counseling areas for patients, a prescription department office area and common store area needed to access the prescription department. The resulting ratio was adjusted downward, when applicable, to not exceed the sales ratio (in order to avoid allocating 100 percent of these costs in the instance where the prescription department occupies the majority of the area of the store).

Overhead expenses allocated on the area ratio include:¹³

- Depreciation
- Real estate taxes
- Rent¹⁴
- Repairs
- Utilities

- **Sales ratio**

Remaining expenses that were shared by both the prescription and non-prescription functions of the pharmacy were allocated using a sales ratio which was calculated as prescription sales divided by total sales.

Overhead expenses allocated using the sales ratio include:

- Personal property taxes
- Other taxes

¹³ Allocation of certain expenses using a ratio based on square footage is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15-2, Section 3617.

¹⁴ The survey instrument included special instructions for reporting rent and requested that pharmacies report "ownership expenses of interest, taxes, insurance and maintenance if building is leased from a related party". This treatment of related-party expenses is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15-2, Section 3614:

"Cost applicable to home office costs, services, facilities, and supplies furnished to you by organizations related to you by common ownership or control are includable in your allowable cost at the cost to the related organizations. However, such cost must not exceed the amount a prudent and cost conscious buyer pays for comparable services, facilities, or supplies that are purchased elsewhere."



- Insurance
- Interest
- Accounting and legal fees
- Telephone and supplies
- Dues and publications

Labor Cost

Labor cost was calculated by allocating total salaries, payroll taxes, and benefits based on the percent of time spent in the prescription department. The allocations for each labor category were summed and then divided by the number of prescriptions dispensed to calculate labor cost of dispensing per prescription. There are various classifications of salaries and wages requested on the survey (Lines (1) to (12) of Page 5 of the survey – Exhibit 1) due to the different treatment given to each labor classification.

Although some employee pharmacists spent a portion of their time performing nonprescription duties, it was assumed in this study that their economic productivity when performing nonprescription functions was less than their productivity when performing prescription duties. The total salaries, payroll taxes, and benefits of employee pharmacists were multiplied by a factor based upon the percent of prescription time. Therefore, a higher percentage of salaries, payroll taxes, and benefits was allocated to the labor cost of dispensing than would have been allocated if a simple percent of time allocation were utilized. Specifically, the percent of prescription time indicated was adjusted by the following formula:¹⁵

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

The allocation of salaries, payroll taxes, and benefits for all other prescription employees (Line (2) and Lines (4) to (12) of Page 5 of the survey – Exhibit 1) was based directly upon the percentage of time spent in the prescription department as indicated on the survey. For example, if the reported percentage of prescription time was 75 percent and total salaries were \$10,000, then the allocated cost associated with dispensing prescriptions would be \$7,500.

Owner Compensation Issues

Since compensation reported for owners are not expenses that have arisen from arm's length negotiations, they are not similar to other expenses. Accordingly, limitations were placed upon the allocated salaries, payroll taxes, and benefits of owners. A pharmacy owner may have a different approach toward other expenses than toward his/her own salary. Owners may pay themselves above the market cost of securing the services of an employee. In this case, paying themselves

¹⁵ Example: An employee pharmacist spends 90 percent of his/her time in the prescription department. The 90 percent factor would be modified to 95 percent: $(2)(0.9) / (1+0.9) = 0.95$ Thus, 95 percent of the reported salaries, payroll taxes, and benefits would be allocated to the prescription department. It should be noted that most employee pharmacists spent 100 percent of their time in the prescription department.



above market cost effectively represents a withdrawal of business profits, not a cost of dispensing. In contrast, owners who pay themselves below market cost for business reasons also misrepresent the true cost of dispensing.

To estimate the expense that would have been incurred had an employee been hired to perform the prescription-related functions actually performed by the owner, upper and lower limits were imposed on owner salaries and benefits. For purposes of setting limits on owner compensation, separate limits were applied to owners who are pharmacists and owners who are not pharmacists. Constraints for owners were set using upper and lower thresholds for hourly compensation that represented approximately the 95th and 40th percentiles of salaries and benefits for employee pharmacists and employee non-pharmacists (adjusted by an estimate of full-time equivalent (FTE) staff count to estimate hourly wages). The upper and lower constraints that were developed are shown in Table 2.2. Adjustments to owner salaries and benefits were only applied if the reported amounts were below the lower limit or in excess of the upper limit in which case the reported amounts were adjusted up or down to the respective limits.

Table 2.2 Hourly Wage and Benefit Limits for Owners

Owner Type	Lower Limit (Hourly)	Upper Limit (Hourly)
Pharmacist	\$62.50	\$91.71
Non-Pharmacist	\$18.00	\$46.19

A sensitivity analysis of the owner labor limits was performed in order to determine the impact of the limits on the overall analysis of pharmacy cost of dispensing. Of the 853 pharmacies in the cost analysis, owner limits impacted 43 pharmacies, or 5 percent. Of these, 17 pharmacies had costs *reduced* as a result of application of these limits (on the basis that a portion of owner salary “cost” appeared to represent a withdrawal of profits from the business), and 26 pharmacies had costs *increased* as a result of the limits (on the basis that owner salaries appeared to be below their market value). In total, the final estimate of average pharmacy cost of dispensing per prescription was decreased by less than \$0.01 as a result of the owner salary limits.

Overall Labor Cost Constraints

An overall constraint was placed on the proportion of total reported labor that could be allocated as prescription labor. The constraint assumes that a functional relationship exists between the proportion of allocated prescription labor to total labor and the proportion of prescription sales to total sales. It is also assumed that a higher input of labor costs is necessary to generate prescription sales than nonprescription sales, within limits.

The parameters of the applied labor constraint are based upon an examination of data submitted by all pharmacies. These parameters are set in such a way that any resulting adjustment affects only those pharmacies with a percentage of prescription labor deemed unreasonable. For example, the constraint would come into play for an operation that reported 75 percent pharmacy sales but 100 percent pharmacy labor since, some labor must be devoted to generating the 25 percent nonprescription sales.



To determine the maximum percentage of total labor allowed, the following calculation was made:

$$\frac{0.3(\text{Sales Ratio})}{0.1 + (0.2)(\text{Sales Ratio})}$$

A sensitivity analysis of the labor cost constraint was performed in order to determine the impact of the limit on the overall analysis of pharmacy cost. The analysis indicates that of the 2,409 pharmacies included in the cost of dispensing analysis, this limit was applied to 51 pharmacies. In total, the final estimate of average pharmacy cost of dispensing per prescription was decreased by less than \$0.01 as a result of the labor cost restraint.

Adjustments for Cost Associated with Vaccine Administration

Although pharmacies have provided vaccine administration services for a number of years, the COVID-19 pandemic has created an increased awareness of the role that pharmacies provide with respect to vaccine administration as well as an increased volume of vaccinations performed within pharmacies. As part of the cost of dispensing analysis, Myers and Stauffer was requested to consider the impact that vaccine administration has on established mechanisms for calculating the cost of dispensing prescription medications within a COD survey process.

Although vaccine administration is not reimbursed under the same methodology as prescription medications, many pharmacies perform recording-keeping functions of vaccines administered in a similar manner as prescriptions dispensed. Often, it is the case that a pharmacies' reported count of total prescriptions dispensed is inclusive of vaccines administered and revenue associated with vaccine administration is included in the total prescription sales. Many of the same pharmacy resources that are utilized for the processing and dispensing of prescription medication are also used for the processing and administration of vaccinations.

For the current COD survey, pharmacies were requested to provide some additional information related specifically to the administration of vaccines. Data elements that were collected by the survey included the following items included within question (c) on page 2 of the survey form (see Exhibit 1):

- The total number of vaccines administered.
- A question asking whether the count of vaccines administered were included in the total prescription count.
- The total revenue from vaccine administration.

Furthermore, the personnel costs section on page 5 of the survey form (see Exhibit 1) collected information regarding the percentage of time spent performing vaccine administration.

Myers and Stauffer calculated the cost of dispensing at each pharmacy in two ways. In one approach, the cost of dispensing calculation methodology, as described within in the preceding sections of the report, was unchanged to account for the additional data collected regarding vaccine administration. In a second approach, an adjustment for both the overhead and labor



components of the cost of dispensing was included to account for the reported cost that was associate with administering vaccines.

For the purpose of adjusting the overhead component of the cost of dispensing to account for the cost of vaccine administration, a ratio was calculated as follows:

$$\frac{\text{Vaccine Sales}}{\text{Total Prescription Sales Including Vaccines}}$$

Overhead cost allocated to the prescription function of the pharmacy as described in previous sections of this report was in turn reallocated to the cost of vaccine administration based on this ratio.

Similar to the allocation of prescription department labor cost as described previously, salary and employee benefit cost was allocated to the cost of vaccine administration based on the reported percent of time spent administering vaccines for each employee or group of employees reported within the personnel cost section of the survey.

In addition to the removal of cost allocated to vaccine administration, a further adjustment to the calculation of the cost of dispensing prescriptions was included to convert the total prescription volume to remove the count of vaccines administered for pharmacies that reported that the count of prescriptions dispensed included the count of vaccines administered.

Previously in the report, the formula for calculating the average cost of dispensing was displayed as follows:

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

Analogous to this presentation of the of average cost of dispensing, the average cost of dispensing when adjusted for removal of the cost of vaccine administration could be presented as follows:

$$\text{Average Cost of Dispensing (adjusted for vaccine administration)} = \frac{(\text{Total Allowable Cost Allocated to Prescription Department}) - (\text{Cost Allocated to Vaccine Administration})}{(\text{Total Number of Prescriptions Dispensed}) - (\text{Number of Vaccines Included in Total Prescription Count})}$$

As this formula indicates, the adjustment process altered both the numerator and the denominator of the formula used to calculate the cost of dispensing prescriptions. In subsequently reported measures of the cost of dispensing prescriptions presented in this report, the measures of the cost of dispensing reported include the adjustment to account for the cost of vaccines or as not including such an adjustment. However, alternate measures of the cost of dispensing, without the adjustment for vaccine administration, are included within the exhibits.



Inflation Factors

All allocated overhead and labor cost was summed and multiplied by an inflation factor. Inflation factors are intended to reflect cost trends from the middle of the reporting period of a particular pharmacy to a common fiscal period ending December 31, 2022 (specifically from the midpoint of the pharmacy's fiscal year to June 30, 2022 which is the midpoint of the fiscal period ending December 31, 2022). The midpoint and terminal month indices used were taken from the Employment Cost Index, (all civilian, all workers; seasonally adjusted) published by the Bureau of Labor Statistics (BLS) (Exhibit 7). The use of inflation factors is typically preferred in order for pharmacy cost data from various fiscal years to be compared uniformly.

Cost of Dispensing Analysis and Findings

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

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

The measures of central tendency used in this report include the following:

Unweighted mean: the arithmetic average cost of dispensing for all pharmacies.

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

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

Weighted Median: this is determined by finding the pharmacy observation that encompasses the middle value prescription. The implication is that one half of the prescriptions were dispensed at a cost equal to or less than the weighted median, and one half of the prescriptions were dispensed at a cost equal to or more than the weighted median. In a hypothetical example, if there were 1,000,000 Medicaid prescriptions dispensed by the surveyed pharmacies and the pharmacies were arrayed in order of their



cost of dispensing, the median weighted by Medicaid volume is the cost of dispensing of the pharmacy that dispensed the middle, or 500,000th prescription.

Statistical “outliers” are a common occurrence in pharmacy cost of dispensing surveys. This occurs when a small number of pharmacies have a cost of dispensing that is atypical as compared to the majority of pharmacies. The unweighted mean is particularly susceptible to the impact these outlier values. In situations in which the magnitude of outlier values results in a measure of the unweighted mean that does not represent what might be typically thought of as an accurate measure of central tendency, weighted means or medians are often considered to be preferable.

For all pharmacies, the cost of dispensing findings are presented in Table 2.3.

Table 2.3 Cost of Dispensing per Prescription – All Pharmacies

	Cost of Dispensing ^{A, B}
Unweighted Mean	\$16.46
Mean Weighted by Medicaid Volume	\$13.37
Unweighted Median	\$11.35
Median Weighted by Medicaid Volume	\$11.55

n=853 pharmacies

^A Cost of dispensing adjusted for vaccine administration.

^B Cost of dispensing has been inflated to the common point of June 30, 2022 (midpoint of year ending December 31, 2022).

See Exhibit 10 for a histogram of the cost of dispensing for all pharmacies. There was a large range between the highest and the lowest cost of dispensing observed. However, the majority of pharmacies (approximately 80 percent) had average cost of dispensing between \$6 and \$15.

Exhibits 9a and 9b include statistical summaries with a wide variety of measures of pharmacy cost of dispensing with breakdowns for many pharmacy attributes potentially of interest. Exhibit 9a presents these statistical measures of the estimated cost of dispensing and incorporates the adjusted calculations to exclude estimated cost associated with vaccine administration. In contrast, Exhibit 9b presents the statistical measures based on calculations that do not attempt to separate prescription dispensing and vaccine administration cost. For measurements within these exhibits that refer to the urban or rural location of a pharmacy, Myers and Stauffer used the pharmacies’ zip code and the “Zip Code to Carrier Locality File” from the Centers for Medicare & Medicaid Services to determine if the pharmacy was located in an urban or rural area.

Specialty Pharmacies

Several pharmacies included in the cost analysis were identified as specialty pharmacies. For purposes of this report, “specialty pharmacies” are pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 30 percent or more of



total prescription sales.¹⁶ Within their survey responses, pharmacies were allowed to rely upon their own methods for categorizing products as “specialty” for the reporting of sales and summary counts of prescriptions dispensed. The analysis revealed significantly higher cost of dispensing associated with pharmacies classified as “specialty”.¹⁷

Table 2.4 summarizes the cost of dispensing for providers of specialty services as compared to those pharmacies that did not offer these specialty services.

Table 2.4 Cost of Dispensing per Prescription - Specialty versus Other Pharmacies

Type of Pharmacy	Number of Pharmacies	Average Total Annual Prescription Volume (mean and median)	Average Medicaid Prescription Volume (mean and median)	Median Weighted by Medicaid Volume ^{A,B}
Specialty Pharmacies	55	Mean: 75,018 Median: 41,116	Mean: 2,893 Median: 1,939	\$12.42
Other Pharmacies	798	Mean: 77,910 Median: 66,375	Mean: 1,813 Median: 1,111	\$11.54

^A Cost of dispensing adjusted for vaccine administration.

^B Cost of dispensing has been inflated to the common point of June 30, 2022 (midpoint of year ending December 31, 2022).

Non-specialty Pharmacies

The analyses summarized in Tables 2.5 through 2.9 below exclude specialty pharmacy providers. In making this exclusion, no representation is made that the cost structure of those pharmacies is not important to understand. However, it is reasonable to address issues relevant to those pharmacies separately from the cost structure of the vast majority of pharmacy providers that provide “traditional” pharmacy services. Table 2.5 restates the measurements noted in Table 2.3 excluding pharmacies that dispensed significant volumes of specialty prescriptions.

¹⁶ The terms “specialty products” or “specialty drugs” typically refer to high-cost prescription drugs used to treat complex, chronic conditions. These drugs often require special handling and administration, along with continuous monitoring by a health care professional. Currently, there is no statutory, regulatory, or universal industry accepted definition of the term “specialty drugs”. Although some state Medicaid programs have established lists of “specialty drugs” for specific purposes, these lists are not uniform across all Medicaid programs.

¹⁷ In every pharmacy cost of dispensing study in which information on clotting factor, intravenous solution, home infusion and other specialty dispensing activity has been collected by Myers and Stauffer, such activity has been found to be associated with higher cost of dispensing. Discussions with pharmacists providing these services indicate that the activities and costs involved for these types of prescriptions are significantly different from the costs incurred by other pharmacies. The reasons for this difference include:

- Costs of special equipment for mixing and storage of clotting factor, intravenous, infusion and other specialty products.
- Costs of additional services relating to patient education, compliance programs, monitoring, reporting and other support for specialty products.
- Higher direct labor costs due to more intensive activities to prepare certain specialty prescriptions in the pharmacy.



Table 2.5 Cost of Dispensing per Prescription – Excluding Specialty Pharmacies

	Dispensing Cost ^{A, B}
Unweighted Mean	\$13.10
Mean Weighted by Medicaid Volume	\$12.72
Unweighted Median	\$11.25
Median Weighted by Medicaid Volume	\$11.54

n=798 pharmacies

^A Cost of dispensing adjusted for vaccine administration.

^B Cost of dispensing has been inflated to the common point of June 30, 2022 (midpoint of year ending December 31, 2022).

Relationship between Cost of Dispensing and Prescription Volume

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

Pharmacies were classified into meaningful groups based upon their differences in total prescription volume. The cost of dispensing was then analyzed based upon these volume classifications. Table 2.6 provides statistics for pharmacy annual prescription volume.

Table 2.6 Statistics for Pharmacy Total Annual Prescription Volume

Statistic	Value ^{A, B, C}
Mean	77,910
Standard Deviation	66,575
10 th Percentile	29,393
25 th Percentile	43,835
Median	66,375
75 th Percentile	95,779
90 th Percentile	125,093

n= 798 pharmacies

^A Excludes specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 30 percent or more of total prescription sales.

^B Cost of dispensing adjusted for vaccine administration.

^C Cost of dispensing has been inflated to the common point of June 30, 2022 (midpoint of year ending December 31, 2022).

Table 2.7 displays the calculated cost of dispensing for non-specialty pharmacies arrayed into tiers based on total annual prescription volume.



Table 2.7 Cost of Dispensing by Pharmacy Total Annual Prescription Volume

Total Annual Prescription Volume of Pharmacy	Number of Pharmacies ^A	Unweighted Median	Median Weighted by Medicaid Volume ^{B,C}
0 to 52,999	282	\$12.78	\$12.78
53,000 to 89,999	278	\$10.77	\$11.06
90,000 and Higher	238	\$10.72	\$11.51

n = 798 pharmacies

^A Excludes specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 30 percent or more of total prescription sales.

^B Cost of dispensing adjusted for vaccine administration.

^C Cost of dispensing has been inflated to the common point of June 30, 2022 (midpoint of year ending December 31, 2022).

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

Other Observations Associated with Cost of Dispensing and Pharmacy Attributes

The cost of dispensing of the surveyed pharmacies was broken down into the various components of overhead and labor related costs. Table 2.8 displays the means of the various cost components for surveyed pharmacies. Labor-related expenses accounted for approximately 69 percent of the overall cost of dispensing per prescription.

Expenses in Table 2.8 are classified as follows:

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



Table 2.8 Components of Cost of Dispensing per Prescription

Type of Expense	Mean Weighted by Medicaid Volume ^{A, B, C}
Owner Professional Labor	\$0.193
Employee Professional and Other Labor	\$8.127
Building and Equipment	\$1.142
Prescription Specific Expenses (including delivery)	\$1.244
Other Overhead Expenses	\$1.978
Total	\$12.684

n = 798 pharmacies

^A Excludes specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 30 percent or more of total prescription sales.

^B Cost of dispensing adjusted for vaccine administration.

^C Cost of dispensing has been inflated to the common point of June 30, 2022 (midpoint of year ending December 31, 2022).

A chart of the components of the cost of dispensing per prescription is provided in Exhibit 11.

In addition to pharmacy cost of dispensing data, several pharmacy attributes were collected on the cost survey. A summary of those attributes is provided at Exhibit 12.

Expenses Not Allocated to the Cost of Dispensing

In the following Table 2.9, measurements are provided for certain expenses that were not included in the cost of dispensing. Reasons for not including these costs were discussed previously in the report. For all of the expenses below, average cost per prescription was calculated using a sales ratio as the basis for allocation.

Table 2.9 Non-Allocated Expenses per Prescription

Expense Category	Mean Weighted by Medicaid Volume ^{A, B, C}
Bad Debts	\$0.042
Charitable Contributions	\$0.026
Advertising	\$0.089

n = 798 pharmacies

^A Excludes specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 30 percent or more of total prescription sales.

^B Cost of dispensing adjusted for vaccine administration.

^C Cost of dispensing has been inflated to the common point of June 30, 2022 (midpoint of year ending December 31, 2022).

Exhibit 1
Minnesota Department of Human Services
Pharmacy Cost of Dispensing Survey –
Survey Form

Minnesota Medicaid Pharmacy Cost of Dispensing Survey

Survey forms by Myers and Stauffer LC under contract with the Minnesota Department of Human Services

M&S Use Only

Return Completed Forms to:
Myers and Stauffer LC
700 W. 47th Street, Suite 1100
Kansas City, Missouri 64112

ROUND ALL AMOUNTS TO NEAREST DOLLAR OR WHOLE NUMBER

Complete and return by **November 16, 2022**

Call toll free (800) 374-6858 or email disp_survey@mslc.com if you have any questions.

An electronic version of the Minnesota Medicaid Pharmacy Cost of Dispensing Survey is available. The electronic version is in Excel format. The electronic version aids the user by calculating totals and transferring information to the reconciliation to help ensure the accuracy of the data. Please send an email to disp_survey@mslc.com to request the electronic version of the survey. Completed surveys can be returned via email to disp_survey@mslc.com.

Name of Pharmacy _____ Prov. No. (NPI) _____
Street Address _____ Telephone No. () _____
City _____ County _____ State _____ Zip Code _____

DECLARATION BY OWNER AND PREPARER

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

Signature of Owner	Printed Name	Title/Position	Date
_____	_____	_____	_____
Preparer's Signature (if other than owner)	Printed Name	Title/Position	Date
_____	_____	_____	_____
Preparer's Street Address	City and State		Zip
_____	_____		_____
Phone Number	email address		
() _____	_____		

DECLARATION OF EXEMPTION

All Minnesota Medicaid pharmacies are required to complete all pages of this survey unless you meet the following criteria:

1. New pharmacies that were in business less than **six months** during the most recently completed reporting period.

Enter date the pharmacy opened: _____

2. Pharmacies with a change in ownership that resulted in less than **six months** in business during the reporting period.

Enter the date pharmacy changed ownership: _____

If your pharmacy meets either of the above criteria, check the box next to the explanation describing your situation and report the relevant date. Pharmacies which are considered "exempt" do not need to complete the remaining portions of the survey. If you have any questions as to the status of your pharmacy please call Myers and Stauffer at (800)374-6858 or email disp_survey@mslc.com for assistance.

Minnesota Medicaid Pharmacy Cost of Dispensing Survey

SECTION IA -- PHARMACY ATTRIBUTES

The following information is from fiscal / tax year ending _____
 Complete these forms using your most recently completed fiscal year for which financial records are available and complete (e.g., December 31, 2021, or December 31, 2020, if 2021 records are not yet complete). **(Include month/day/year).**

All Pharmacies should complete lines (a) through (o).

List the total number of all prescriptions dispensed during your most recently completed fiscal year as follows:													
(a)	1. New _____ 2. Refill _____ 3. Total _____ <small>"Prescriptions Dispensed." Report the total number of all prescriptions filled during the fiscal year being reported on this cost survey. This information may be kept on a daily or monthly log or on your computer.</small>												
(b)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 35%; text-align: center; border: 1px solid black; padding: 2px;">Pharmacy Department Only</td> <td style="width: 35%; text-align: center; border: 1px solid black; padding: 2px;">Total Store (Retail and Pharmacy Department)</td> </tr> <tr> <td>Sales (Excluding Sales Tax)</td> <td style="border: 1px solid black; height: 20px;"></td> <td style="border: 1px solid black; height: 20px;"></td> </tr> <tr> <td>Cost of Goods Sold</td> <td style="border: 1px solid black; height: 20px;"></td> <td style="border: 1px solid black; height: 20px;"></td> </tr> <tr> <td>Floor Space (see instructions below)</td> <td style="border: 1px solid black; height: 20px; text-align: right; padding-right: 5px;">Sq. Ft.</td> <td style="border: 1px solid black; height: 20px; text-align: right; padding-right: 5px;">Sq. Ft.</td> </tr> </table> <p style="font-size: small; margin-top: 10px;"> Store sales excluding sales tax. Total store sales and cost of goods sold can usually be obtained from a financial statement or a federal income tax return (if the tax return only includes the store being surveyed). "Pharmacy Department" sales should only include sales of prescription drugs should not include non-prescription over the counter drugs, durable medical equipment or other nonprescription items. Cost of Goods Sold. If pharmacy department cost of goods sold is not readily available, leave that line blank. Floor Space. Provide square footage for pharmacy department dispensing area and total store square footage (pharmacy department + retail area). Since floor space will be used in allocating certain expenses, accuracy is important. For simplicity, when measuring the pharmacy department exclude all of the following: > Patient waiting area > Counseling area > Pharmacy department office space > Pharmacy department storage The before mentioned areas should be included in total store area, but not pharmacy department square footage. A factor will be added to the pharmacy department to account for waiting area, counseling area, pharmacy department office space and pharmacy department storage. When measuring the total store square footage exclude any storage area (e.g., basement, attic, off-the-premises areas or freight in-out areas). </p>		Pharmacy Department Only	Total Store (Retail and Pharmacy Department)	Sales (Excluding Sales Tax)			Cost of Goods Sold			Floor Space (see instructions below)	Sq. Ft.	Sq. Ft.
	Pharmacy Department Only	Total Store (Retail and Pharmacy Department)											
Sales (Excluding Sales Tax)													
Cost of Goods Sold													
Floor Space (see instructions below)	Sq. Ft.	Sq. Ft.											
(c)	What is the total number of all vaccinations administered for the fiscal year reported? _____ Are vaccinations included in total prescriptions reported for question (a)? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No What is the total revenue from vaccine administration for the fiscal year reported? _____												
(d)	Amount of State Sales Tax collected during fiscal year used for survey (round to nearest whole dollar) \$ _____												
(e)	What is the approximate percentage of prescriptions dispensed for the following classifications? 1. Medicaid (fee for service) _____ % 2. Medicaid Managed Care _____ % 3. Other Third Party _____ % 4. Cash _____ %												
(f)	What is the approximate percentage of payments received from the following classifications? 1. Medicaid (fee for service) _____ % 2. Medicaid Managed Care _____ % 3. Other Third Party _____ % 4. Cash _____ %												
(g)	Ownership Affiliation 1. <input type="checkbox"/> Independent (1 to 3 units) 2. <input type="checkbox"/> Chain (4 or more units) 3. <input type="checkbox"/> Institutional (service to LTC facilities only) 4. <input type="checkbox"/> Other (specify) _____												
(h)	Type of Ownership 1. <input type="checkbox"/> Individual 2. <input type="checkbox"/> Corporation 3. <input type="checkbox"/> Partnership 4. <input type="checkbox"/> Other (specify) _____												
(i)	Location of Pharmacy (please check one) 1. <input type="checkbox"/> Medical Office Building 2. <input type="checkbox"/> Shopping Center 3. <input type="checkbox"/> Stand Alone Building 4. <input type="checkbox"/> Grocery Store / Mass Merchant 5. <input type="checkbox"/> Outpatient Hospital 6. <input type="checkbox"/> Other (specify) _____												

Minnesota Medicaid Pharmacy Cost of Dispensing Survey

SECTION IA -- PHARMACY ATTRIBUTES, CONTINUED

(j)	Does your pharmacy purchase drugs through the 340B Drug Pricing Program? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No If yes, are prescriptions dispensed to Minnesota Medicaid members provided from 340B inventory? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No If you are a provider that participates in the 340B discount program, indicate if you are a: 1. <input type="checkbox"/> Covered Entity 2. <input type="checkbox"/> Contract Pharmacy
(k)	Do you own your building or lease from a related party (i.e., yourself, family member, or related corporation)? If so, mark yes and refer to special instructions for reporting building rent. 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No
(l)	How many hours per week is your pharmacy open? _____ Hours
(m)	How many years has a pharmacy operated at this location? _____ Years
(n)	Do you provide 24-hour emergency services for pharmaceuticals? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No
(o)	What percentage of prescriptions dispensed were generic products? _____ %

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

(p)	What is the approximate percent of your prescriptions dispensed to long-term care facilities or assisted living homes? _____ %
(q)	Do you dispense in unit dose packaging to long-term care facilities (e.g., medisets, blister packs, etc.)? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No What is the approximate percent of all prescriptions dispensed in unit dose packaging? _____ %
(r)	If you provide unit dose packaging, what percent of unit dose packaging is: 1. Purchased from manufacturers _____ % 2. Prepared in the pharmacy _____ %

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

(s)	What percent of total prescriptions filled are delivered? _____ %
(t)	What percent of Medicaid prescriptions filled are delivered? _____ %
(u)	Does your pharmacy deliver prescriptions by mail (U.S. Postal Service, FedEx, UPS, etc.)? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No If yes, what is the approximate percentage of the total number of prescriptions that are delivered by mail? _____ %
(v)	Are you presently providing specialty products or services (e.g., intravenous, infusion, enteral nutrition, blood factors or derivatives, other pre-filled injectable or oral specialty products)? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No <b style="color: red;">If yes, you must complete the product breakdown in section IC on page 4.
(w)	What is the approximate percent of your prescriptions dispensed that are compounded? _____ % For prescriptions that are compounded, what is the average number of minutes spent preparing a prescription by pharmacists and technicians? Pharmacist: _____ Technician: _____

SECTION IB -- OTHER INFORMATION

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

Minnesota Medicaid Pharmacy Cost of Dispensing Survey

SECTION IC -- PHARMACEUTICAL PRODUCT BREAKDOWN FOR PHARMACIES DISPENSING SPECIALTY PRODUCTS

If you answered yes to question (v) in Section IA, provide a breakdown of the specialty and non-specialty products dispensed in your pharmacy using the categories described below. Please report the number of prescriptions and dollar amount of sales in one category only, for example some clotting factor can be prefilled, however place it in "clotting factor or derivatives" only and not in "prefilled or ready to inject products". Number of prescriptions dispensed and sales should match your fiscal reporting period for the cost survey and reconcile to prescriptions and sales reported on Page 2 lines (a) and (b) in Section IA. You should also respond to the questions below the product breakdown regarding services provided in association with the dispensing of specialty products.

Product Category	Number of Prescriptions	Dollar Amount of Sales	Line No.
Infusion Products			
Compounded infusion products			(1a)
Total Parenteral Nutrition (TPN) products			(1b)
Clotting factor or derivatives			(1c)
Infusion supplies (e.g., tubing, needles, catheter flushes, IV site dressings, etc.)			(1d)
Total for Infusion Products			(1e)
Specialty			
Prefilled or ready to inject products			(2a)
Orals			(2b)
Total for Specialty			(2c)
Non-specialty			
Orals			(3a)
Topicals			(3b)
Injectables			(3c)
Compounded (non-infusion)			(3d)
Enteral nutrition			(3e)
All Other (including ophthalmic, otic, etc.)			(3f)
Total for Non-specialty			
Total (Should reconcile to prescriptions and Pharmacy Department sales reported in Section IA)			(4)

Additional Pharmacy Attribute Questions for Pharmacies Dispensing Specialty Products

(a) What percentage of prescriptions dispensed were for products with REMS (Risk Evaluation and Mitigation Strategy) reporting requirements?	
(b) What percentage of prescriptions dispensed were for products that had patient monitoring and compliance activities in place?	
(c) What percentage of prescriptions dispensed were for products that had special storage requirements (e.g., refrigeration, etc.)?	

SECTION ID -- OTHER INFORMATION

Use the section below to provide additional narrative description of the specialty products and services that are provided by your pharmacy. Use this section to describe any patient monitoring programs, patient compliance programs, case management services or disease management services provided by your pharmacy. Describe any specialized equipment used in your pharmacy. Attach additional pages as necessary.

Minnesota Medicaid Pharmacy Cost of Dispensing Survey

SECTION IIA -- PERSONNEL COSTS

Complete each employee classification line in aggregate. If there are no employees in a specific category, please leave blank. Provide your best estimate of the percentage of time spent working in each category, the rows must equal 100%. Complete these forms using the **same fiscal year as listed on page 2** and used for reporting overhead expenses. See page 6 for additional instructions.

Employee Classification	Estimate of FTEs ¹	Total Salaries (including bonuses and draws for owners) ²	Percent of Time Spent				Total ⁶	Line No.
			Dispensing Activities ³	Other RX Related Duties ⁴	MTM and Vaccine Administration ⁵	Non Rx Related Duties ⁴		
Owner: Registered Pharmacist (if applicable)								(1)
Owner: Non-Pharmacist (if applicable)								(2)
Pharmacist								(3)
Technician								(4)
Delivery								(5)
Nurses								(6)
Customer service representatives								(7)
Billing								(8)
Other Admin								(9)
Contract Labor (Pharmacist)								(10)
Contract Labor (other)								(11)
Staff not related to RX dispensing			0.0%	0.0%	0.0%	100.0%	100.0%	(12)
Total Salaries								(13)
Pension and Profit Sharing								(14)
Other Employee Benefits ⁷								(15)
Total Labor Expenses								(16)

Please review footnotes and additional instructions for reporting personnel costs on the next page.

Minnesota Medicaid Pharmacy Cost of Dispensing Survey

SECTION IIA -- PERSONNEL COSTS

General Provide your best estimate of the percentage of time each employee or group of employees spent working for each category. While it is understand that there may not be a specific report that can be generated to complete this section of the survey, use the job description of each employee and the general workflow of your pharmacy to estimate the percent of time for each employee or employee category for which you report salaries and FTEs. Each row must equal 100%.

Footnote

1 FTE: Full-time Equivalent. Divide the total number of weekly hours worked for each job category by 40 hours to determine the estimated number of full time equivalent positions. This value can be a decimal but should be rounded to the nearest tenth. Example: 3 pharmacists; pharmacist 1 works 38 hours per week, Pharmacist 2 works 22 hours per week, Pharmacist 3 works 16 hours per week. Calculation = $(38 + 22 + 16) \div 40 = 1.9$ FTEs.

2 Total Salaries should include any bonuses and/or draws for owners.

3 Report the percent of time for any direct Dispensing Activities. Direct prescription dispensing activities as defined in 42 CFR § 447.502 include the pharmacist time associated with ensuring that possession of the appropriate covered outpatient drug is transferred to a Medicaid beneficiary. This includes, but is not limited to, 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, and special packaging.

4 Report the percent of time for Other RX Related Duties. Other Rx Related Duties include, but are not limited to, time spent maintaining the facility and equipment necessary to operate the pharmacy, third party reimbursement claims management, ordering and stocking prescription ingredients, taking inventory and maintaining prescription files.

5 Report the percent of time for Medication Therapy Management (MTM) and Vaccine Administration. MTM is a service typically provided by a licensed pharmacist intended to improve outcomes by assisting beneficiaries with understanding their conditions and the medications used to treat them (note that counseling services provided to patients at dispensation should be reported as Direct Dispensing Activities). Vaccine Administration includes patient registration, administration of the vaccine, and patient monitoring for COVID-19, flu, or other vaccines administered by the pharmacy.

6 Non Rx Related Duties should include any duties that are not related to the prescription department.

7 Totals for the Percent of Time Spent Breakdown. Columns A, B, C, and D must total 100%

8 Other Employee Benefits includes employee medical insurance, disability insurance, education assistance, etc.

Minnesota Medicaid Pharmacy Cost of Dispensing Survey

SECTION IIB -- OVERHEAD EXPENSES

Complete this section using your internal financial statement or tax return for the **fiscal year ending listed on Page 2**. You should only use a tax return if the only store reported on the return is the store being surveyed. If you are using a tax return, the line numbers in the left columns correspond to federal income tax return lines. Use your most recently completed fiscal year for which financial records are available and completed (e.g., December 31, 2021, or December 31, 2020, if 2021 records are not yet complete). **If you prefer, you may submit a copy of your financial statement and/or tax return (including all applicable schedules) and Myers and Stauffer can complete Sections IIB and III (pages 6, 7, and 8).**

*** Notes about tax return line references**

Form 1040, Sched C, line 27a is for "other expenses" and a detailed breakdown of this category is typically reported on page 2, Part V of the form. Form 1065 (line 20), Form 1120 (line 26) and Form 1120S (line 19) are for "other deductions" and there are typically detailed breakdowns of the expenses in this category in the "Statements" attached to the returns.

2021 Tax Form					Round all amounts to nearest dollar or whole number.	Expense Amount Reported	Myers and Stauffer Use Only	Line No.
1040 Schedule C	1065	1120	1120S					
13	16a	20	14	Depreciation (this fiscal year only - not accumulated)				(1)
23	14	17	12	Taxes	(a) Personal Property Taxes Paid			(2)
23	14	17	12		(b) Real Estate Taxes			(3)
23	14	17	12		(c) Payroll Taxes			(4)
Any other taxes should be itemized separately on page 7.								
20b	13	16	11	Rent - Building (if building is leased from a related party then report ownership expenses of interest, taxes, insurance and maintenance)				(5)
20a	13	16	11	Rent - Equipment and Other				(6)
21	11	14	9	Repairs & maintenance				(7)
15	20*	26*	19*	Insurance (other than employee medical)				(8)
16a&b	15	18	13	Interest				(9)
17	20*	26*	19*	Legal and Professional Fees				(10)
27a*	20*	26*	19*	Dues, Publications, and Subscriptions				(11)
27a*	12	15	10	Bad Debts (this fiscal year only - not accumulated)				(12)
n/a	n/a	19	n/a	Charitable Contributions				(13)
25	20*	26*	19*	Utilities (a) Telephone				(14)
25	20*	26*	19*	(b) Heat, Water, Lights, Sewer, Trash and other Utilities				(15)
18&22	20*	26*	19*	Operating and Office Supplies (exclude prescription containers and labels)				(16)
8	20*	22	16	Advertising/Marketing				(17)
27a*	20*	26*	19*	Computer Expenses (systems, software, maintenance, etc.)				(18)
9,27a*	20*	26*	19*	Prescription Delivery Expenses (wages to a driver should only be reported on pg. 5)				(19)
27a*	20*	26*	19*	Prescription Containers and Labels				(20)
24a&b	20*	26*	19*	Travel, Meals and Entertainment				(21)
27a*	20*	26*	19*	Switching / E-Prescribing Fees				(22)
27a*	20*	26*	19*	Security / Alarm				(23)
27a*	20*	26*	19*	Bank Charges				(24)
27a*	20*	26*	19*	Credit Card Processing Fees				(25)
27a*	20*	26*	19*	Interior Maintenance (housekeeping, janitorial, etc.)				(26)
27a*	20*	26*	19*	Exterior Maintenance (lawn care, snow removal etc.)				(27)
27a*	20*	26*	19*	Pharmacy Licenses / Permits				(28)
27a*	20*	26*	19*	Employee Training and Certification				(29)
27a*	20*	26*	19*	Continuing Education				(30)
Total Page 6 overhead expenses (lines 1 to 30)								(31)

Minnesota Medicaid Pharmacy Cost of Dispensing Survey

SECTION IIB -- OVERHEAD EXPENSES, CONTINUED

(Round all amounts to nearest dollar or whole number.)

Other non-labor expenses not included on lines (1) through (30)

Examples: Franchise fees, other taxes not reported in Section IIB (a) (page 6), accreditation and/or certification fees, restocking fees, postage, administrative expenses, amortization, etc. Specify each item and the corresponding amount. **Note that labor expenses are reported in Section IIA (page 5).** For corporate overhead expenses allocated to the individual store, please attach documentation to establish the expenses included in the allocation and describe the allocation basis.

	Expense Amount Reported	Myers and Stauffer Use Only	Line No.
_____	_____	_____	(32a)
_____	_____	_____	(32b)
_____	_____	_____	(32c)
_____	_____	_____	(32d)
_____	_____	_____	(32e)
_____	_____	_____	(32f)
_____	_____	_____	(32g)
_____	_____	_____	(32h)
_____	_____	_____	(32i)
_____	_____	_____	(32j)
_____	_____	_____	(32k)
_____	_____	_____	(32l)
_____	_____	_____	(32m)
_____	_____	_____	(32n)
_____	_____	_____	(32o)
_____	_____	_____	(32p)
_____	_____	_____	(32q)
_____	_____	_____	(32r)
_____	_____	_____	(32s)
_____	_____	_____	(32t)
Total page 7 overhead expenses (lines 32a to 32t)	_____	_____	(33)

Minnesota Medicaid Pharmacy Cost of Dispensing Survey

SECTION III -- RECONCILIATION WITH FINANCIAL STATEMENT OR TAX RETURN

The purpose of this reconciliation is to ensure that all expenses have been included and that none have been duplicated. Complete these forms using the same fiscal year which was used to report overhead and labor expenses.

		Cost Survey Amounts	Financial Statement or Tax Return Amounts
(1)	Total Expenses per Financial Statement or Tax Return ¹		
(2)	Total Labor Expenses (total from page 5, line 16)		
(3)	Overhead Expenses (total from page 7, line 31)		
(4)	Overhead Expenses, Continued (total from page 8, line 33)		
(5)	Total Expenses per Cost Survey [add Lines (2), (3), and (4)]		
	Specify Items with Amounts that are on Cost Survey but not on Financial Statement or Tax Return		
(6a)			
(6b)			
(6c)			
(6d)			
(6e)			
	Specify Items with Amounts that are on Financial Statement or Tax Return but not on this Cost Survey		
(7a)			
(7b)			
(7c)			
(7d)			
(7e)			
(8)	Total [add Lines (1) to (7e)] Column Totals Must be Equal		

¹ If you used a tax form to complete the cost of dispensing survey, the total expenses per tax return will be found on the following lines for 2021 tax forms:

- 1040C - Line 28
- 1065 - line 21
- 1120 - line 27
- 1120S - line 20

Exhibit 2
Informational Letter from the Minnesota
Department of Human Services Regarding
Pharmacy Cost of Dispensing Survey
(Independent and Chain Pharmacies)



Department of Human Services
Elmer L. Andersen Building
540 Cedar Street
St. Paul, MN 55164-0984

October 19, 2022

Dear Medicaid Pharmacy Provider:

The Minnesota Department of Human Services (DHS) has contracted with the firm Myers and Stauffer LC, Certified Public Accountants to perform a survey of the cost of dispensing prescriptions to Medicaid clients. Minnesota Statutes 2021, Section 256B.0625, Subdivision 13e, paragraph (h) requires DHS to conduct this survey every three years. Pharmacies are required to participate in this survey.

The Centers for Medicare and Medicaid Services (CMS) published regulation, Federal Covered Outpatient Drugs Final Rule (CMS-2345-FC), requires State Medicaid agencies to adopt pharmacy reimbursement methodologies to pay pharmacies for the actual acquisition cost of drugs plus a professional dispensing fee. The pharmacy cost of dispensing survey will provide DHS with information to evaluate the professional dispensing fee component of the Minnesota Medicaid fee-for service pharmacy reimbursement.

DHS has engaged Myers and Stauffer to conduct the survey. Myers and Stauffer is an accounting firm with extensive experience in pharmacy cost of dispensing surveys. They have conducted similar surveys in many states including Minnesota previously.

Please provide the requested information on the enclosed survey tool and submit it to Myers and Stauffer in a timely manner. It is crucial that we have complete participation with this survey from each pharmacy. You should return the completed survey(s) directly to Myers and Stauffer LC, no later than November 16, 2022.

We appreciate your continued service to Minnesota's Medicaid population, as well as your cooperation in this important study. Please direct questions about the survey to Myers and Stauffer at 1-800-374- 6858 or disp_survey@mslc.com.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Chad Hope'.

Chad Hope, Pharm.D.
HCA PSD Deputy Director

Equal Opportunity Employer

Exhibit 3a
Letter from Myers and Stauffer LC
Regarding Pharmacy Cost of Dispensing
Survey (Independent Pharmacies)



October 19, 2022

Re: Minnesota Department of Human Services – Pharmacy Cost of Dispensing Survey

Dear Pharmacy Owner/Manager:

The Minnesota Department of Human Services (DHS) has contracted with Myers and Stauffer LC, a national Certified Public Accounting firm, to conduct a pharmacy cost of dispensing survey. Participation in the survey is **mandatory** per Minnesota Statutes 2021, Section 256B.0625, Subdivision 13e, paragraph (h). All pharmacies enrolled in the Minnesota Medicaid pharmacy program are required to participate in the survey according to the following instructions:

1. Complete the enclosed “Minnesota Medicaid Pharmacy Cost of Dispensing Survey”.
2. For your convenience, Myers and Stauffer LC will complete Section IIB “Overhead Expenses” and Section III “Reconciliation with Financial Statement or Tax Return” for you if you submit a copy of your store financial statements or your business federal income tax return (Forms 1065, 1120, 1120S or Schedule C of Form 1040 and accompanying schedules). The financial statements or federal income tax form must include information for only a single store/location. You will still need to complete the other sections of the survey.
3. If your financial statements or tax return have not been completed for your most recent fiscal year, complete the survey using your prior year's financial statements (or tax return) and the corresponding prescription data for that year. Myers and Stauffer will apply an appropriate inflation factor.
4. Retain a copy of the completed survey forms for your records.

It is very important that all pharmacies cooperate fully by filing an accurate cost survey. Pharmacies are encouraged to return the required information as soon as possible, **but forms must be returned no later than November 16, 2022.**

Electronic format of the survey tool:

We strongly encourage pharmacies to respond in an electronic format. You may obtain an Excel spreadsheet version of the survey by contacting Myers and Stauffer LC at (800) 374-6858 or by email at disp_survey@mslc.com. The electronic version of the survey collects the same information as the paper version and will automatically complete certain calculations. Surveys that are completed electronically may be returned via email to the same email address with the Excel survey file and other supporting documentation attached.

If you prefer to respond in a paper format:

Send completed forms to:

Myers and Stauffer LC
Certified Public Accountants
Attn: Minnesota Medicaid Pharmacy Cost of Dispensing Survey
700 W. 47th Street, Suite 1100
Kansas City, MO 64112

You may return the survey using the enclosed Business Reply envelope. Postage will be paid by Myers and Stauffer LC.

It is very important that pharmacies respond with accurate information. All submitted surveys will be reviewed and validated by staff at Myers and Stauffer LC. If the review yields the need for additional inquiries, Myers and Stauffer LC staff will contact you. A random sample of pharmacies will be selected for further validation procedures. Pharmacies will be notified upon selection for additional validation procedures and the documentation that will need to be submitted.

Cost of dispensing surveys and supporting documentation submitted to Myers and Stauffer LC for this project will remain strictly confidential.

Myers and Stauffer LC will be conducting informational meetings via telephonic/ internet-based webinars to further explain the survey. At these meetings, Myers and Stauffer LC will present more details about the survey process, discuss what information is being requested and answer any questions regarding the survey form. Please refer to the enclosed information meeting flyer for further information on the dates and times of these webinar meetings and instructions for registration.

Minnesota Department of Human Services - Pharmacy Cost of Dispensing Survey

October 19, 2022

Page 3 of 3

If you have any questions, please call toll free at 1-800-374-6858 or send an email to disp_survey@mslc.com.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Matt Hill".

Matt Hill, CPA, CPhT

Senior Manager

mhill@mslc.com

Enclosures: Letter from the Minnesota Department of Human Services
Minnesota Medicaid Pharmacy Cost of Dispensing Survey
Myers and Stauffer LC Business Reply Envelope
Informational Meeting Invitation

Exhibit 3b
Letter from Myers and Stauffer LC
Regarding Pharmacy Cost of Dispensing
Survey (Chain Pharmacies)



October 19, 2022

Re: Minnesota Department of Human Services – Pharmacy Cost of Dispensing Survey

Dear Pharmacy Owner/Manager:

The Minnesota Department of Human Services (DHS) has contracted with Myers and Stauffer LC, a national Certified Public Accounting firm, to conduct a pharmacy cost of dispensing survey. Participation in the survey is **mandatory** per Minnesota Statutes 2021, Section 256B.0625, Subdivision 13e, paragraph (h).

Enclosed is the “Minnesota Medicaid Pharmacy Cost of Dispensing Survey” form. You may respond to the survey using either a paper or electronic format. You will need to submit survey information for each pharmacy that participates in the Minnesota Medicaid program. In past surveys performed by Myers and Stauffer LC, most pharmacy chains have preferred to respond to the survey in electronic format.

We have also enclosed a list of your pharmacies which participate in the Minnesota Medicaid program. Pharmacy information is presented as shown in records from DHS. If this list is inaccurate, please notify Myers and Stauffer LC.

It is very important that all pharmacies cooperate fully by filing an accurate cost survey. Pharmacies are encouraged to return the required information as soon as possible, **but forms must be returned no later than November 16, 2022.**

If you prefer to respond in an electronic format:

You are required to submit survey data for each store on the attached list and any additional stores/locations that participate in the Minnesota Medicaid program using an Excel spreadsheet template provided by Myers and Stauffer LC. To obtain the Excel spreadsheet, send a request by email to disp_survey@mslc.com or contact Myers and Stauffer LC staff directly (contact information below). Surveys that are completed electronically may be submitted via email or contact Myers and Stauffer for access to our Secure File Transfer Protocol portal.

If you prefer to respond in a paper format:

You will still be required to submit a completed survey for each store on the attached list and **any additional stores/locations** that participate in the Minnesota Medicaid program. You may make copies of the enclosed survey form as needed or contact Myers and Stauffer LC and request additional copies of the survey form. Please send completed forms to:

Myers and Stauffer LC
Certified Public Accountants
Minnesota Medicaid Pharmacy Cost of Dispensing Survey
700 W. 47th Street, Suite 1100
Kansas City, MO 64112

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

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

It is very important that pharmacies respond with accurate information. All submitted surveys will be reviewed and validated by staff at Myers and Stauffer LC. If the review yields the need for additional inquiries, Myers and Stauffer LC staff will contact you. A random sample of pharmacies will be selected for further validation procedures. Pharmacies will be notified upon selection for additional validation procedures and the documentation that will need to be submitted.

Cost of dispensing surveys and supporting documentation submitted to Myers and Stauffer LC for this project will remain strictly confidential.

Myers and Stauffer LC will be conducting informational meetings via telephonic/ internet-based webinars to further explain the survey. At these meetings, Myers and Stauffer LC will present more details about the survey process, discuss what information is being requested and answer any questions about regarding the survey form. Please refer to the enclosed information meeting flyer for further information on the dates and times of these webinar meetings and instructions for registration.

Minnesota Department of Human Services - Pharmacy Cost of Dispensing Survey

October 19, 2022

Page 3 of 3

If you have any questions, please call toll free at 1-800-374-6858 or send an email to disp_survey@mslc.com. Your cooperation in providing the information for this survey is greatly appreciated.

Sincerely,



Matt Hill, CPA, CPhT

Senior Manager

mhill@mslc.com

Enclosures: Letter from the Minnesota Department of Human Services
Minnesota Medicaid Pharmacy Cost of Dispensing Survey
List of Pharmacies that participate in the Minnesota Medicaid program
Myers and Stauffer LC Business Reply Envelope
Informational Meeting Invitation

Exhibit 4
Informational Meeting Flyer
(Independent and Chain Pharmacies)

Informational Meetings

Minnesota Department of Human Services

Pharmacy Cost of Dispensing Survey

The Minnesota Department of Human Services (DHS) is conducting a pharmacy cost of dispensing survey. The survey results will be used to evaluate the Minnesota Medicaid pharmacy reimbursement methodology.

DHS has engaged Myers and Stauffer LC to perform the pharmacy cost of dispensing study. To help prepare pharmacy owners and managers to participate in the survey, Myers and Stauffer LC, will be conducting informational meetings via telephonic/internet-based webinars. At these meetings, Myers and Stauffer LC will present more details about the survey process, discuss what information is being requested and answer questions regarding the survey form.

Pharmacies are invited to attend one of the informational meetings. **Attendance at one of the webinar sessions requires a reservation.** Please call or email Myers and Stauffer LC for a reservation and further meeting details.

If you are unable to attend a webinar or have questions about the survey, Myers and Stauffer LC offers a help desk to answer survey questions.

To reach Myers and Stauffer LC:

1-800-374-6858

-or-

disp_survey@mslc.com

Schedule of Informational Meetings (via telephone and Internet)

Date	Time (Eastern)
Thursday October 27, 2022	3:00 PM – 4:00 PM
Tuesday November 1, 2022	8:30 AM – 9:30 AM



Exhibit 5
First Survey Reminder Letter
(Independent and Chain Pharmacies)



November 2, 2022

**Re: Minnesota Department of Human Services – Pharmacy Cost of
Dispensing Survey**

Dear Medicaid Pharmacy Provider:

The Minnesota Department of Human Services (DHS) has contracted with the firm Myers and Stauffer LC, Certified Public Accountants to perform a survey of the cost of dispensing prescriptions to Medicaid clients. Minnesota Statutes 2021, Section 256B.0625, Subdivision 13e, paragraph (h) requires DHS to conduct this survey every three years. Pharmacies are required to participate in this survey.

Several weeks ago you should have received a letter from DHS, Myers and Stauffer LC, and a copy of the pharmacy cost of dispensing survey form. Your participation in the cost of dispensing survey is important. This survey is being used by the DHS to evaluate future reimbursement rates.

Surveys were sent with a due date of November 16, 2022. This letter serves as a reminder that the survey due date is approaching. You are encouraged to submit a completed survey as soon as possible.

If you have not received a survey form or have misplaced your survey form, you can download survey material and the survey form online at: <https://myersandstauffer.com/client-portal/minnesota/> or you can call or email Myers and Stauffer to receive the excel version of the survey tool or ask questions, toll free at (800) 374-6858 or via email to disp_survey@mslc.com.

Sincerely,

Matt Hill, CPA, CPhT
Senior Manager

Exhibit 6
Second Survey Reminder / Extension Letter
(Independent and Chain Pharmacies)



FINAL PHARMACY COST OF DISPENSING SURVEY REMINDER

November 14, 2022

Re: Minnesota Department of Human Services – Pharmacy Cost of Dispensing Survey

Dear Medicaid Pharmacy Provider:

The Minnesota Department of Human Services (DHS) has contracted with the firm Myers and Stauffer LC, Certified Public Accountants to perform a survey of the cost of dispensing prescriptions to Medicaid clients. Minnesota Statutes 2021, Section 256B.0625, Subdivision 13e, paragraph (h) requires DHS to conduct this survey every three years. Pharmacies are required to participate in this survey.

Several weeks ago you should have received a letter from DHS, Myers and Stauffer LC, and a copy of the pharmacy cost of dispensing survey form. Your participation in the cost of dispensing survey is important. This survey is being used by the DHS to evaluate future reimbursement rates.

Surveys were sent with a due date of November 16. **To allow pharmacies more time to respond to the pharmacy cost of dispensing fee survey, Myers and Stauffer has been instructed by DHS to continue to accept surveys through November 30, 2022.** This will be the final extension of the survey due date.

If you have not received a survey form or have misplaced your survey form, you can download survey material and the survey form online at: <https://myersandstauffer.com/client-portal/minnesota/> or you can call or email Myers and Stauffer to receive the excel version of the survey tool or ask questions, toll free at (800) 374-6858 or via email to disp_survey@mslc.com.

Sincerely,

Matt Hill, CPA, CPhT
Senior Manager

Exhibit 7
Table of Inflation Factors for Cost of
Dispensing Survey

**Table of Inflation Factors for Dispensing Cost Survey
Minnesota Department of Human Services**

Fiscal Year End Date	Midpoint Date	Terminal Month		Inflation Factor	Number of Stores with Year End Date
		Midpoint Index ₁	Index (6/30/2022) ₁		
12/31/2020	6/30/2020	140.7	152.1	1.081	3
1/31/2021	7/31/2020	140.9	152.1	1.079	68
2/28/2021	8/31/2020	141.2	152.1	1.077	0
3/31/2021	9/30/2020	141.4	152.1	1.076	0
4/30/2021	10/31/2020	141.7	152.1	1.073	0
5/31/2021	11/30/2020	142.1	152.1	1.070	0
6/30/2021	12/31/2020	142.4	152.1	1.068	1
7/31/2021	1/31/2021	142.8	152.1	1.065	1
8/31/2021	2/28/2021	143.3	152.1	1.061	0
9/30/2021	3/31/2021	143.7	152.1	1.058	39
10/31/2021	4/30/2021	144.1	152.1	1.056	1
11/30/2021	5/31/2021	144.4	152.1	1.053	0
12/31/2021	6/30/2021	144.8	152.1	1.050	445
1/31/2022	7/31/2021	145.4	152.1	1.046	15
2/28/2022	8/31/2021	146.0	152.1	1.042	0
3/31/2022	9/30/2021	146.6	152.1	1.038	0
4/30/2022	10/31/2021	147.1	152.1	1.034	0
5/31/2022	11/30/2021	147.5	152.1	1.031	2
6/30/2022	12/31/2021	148.0	152.1	1.028	23
7/31/2022	1/31/2022	148.7	152.1	1.023	90
8/31/2022	2/28/2022	149.4	152.1	1.018	161
9/30/2022	3/31/2022	150.1	152.1	1.013	4

Total Number of Stores	853
-------------------------------	------------

¹ Midpoint and terminal month indices were obtained from the Employment Cost Index, (all civilian; seasonally adjusted) as published by the Bureau of Labor Statistics (BLS). Quarterly indices published by BLS were applied to last month in each quarter; indices for other months are estimated by linear interpolation.

Inflation factors are intended to reflect cost changes from the middle of the reporting period of a particular pharmacy to a common fiscal period ending December 31, 2022 (specifically from the midpoint of the pharmacy's fiscal year to June 30, 2022 which is the midpoint of the fiscal period ending December 31, 2022).

Exhibit 8
Histogram of Pharmacy Cost of Dispensing

Histogram of Pharmacy Dispensing Cost

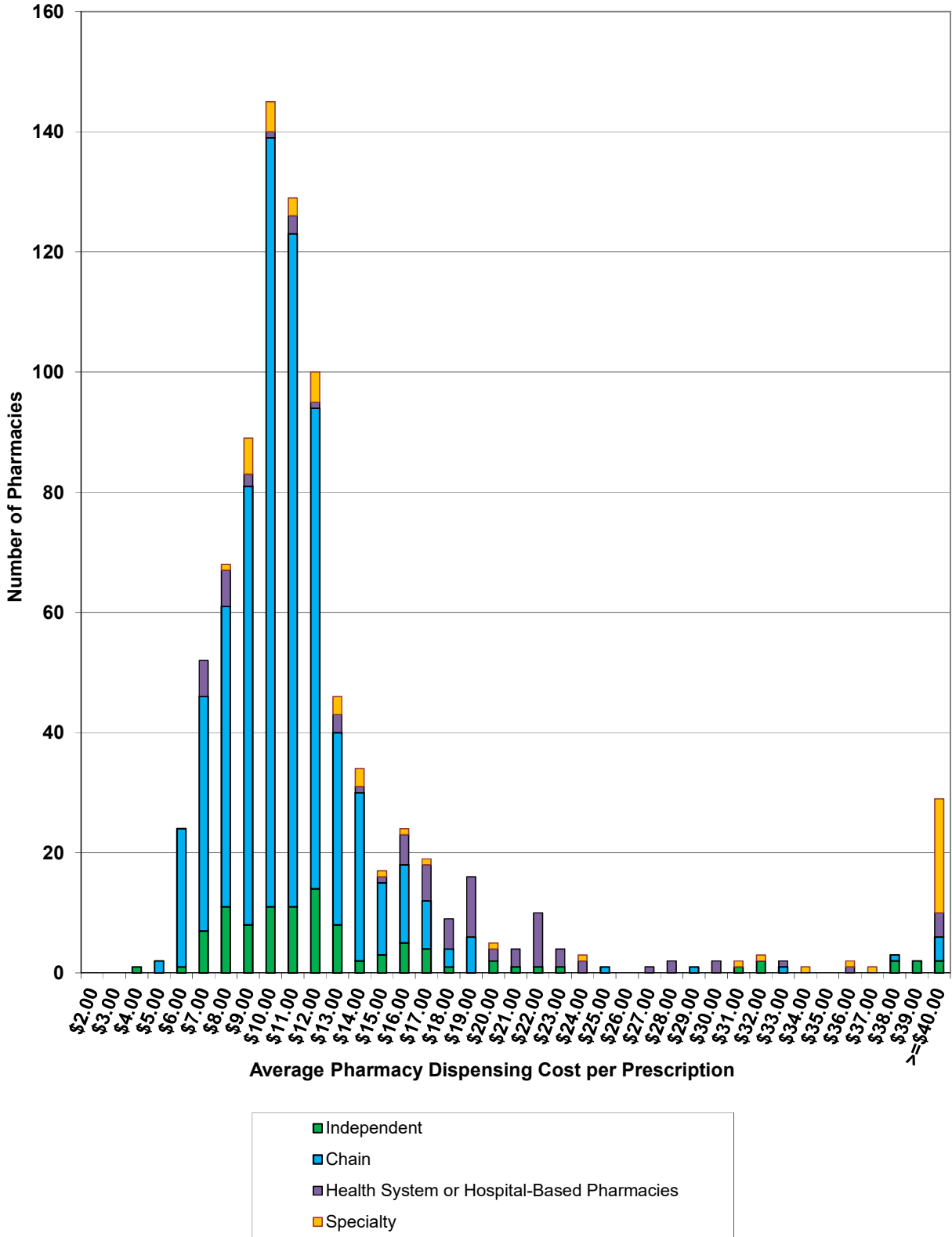


Exhibit 9a
Statistical Summary: Cost of Dispensing
(Adjusted for Vaccine Administration)

Pharmacy Cost of Dispensing Survey
Statistical Summary: Cost of Dispensing (Adjusted for Vaccine Administration)
 Minnesota Department of Human Services

Characteristic	Pharmacy Dispensing Cost per Prescription ¹												
	Measurements of Central Tendency									Other Statistics			
	n: Number of Pharmacies	Average Total Prescription Volume	Average Medicaid Prescription Volume	Means			Medians			Standard Deviation	95% Confidence Interval for Mean (based on Student t)		
				Mean	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume	Median	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume		Lower Bound	Upper Bound	t Value (with n-1 degrees of freedom)
All Pharmacies in Sample	853	77,724	1,883	\$16.46	\$13.44	\$13.37	\$11.35	\$11.13	\$11.55	\$32.35	\$14.29	\$18.63	1.96
Non Specialty Pharmacies ²	798	77,910	1,813	\$13.10	\$12.08	\$12.72	\$11.25	\$11.05	\$11.54	\$13.30	\$12.18	\$14.02	1.96
Specialty Pharmacies ²	55	75,018	2,893	\$65.19	\$34.09	\$19.25	\$16.19	\$20.15	\$12.42	\$106.39	\$36.43	\$93.95	2.00
<u>Non Specialty Pharmacies Only</u>													
Affiliation:													
Chain	617	79,879	1,567	\$11.56	\$11.06	\$11.31	\$10.90	\$10.76	\$11.07	\$5.05	\$11.16	\$11.96	1.96
Independent	101	82,009	3,529	\$14.49	\$14.09	\$14.00	\$12.12	\$12.47	\$13.58	\$9.00	\$12.71	\$16.27	1.98
Retail: Chain and Independent	718	80,178	1,843	\$11.97	\$11.49	\$12.03	\$11.04	\$10.88	\$11.43	\$5.85	\$11.54	\$12.40	1.96
Health System or Hospital-Based Pharmacies	80	57,558	1,545	\$23.24	\$19.37	\$20.11	\$18.97	\$17.85	\$17.85	\$36.84	\$15.04	\$31.44	1.99
Location (Urban vs. Rural): ³													
In State Urban	553	81,872	1,729	\$13.35	\$12.30	\$13.21	\$10.94	\$10.90	\$11.73	\$15.56	\$12.05	\$14.65	1.96
In State Rural	245	68,970	2,003	\$12.54	\$11.47	\$11.76	\$11.61	\$11.28	\$11.41	\$5.44	\$11.85	\$13.22	1.97
Annual Rx Volume:													
0 to 52,999	282	35,206	845	\$16.38	\$13.85	\$15.14	\$12.78	\$12.23	\$12.78	\$21.14	\$13.91	\$18.86	1.97
53,000 to 89,999	278	69,741	1,330	\$11.44	\$11.41	\$11.35	\$10.77	\$10.79	\$11.06	\$5.31	\$10.81	\$12.07	1.97
90,000 and Higher	238	138,052	3,525	\$11.15	\$11.93	\$12.64	\$10.72	\$10.90	\$11.51	\$3.47	\$10.71	\$11.59	1.97
Annual Medicaid Rx Volume: ⁴													
0 to 799	275	49,286	451	\$15.33	\$12.08	\$12.47	\$11.63	\$10.46	\$10.72	\$21.51	\$12.78	\$17.88	1.97
800 to 1,699	263	68,878	1,173	\$11.66	\$11.77	\$11.61	\$11.07	\$10.80	\$11.06	\$4.19	\$11.15	\$12.16	1.97
1,700 and Higher	260	117,323	3,901	\$12.20	\$12.25	\$13.09	\$11.23	\$11.28	\$11.74	\$5.33	\$11.55	\$12.85	1.97
Medicaid Utilization Ratio: ⁴													
0.0% to 1.29%	233	72,489	583	\$14.39	\$11.99	\$11.30	\$10.65	\$10.47	\$10.47	\$22.94	\$11.43	\$17.36	1.97
1.30% to 2.29%	290	78,746	1,384	\$11.97	\$11.76	\$11.84	\$11.08	\$11.00	\$11.07	\$4.41	\$11.46	\$12.48	1.97
2.30% and Higher	275	81,622	3,309	\$13.19	\$12.46	\$13.32	\$11.57	\$11.45	\$12.11	\$6.73	\$12.39	\$13.99	1.97

Pharmacy Cost of Dispensing Survey
Statistical Summary: Cost of Dispensing (Adjusted for Vaccine Administration)
 Minnesota Department of Human Services

Characteristic	Pharmacy Dispensing Cost per Prescription ¹												
	Measurements of Central Tendency									Other Statistics			
	n: Number of Pharmacies	Average Total Prescription Volume	Average Medicaid Prescription Volume	Means			Medians			Standard Deviation	95% Confidence Interval for Mean (based on Student t)		
				Mean	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume	Median	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume		Lower Bound	Upper Bound	t Value (with n-1 degrees of freedom)
Non Specialty Pharmacies Only													
Institutional:													
LTC Institutional Pharmacies ⁵	56	174,156	7,211	\$20.30	\$14.91	\$14.29	\$12.60	\$12.89	\$16.27	\$43.77	\$8.58	\$32.02	2.00
Non-LTC Institutional Pharmacies ⁵	742	70,647	1,406	\$12.56	\$11.55	\$12.11	\$11.07	\$10.73	\$10.94	\$6.62	\$12.08	\$13.03	1.96
Unit Dose:													
Does dispense unit dose	68	152,357	6,137	\$18.45	\$14.56	\$14.08	\$12.28	\$12.89	\$14.17	\$39.87	\$8.80	\$28.10	2.00
Does not dispense unit dose	730	70,976	1,410	\$12.60	\$11.58	\$12.17	\$11.09	\$10.74	\$11.05	\$6.66	\$12.12	\$13.09	1.96
340B Pharmacy Status													
Participates in 340B and provides 340B pricing to Medicaid	34	74,520	1,865	\$17.15	\$16.52	\$15.89	\$14.40	\$14.14	\$14.65	\$11.17	\$13.25	\$21.05	2.03
Does not participate in 340B or does not provide 340B pricing to Medicaid	764	78,061	1,811	\$12.92	\$11.89	\$12.58	\$11.19	\$10.95	\$11.51	\$13.36	\$11.97	\$13.87	1.96

Notes:
 1) All pharmacy dispensing costs are inflated to the common point of 6/30/2022 (i.e., midpoint of a fiscal year ending 12/31/2022).
 2) For purposes of this report a "specialty pharmacy" is one that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 10% or more of total prescription sales.
 3) Myers and Stauffer used the pharmacies' zip code and the Zipcode to Carrier Locality File from the Centers for Medicare & Medicaid Services to determine if the pharmacy was located in an urban or rural area.
 4) Medicaid volume is based on the time period of July 1, 2021 to June 30, 2022.
 5) For purposes of this report an "LTC Institutional Pharmacy" is one that reported dispensing 25% or more of prescriptions to long-term care facilities.

Exhibit 9b
Statistical Summary: Cost of Dispensing
(Not Adjusted for Vaccine Administration)

Pharmacy Cost of Dispensing Survey
Statistical Summary: Cost of Dispensing (Not Adjusted for Vaccine Administration)
 Minnesota Department of Human Services

Characteristic	Pharmacy Dispensing Cost per Prescription ¹										Other Statistics		
	Measurements of Central Tendency									Standard Deviation	95% Confidence Interval for Mean (based on Student t)		
	n: Number of Pharmacies	Average Total Prescription Volume	Average Medicaid Prescription Volume	Means			Medians				Lower Bound	Upper Bound	t Value (with n-1 degrees of freedom)
				Mean	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume	Median	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume				
All Pharmacies in Sample	853	81,973	1,883	\$16.62	\$13.39	\$13.48	\$11.37	\$11.09	\$11.69	\$33.68	\$14.35	\$18.88	1.96
Non Specialty Pharmacies ²	798	82,393	1,813	\$13.18	\$12.07	\$12.82	\$11.23	\$10.99	\$11.64	\$13.53	\$12.24	\$14.12	1.96
Specialty Pharmacies ²	55	75,881	2,893	\$66.46	\$34.07	\$19.52	\$16.61	\$17.56	\$12.75	\$111.78	\$36.24	\$96.68	2.00
Non Specialty Pharmacies Only													
Affiliation:													
Chain	617	85,234	1,567	\$11.50	\$11.01	\$11.33	\$10.95	\$10.70	\$11.06	\$4.80	\$11.13	\$11.88	1.96
Independent	101	83,648	3,529	\$14.72	\$14.26	\$14.06	\$12.27	\$12.83	\$14.10	\$8.91	\$12.96	\$16.48	1.98
Retail: Chain and Independent	718	85,011	1,843	\$11.96	\$11.46	\$12.07	\$11.03	\$10.87	\$11.46	\$5.67	\$11.54	\$12.37	1.96
Health System or Hospital-Based Pharmacies	80	58,891	1,545	\$24.16	\$20.05	\$20.82	\$19.29	\$18.81	\$18.93	\$37.68	\$15.78	\$32.55	1.99
Location (Urban vs. Rural): ³													
In State Urban	553	86,814	1,729	\$13.38	\$12.23	\$13.26	\$10.95	\$10.80	\$11.76	\$15.85	\$12.06	\$14.71	1.96
In State Rural	245	72,414	2,003	\$12.72	\$11.65	\$11.95	\$11.75	\$11.45	\$11.52	\$5.40	\$12.04	\$13.40	1.97
Annual Rx Volume:													
0 to 52,999	252	35,763	800	\$17.26	\$14.58	\$15.98	\$13.43	\$12.86	\$13.53	\$22.64	\$14.46	\$20.07	1.97
53,000 to 89,999	278	70,748	1,321	\$11.49	\$11.45	\$11.53	\$10.83	\$10.85	\$11.09	\$5.32	\$10.87	\$12.12	1.97
90,000 and Higher	268	138,318	3,276	\$11.09	\$11.80	\$12.63	\$10.61	\$10.83	\$11.49	\$3.53	\$10.67	\$11.52	1.97
Annual Medicaid Rx Volume: ⁴													
0 to 799	275	53,620	451	\$15.37	\$12.00	\$12.57	\$11.45	\$10.48	\$10.76	\$21.90	\$12.77	\$17.97	1.97
800 to 1,699	263	73,270	1,173	\$11.76	\$11.72	\$11.70	\$11.04	\$10.68	\$11.02	\$4.38	\$11.23	\$12.29	1.97
1,700 and Higher	260	122,053	3,901	\$12.30	\$12.32	\$13.18	\$11.30	\$11.37	\$11.94	\$5.35	\$11.65	\$12.96	1.97
Medicaid Utilization Ratio: ⁴													
0.0% to 1.29%	264	76,813	612	\$13.99	\$11.66	\$11.12	\$10.56	\$10.35	\$10.34	\$22.11	\$11.31	\$16.67	1.97
1.30% to 2.29%	284	83,693	1,458	\$12.46	\$11.94	\$12.05	\$11.24	\$11.10	\$11.23	\$5.35	\$11.83	\$13.08	1.97
2.30% and Higher	250	86,808	3,485	\$13.14	\$12.61	\$13.50	\$11.77	\$11.60	\$12.31	\$5.99	\$12.40	\$13.89	1.97

Pharmacy Cost of Dispensing Survey
Statistical Summary: Cost of Dispensing (Not Adjusted for Vaccine Administration)
 Minnesota Department of Human Services

Characteristic	Pharmacy Dispensing Cost per Prescription ¹										Other Statistics		
	Measurements of Central Tendency									Standard Deviation	95% Confidence Interval for Mean (based on Student t)		
	n: Number of Pharmacies	Average Total Prescription Volume	Average Medicaid Prescription Volume	Means			Medians				Lower Bound	Upper Bound	t Value (with n-1 degrees of freedom)
				Mean	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume	Median	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume				
Non Specialty Pharmacies Only													
Institutional:													
LTC Institutional Pharmacies ⁵	56	178,318	7,211	\$20.70	\$15.06	\$14.38	\$12.60	\$13.29	\$16.06	\$44.80	\$8.71	\$32.70	2.00
Non-LTC Institutional Pharmacies ⁵	742	75,153	1,406	\$12.61	\$11.54	\$12.21	\$11.04	\$10.67	\$10.99	\$6.59	\$12.14	\$13.09	1.96
Unit Dose:													
Does dispense unit dose	68	156,062	6,137	\$18.88	\$14.74	\$14.20	\$12.50	\$13.29	\$14.64	\$40.79	\$9.01	\$28.75	2.00
Does not dispense unit dose	730	75,530	1,410	\$12.65	\$11.56	\$12.25	\$11.05	\$10.69	\$11.01	\$6.63	\$12.17	\$13.13	1.96
340B Pharmacy Status													
Participates in 340B and provides 340B pricing to Medicaid	34	76,105	1,865	\$17.90	\$17.15	\$16.56	\$14.93	\$14.74	\$15.11	\$11.69	\$13.82	\$21.98	2.03
Does not participate in 340B or does not provide 340B pricing to Medicaid	764	82,672	1,811	\$12.97	\$11.87	\$12.64	\$11.17	\$10.96	\$11.55	\$13.58	\$12.01	\$13.94	1.96

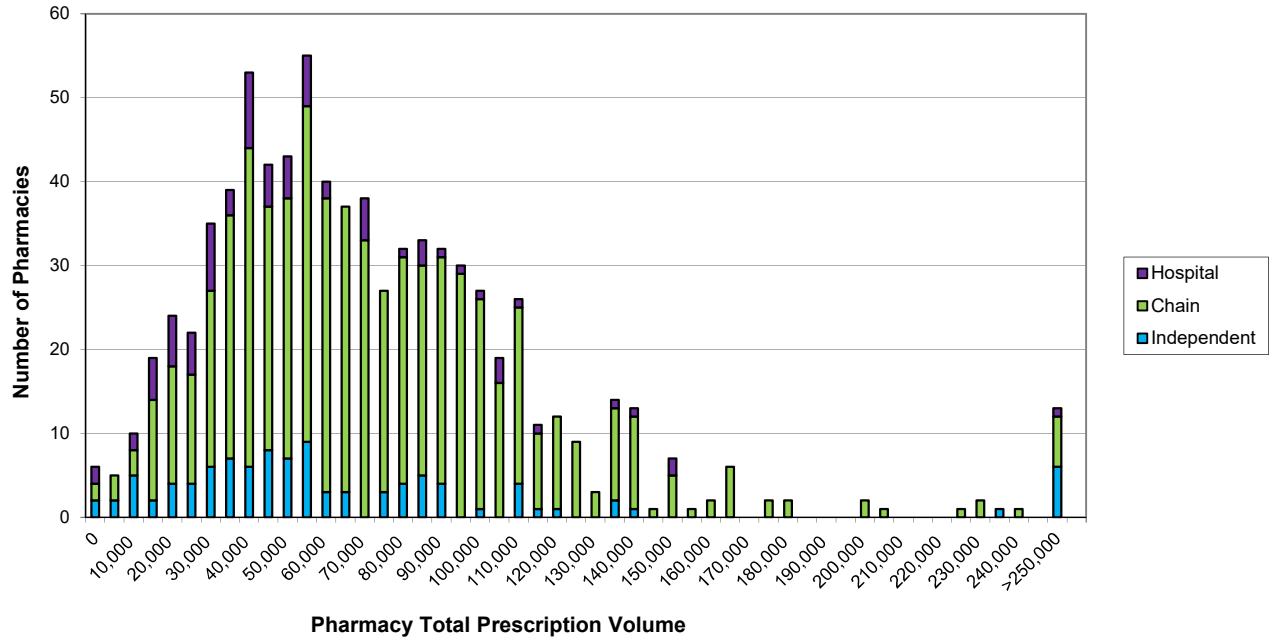
- Notes:**
- 1) All pharmacy dispensing costs are inflated to the common point of 6/30/2022 (i.e., midpoint of a fiscal year ending 12/31/2022).
 - 2) For purposes of this report a "specialty pharmacy" is one that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 10% or more of total prescription sales.
 - 3) Myers and Stauffer used the pharmacies' zip code and the Zip code to Carrier Locality File from the Centers for Medicare & Medicaid Services to determine if the pharmacy was located in an urban or rural area.
 - 4) Medicaid volume is based on the time period of July 1, 2021 to June 30, 2022.
 - 5) For purposes of this report an "LTC Institutional Pharmacy" is one that reported dispensing 25% or more of prescriptions to long-term care facilities.

Exhibit 10
**Charts Relating to Pharmacy Total
Prescription Volume:**

**A: Histogram of Pharmacy Total
Prescription Volume**

**B: Scatter-Plot of Relationship between Cost
of Dispensing per Prescription and Total
Prescription Volume**

Histogram of Pharmacy Total Prescription Volume



Scatter Plot of Relationship Between Dispensing Cost per Prescription and Total Prescription Volume

(Non-Specialty Pharmacies, Total Prescription Volume < 300,000)

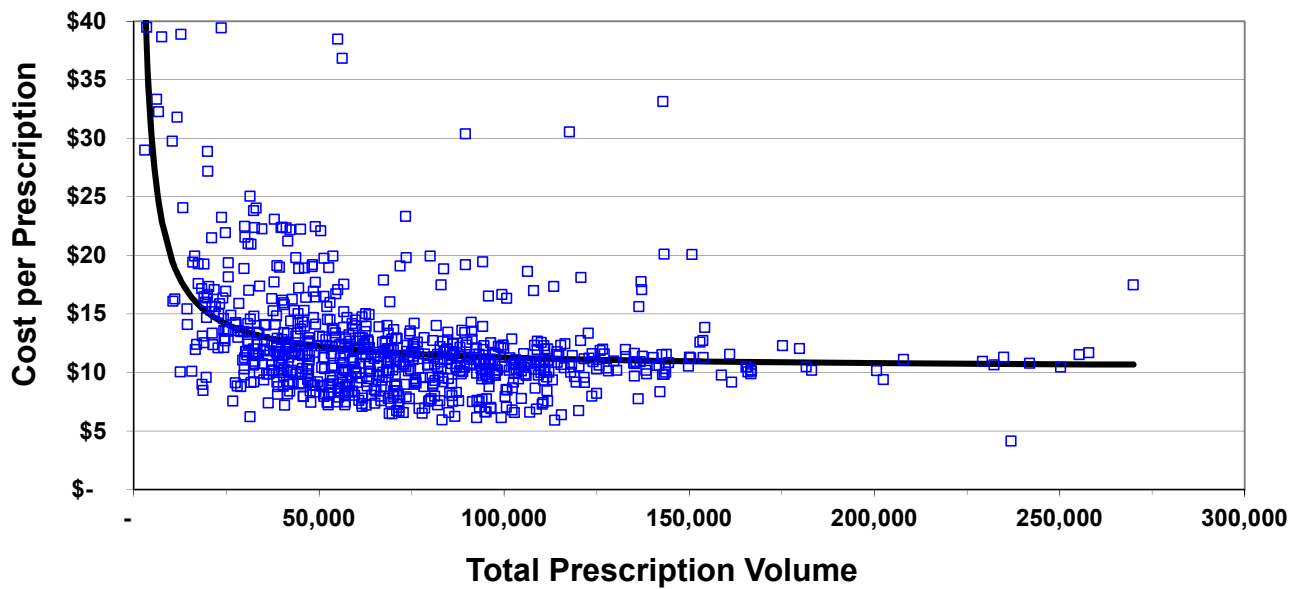


Exhibit 11
Chart of Components of Cost of Dispensing
per Prescription

Chart of Components of Dispensing Cost per Prescription

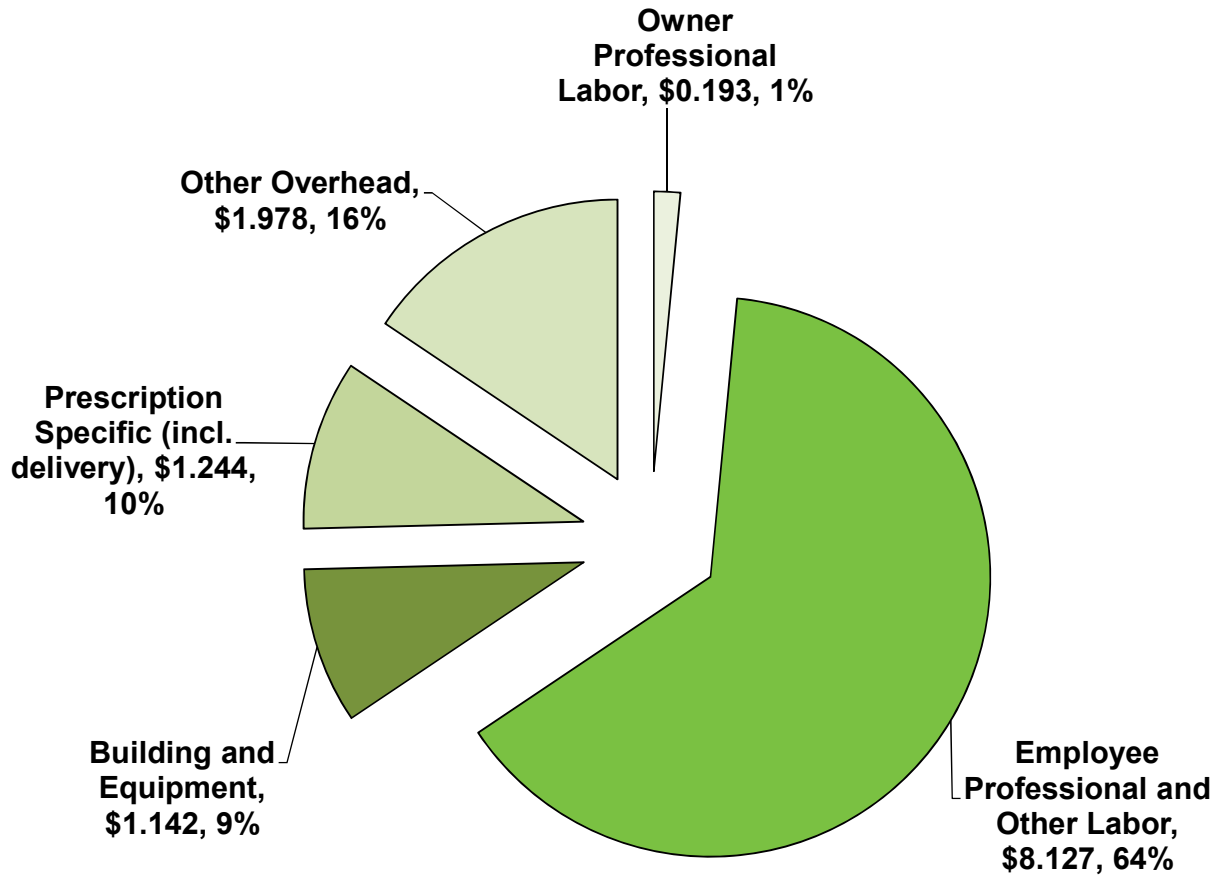


Exhibit 12
Summary of Pharmacy Attributes

Summary of Pharmacy Attributes
Minnesota Department of Human Services

Attribute	Number of Pharmacies Responding	Statistics for Responding Pharmacies		
		Response	Count	Percent
Payer Type: percent of prescriptions (averages)	849	Medicaid fee for service	N/A	5.2%
		Medicaid managed care	N/A	15.7%
		Other third party	N/A	75.6%
		Cash	N/A	3.5%
		<i>Total</i>	N/A	100.0%
Payer Type: percent of payments (averages)	849	Medicaid fee for service	N/A	6.5%
		Medicaid managed care	N/A	13.6%
		Other third party	N/A	77.5%
		Cash	N/A	2.4%
		<i>Total</i>	N/A	100.0%
Type of ownership	853	Individual	19	2.2%
		Corporation	816	95.7%
		Partnership	6	0.7%
		Other	12	1.4%
		<i>Total</i>	853	100.0%
Location	853	Medical office building	90	10.6%
		Shopping center	31	3.6%
		Stand alone building	265	31.1%
		Grocery store / mass merchant	264	30.9%
		Outpatient Hospital	38	4.5%
		Other	165	19.3%
		<i>Total</i>	853	100.0%
Purchase drugs through 340B pricing	853	Yes	231	27.1%
		No	622	72.9%
		<i>Total</i>	853	100.0%
Provision of 340B inventory to Medicaid (for those that indicated they purchase drugs through 340B pricing)	231	Yes	43	18.6%
		No	188	81.4%
		<i>Total</i>	231	100.0%
Building ownership (or rented from related party)	853	Yes, (own building or rent from related party)	442	51.8%
		No	411	48.2%
		<i>Total</i>	853	100.0%
Hours open per week	723	64.9 hours	N/A	N/A
Years pharmacy has operated at current location	769	18.7 years	N/A	N/A
Provision of 24 hour emergency services	853	Yes	99	11.6%
		No	754	88.4%
		<i>Total</i>	853	100.0%
Percent of prescriptions to generic products	848	Percent of prescriptions dispensed that were generic products	848	77.2%
Percent of prescriptions to long-term care facilities	853	5.77% for all pharmacies; (29.66% for 166 pharmacies reporting > 0%)	N/A	N/A
Provision of unit dose services	853	Yes (average of 42.47% of prescriptions for pharmacies indicating provision of unit dose prescriptions. Approximately 98.34% of unit dose prescriptions were reported as prepared in the pharmacy with 1.66% reported as purchased already prepared from a manufacturer)	179	21.0%
		No	674	79.0%
		<i>Total</i>	853	100.0%
Percent of total prescriptions delivered	853	9.86% for all pharmacies; (21.03% for 400 pharmacies reporting > 0%)	N/A	N/A
Percent of Medicaid prescriptions delivered	853	7.9% for all pharmacies; (22.47% for 300 pharmacies reporting > 0%)	N/A	N/A
Percent of prescriptions dispensed by mail	853	8.09% for all pharmacies; (17.33% for 398 pharmacies reporting >0% percent of prescriptions dispensed by mail)	N/A	N/A
Percent of prescriptions compounded	853	1.14% for all pharmacies; (2.49% for 390 pharmacies reporting >0 compounded Rx)	N/A	N/A