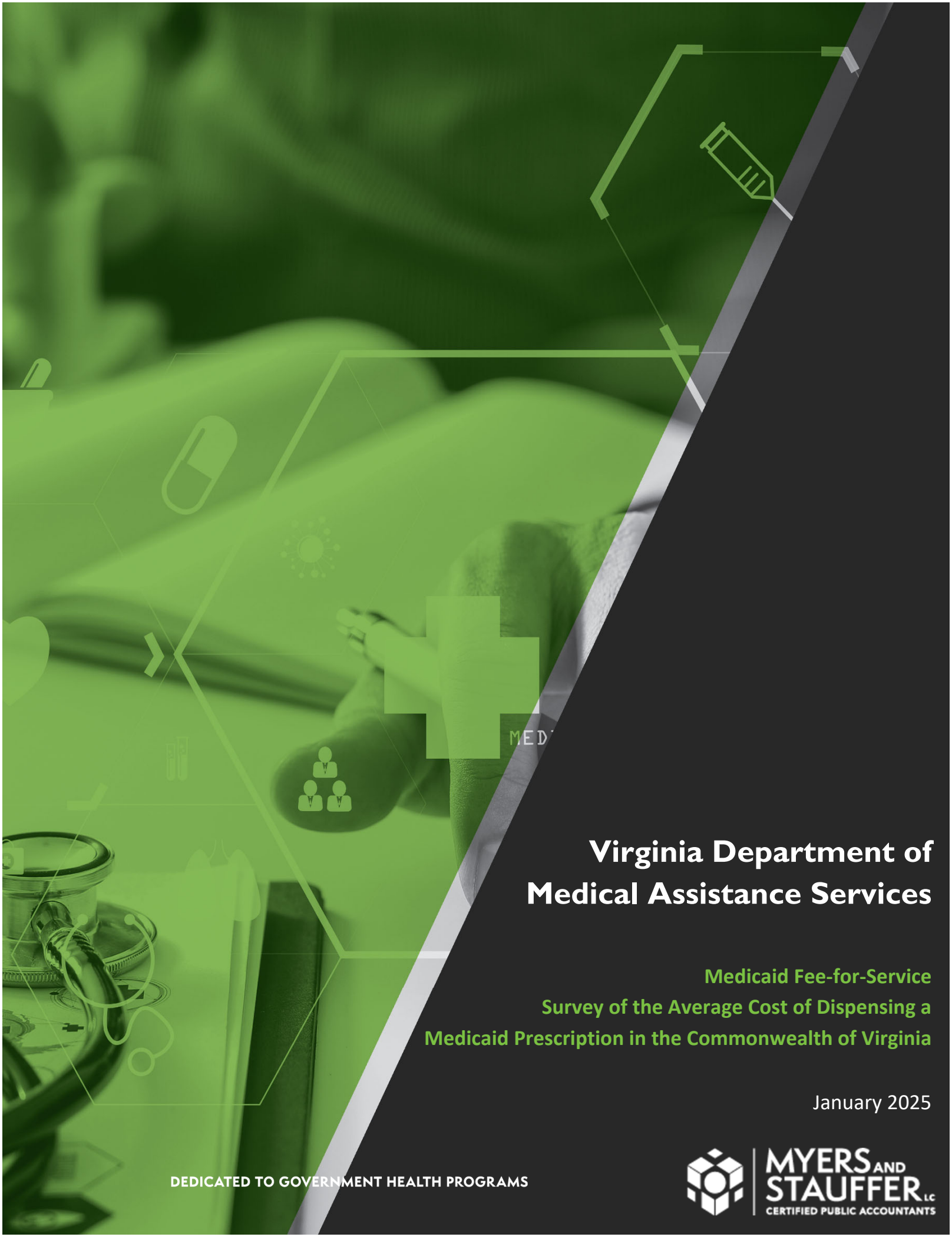

Virginia Department of Medical Assistance Services

Medicaid Fee-for-Service Survey of the Average Cost of Dispensing a Medicaid Prescription in the Commonwealth of Virginia

January 2025

DEDICATED TO GOVERNMENT HEALTH PROGRAMS

MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

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EXHIBITS

Chapter 1: Executive Summary

Introduction

Under contract to the Virginia Department of Medical Assistance Services (DMAS), Myers and Stauffer LC performed a study of pharmacy dispensing cost. The cost of dispensing study followed the methodology and used a survey instrument similar to those used by Myers and Stauffer in a previous survey for DMAS and in surveys for 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 pharmacy dispensing fee of a state Medicaid fee-for-service (FFS) program.

DMAS provides prescription services to Medicaid members in the Commonwealth of Virginia through both a FFS program and through five contracted managed care organizations. On an annual basis, there are approximately 43,000 members utilizing the FFS pharmacy program filing approximately 280,000 prescriptions. Total dispensing fees paid for FFS prescriptions are approximately $2.4 million per year. In comparison, the managed care program accounts for approximately 20 million prescriptions dispensed per year with dispensing fees determined by the individual managed care organization and their contracted pharmacy benefit manager (PBM).

The cost of dispensing survey followed the methodology and used a survey instrument similar to those used by Myers and Stauffer in previous surveys for DMAS and Medicaid pharmacy engagements in several other states. The methodology was consistent with guidelines from the Centers for Medicare and Medicaid Services (CMS) in its finalized rule for Medicaid FFS pharmacy reimbursement regarding the components of pharmacy cost that are appropriately reimbursed by the pharmacy dispensing fee of a state Medicaid program (CMS-2345-FC) and furthermore consistent with recent clarifications relating to adequate support for changes to Medicaid professional dispensing fees as described in CMS-2434-F (e.g., “adequate cost-based data, such as a State or national survey of retail pharmacy providers”).

Myers and Stauffer obtained from DMAS a list of pharmacy providers currently enrolled in the Virginia Medicaid pharmacy program. According to the provider list, there were 1,781 pharmacy providers that were enrolled in the Virginia Medicaid pharmacy program. Although the pharmacy provider list was compared to a listing of pharmacies obtained from the Virginia Board of Pharmacy, Myers and Stauffer relied on the DMAS list of pharmacies as the basis for the cost of dispensing survey and all 1,781 pharmacies enrolled in Virginia Medicaid were requested to submit survey information for this study.

Myers and Stauffer performed desk review procedures to test completeness and accuracy of all dispensing cost surveys submitted. There were 434 pharmacies that filed cost surveys that could be included in this analysis. Data from these surveys, in conjunction with pharmacy-specific cost-finding algorithms, was used to calculate the average cost of dispensing at each pharmacy and results from these pharmacies were subjected to statistical analysis.

Summary of Findings

Per the survey of pharmacy dispensing cost for pharmacies participating in the Virginia Medicaid program, the mean cost of dispensing, weighted by Medicaid volume, was $13.70 per

prescription for all pharmacies including specialty pharmacies.[1] For non-specialty pharmacies only, the mean cost of dispensing, weighted by Medicaid volume, was $12.72 per prescription. Table 1.1 includes additional measures of the average cost of dispensing.

Table 1.1 Dispensing Cost for Virginia Medicaid Pharmacies

	All Pharmacies Inclusive of Specialty	Non-specialty Pharmacies Only
Pharmacies Included in Analysis	434	355
Unweighted Mean (Average) [A]	$31.52	$14.51
Weighted Mean (Average) [A,B]	$13.70	$12.72
Unweighted Median [A]	$12.73	$11.82
Weighted Median [A, B]	$11.69	$11.39

[A] Inflated to common point of June 30, 2024 (midpoint of year ending December 31, 2024).
[B] Weighted by Medicaid volume.

There are several statistical measurements that may be used to express the central tendency, or "average", of a distribution, the most common of which are the mean and the median. Weighted means and medians are often preferable to their unweighted counterparts. The weighted mean 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. The weighting factor can be either total prescription volume or Medicaid prescription volume. The weighted median is determined by finding the pharmacy observation that encompasses the middle value prescription. The implication is that half of the prescriptions were dispensed at a cost of the weighted median or less, and half were dispensed at the cost of the weighted median or more. As with the weighted mean, the weighting factor can be either total prescription volume or Medicaid prescription volume.

For both weighted means and weighted medians, the use of Medicaid prescription volume as the weighting factor is particularly meaningful for consideration in determining appropriate reimbursement since it emphasizes the cost of dispensing from those pharmacies that dispense more significant volumes of Medicaid prescriptions.

Conclusions

Cost of Dispensing Trends

Myers and Stauffer has performed multiple cost of dispensing studies for Virginia and other states during the decade between 2010 and 2020. In most of these surveys we have observed a pattern of little to no cost increase over time. While some input costs, including labor, increased over this time period, other factors, including increased efficiencies associated with dispensing

[1] For purposes of this report, "specialty" pharmacies are those pharmacies that self-reported sales for intravenous, home infusion, blood factor and/or other specialty products of 30 percent or more of total prescription sales.

prescriptions, restrained the increase in the cost of dispensing, *on a per prescription basis*. This phenomenon has been observed by other researchers as well.

An increase in the average cost of dispensing on the order of 20 percent to 30 percent has been observed in the most recent cost of dispensing survey depending on the specific measurements of cost being compared. Broad economic factors, including inflationary pressures, appear to have had an impact on pharmacy costs and increases were observed within both the overhead and labor components of the cost of dispensing.

Professional Dispensing Fee Options

Federal regulations at 42 CFR § 447.518(d) require that when states propose changes in the Medicaid FFS pharmacy program 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. Furthermore, 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. Professional dispensing fees must also be supported by adequate cost-based data such as the findings of the survey methodology described within this report.

There are several options which DMAS can consider for the professional dispensing fee portion of reimbursement for the FFS pharmacy program. The use of a single professional dispensing fee for all pharmacies represents the simplest reimbursement option and is the most widely used methodology for pharmacy dispensing fees among state Medicaid FFS programs.

Based on the results of the survey of pharmacy dispensing cost, a single dispensing fee of $13.70 would reimburse the weighted average cost of dispensing prescriptions to Virginia Medicaid FFS members inclusive of both specialty and non-specialty pharmacies. A single dispensing fee of $12.72 would reimburse the weighted average cost of dispensing prescriptions to Virginia Medicaid FFS members for non-specialty pharmacies but would not account for the cost of dispensing prescriptions by specialty pharmacies.

As an alternative to a reimbursement methodology based on a single dispensing fee, several states have adopted professional dispensing fee methodologies that either recognize differences in cost among categories of pharmacies or are designed to incentivize a desired behavior. The total volume of prescriptions dispensed and the cost of dispensing at an individual pharmacy typically have been inversely correlated. A tiered approach to professional dispensing fees has the advantage of setting dispensing fees that are better matched, on average, to an individual pharmacy's cost of dispensing. However, the use of any tiered dispensing fee methodology creates additional complexity and results in increased administrative burdens for a Medicaid program. This report includes average cost of dispensing measurements for tiers based on pharmacy total prescription volume which can be considered in the process of evaluating potential professional dispensing fees for the Virginia Medicaid FFS program.

Despite indications that the cost of dispensing in specialty pharmacies varies from the cost of dispensing in non-specialty pharmacies, the use of a differential dispensing fee for specialty pharmacies is relatively infrequent among state Medicaid FFS programs. Several states have set dispensing fees based on the cost of dispensing observed at non-specialty pharmacies. This report includes average cost of dispensing measurements for several categories of specialty pharmacies which can be considered in the process of evaluating professional dispensing fees for the Virginia Medicaid FFS program.

Additional Recommendation

Myers and Stauffer has noted in numerous engagements for other state Medicaid programs that having regulatory language or a provision in the Medicaid provider agreement requiring pharmacies to participate in the cost of dispensing survey will increase the response rate. Several chain organizations will only participate in a cost of dispensing survey if there is a requirement. The Virginia legislature and/or DMAS should update cost of dispensing survey participation requirements before the next cost of dispensing survey is due to be conducted in 2029.

Chapter 2: Dispensing Cost Survey and Analysis

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

Within its definition of the term "professional dispensing fee", the Centers for Medicare and Medicaid Services (CMS) has provided some guidelines for appropriate costs to be reimbursed via a Medicaid pharmacy dispensing fee. The definition states:

> *"Professional dispensing fee means the fee which—*
>
> *(1) Is incurred at the point of sale or service and pays for costs in excess of the ingredient cost of a covered outpatient drug each time a covered outpatient drug is dispensed;*
>
> *(2) Includes only pharmacy costs associated with ensuring that possession of the appropriate covered outpatient drug is transferred to a Medicaid 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."* [2]

In its recently published final rule, CMS-2434-F, CMS clarified that proposed changes to professional dispensing fees should be based on "adequate cost-based data, such as a State or national survey of retail pharmacy providers or other reliable cost-based data other than a survey." Specifically, CMS indicated that "…submission by the State of data that are not based on pharmacy costs, such as market-based research (for example, third party payments accepted by pharmacies), to support the professional dispensing fee would not qualify as supporting data."[3]

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

[3] See 42 CFR § 447.518 and "Medicaid Program; Misclassification of Drugs, Program Administration and Program Integrity Updates Under the Medicaid Drug Rebate Program." (CMS-2434-F) Federal Register, 89: 187 (26 September 2024) p 79020.

Since CMS published CMS-2345-FC in February 2016, states have transitioned their fee-for-service (FFS) Medicaid 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 plans are frequently more aligned with the reimbursement methodologies of commercial health plans and Medicare Part D plans who usually contract with a PBM to administer pharmacy benefits. For pharmacies within their networks, 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 are established within contracts with network pharmacies as determined by PBMs and /or individual managed care organizations. These dispensing fees 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.

In recent years, several states have implemented requirements within their managed care programs to increase transparency of pharmacy reimbursement and provide increased oversight of the administration of the pharmacy benefit. States have adopted several models to provide this additional level of oversight. Most states with Medicaid managed care continue to use the traditional PBM model but some have increased requirements associated with the provision of the pharmacy benefit within managed care. These increased requirements have included the elimination of spread pricing, restrictions on retrospective reimbursement adjustments, elimination of transaction fees and implementation of additional reporting requirements on PBMs and health plans. In some cases, states have mandated minimum levels of pharmacy reimbursement which may include some elements of the reimbursement methodology of a state's FFS Medicaid program such as professional dispensing fees and/or levels of ingredient reimbursement. In some cases, the extension of the elements of the FFS reimbursement methodology may be limited to certain pharmacy types (e.g., setting the reimbursement methodology for in-state independent pharmacies but excluding chain pharmacies and/or pharmacies that are related parties to a PBM).

Other states have adopted the single PBM (SPBM) model in which the state Medicaid agency selects one PBM to serve all health plans. States which have either implemented the SPBM model or are in an implementation stage include Kentucky, Louisiana, Mississippi, and Ohio. Recently enacted legislation in the state of Texas suggests that it may also adopt an SPBM model in the near future. Other states have signaled interest in potential explorations of the SPBM model. Two models of SPBM contracting have been utilized within states that have implemented this approach. Under the most commonly used model, the state Medicaid agency

procures the SPBM and requires each health plan to contract individually with the SPBM. In this model, the state agency sets overall policies which the SPBM must follow for all claims processed but health plans remain at risk for the provision of the pharmacy benefit. In contrast, under another model, the SPBM is solely contracted with the state Medicaid agency and operates as a prepaid ambulatory health plan, which exclusively provides the pharmacy benefit to all members enrolled in a managed care plan; under this alternative model health plans are not at risk for the pharmacy benefit.

A small number of states have operated a Medicaid managed care program, but have opted to carve out the pharmacy benefit, retaining it within the Medicaid FFS program. Examples of states which have operated within a carve-out model of pharmacy benefit management for a number of years include Missouri, Tennessee, West Virginia, and Wisconsin. Notably, two large states, California and New York, carved out the pharmacy benefit from their managed care programs in the past four years and now operate the pharmacy benefit exclusively within their FFS program. Such a transition has significant impacts on the federal regulatory framework controlling the reimbursement methodologies that must be used (i.e., the Covered Outpatient Drugs Final Rule at CMS-2345-FC) and may have other significant impacts in terms of state financing of the Medicaid program. Although the carve-out model has the potential for states agencies to exert greater control over pharmacy benefit management practices, the transition is often complex and requires significant agency resources to implement.

Methodology of the Dispensing Cost Survey

In order to determine costs incurred to dispense pharmaceuticals to members of the Virginia Medicaid pharmacy program, Myers and Stauffer utilized a survey method consistent with federal regulations for the expenses to include within 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 DMAS to refine the survey tool to meet their objectives.

Survey Distribution

Myers and Stauffer obtained from DMAS a list of pharmacy providers currently enrolled in the Virginia Medicaid pharmacy program. According to the provider list, there were 1,781 pharmacy providers enrolled in the Virginia Medicaid pharmacy program. Myers and Stauffer relied on the DMAS list of pharmacies as the basis for the cost of dispensing survey and all 1,781 pharmacies enrolled in Virginia Medicaid were requested to submit survey information for this study.

Surveys were mailed to all 1,781 pharmacy providers included on the DMAS pharmacy list on September 12, 2024. Each surveyed pharmacy received a copy of the cost survey (Exhibit 1), a letter of introduction from DMAS (Exhibit 2), an instructional letter from Myers and Stauffer (Exhibits 3a and 3b), and an invitation to participate in webinars hosted by Myers and Stauffer (Exhibit 4).

Concerted efforts to encourage participation were made to enhance the survey response rate. A survey help desk was provided by Myers and Stauffer. A toll-free telephone number and email address were listed on the survey form and pharmacists were instructed to call or email to resolve

any questions they had concerning completion of the survey form. The instructional letter offered pharmacy owners 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. 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).

Myers and Stauffer hosted informational presentations on September 24, 2024 and September 26, 2024. Providers were given an overview of the cost of dispensing survey process and the survey tool. Providers were given the opportunity to ask questions during the presentation and encouraged to reach out to the survey help desk if they had further questions or needed assistance completing the survey.

Reminder postcards were sent on September 26, 2024 to non-respondent pharmacies (Exhibit 5). An additional postcard was sent on October 17, 2024 with a further reminder and an extension of the original due date of October 17, 2024 to October 24, 2024 (Exhibit 6).

To further encourage survey participation, a reminder email was sent to all non-respondent providers on September 26, 2024. Additional reminder emails were sent to providers on October 15, 2024 and October 21, 2024.

In addition to the survey reminders sent by Myers and Stauffer, DMAS also leveraged selected individuals representing the Virginia pharmacist community to act as “champions” to advocate for survey participation to fellow pharmacists within their regions.

Providers were given instructions to report themselves as ineligible for the survey if they met certain criteria. Pharmacies were to be deemed exempt or ineligible if they had closed their pharmacy, had a change of ownership, or had less than six months of cost data available (e.g., due to a pharmacy that recently opened, or changed ownership). Of the 1,781 surveyed pharmacies, 17 pharmacies were determined to be exempt or ineligible to participate (based on the returned surveys).

Surveys were accepted through November 6, 2024. As indicated in Table 2.1, 434 surveyed pharmacies submitted a usable cost survey for this study resulting in a response rate of 24.6 percent.

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

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

[4] There were 10 incomplete surveys received on or November 6, 2024 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 434 usable surveys received.

Table 2.1 Dispensing Cost Survey Response Rate

Pharmacy Category	Medicaid Enrolled Pharmacies	Pharmacies Exempt or Ineligible from Filing	Eligible Pharmacies	Usable Cost Surveys Received	Response Rate
Chain[5]	1,257	2	1,255	316	25.2%
Non-chain	524	15	509	118	23.2%
TOTAL	**1,781**	**17**	**1,764**	**434**	**24.6%**
In-State Urban[6]	1,257	8	1,249	280	22.4%
In-State Rural	257	2	255	64	25.1%
Out-of-State	267	7	260	90	34.6%
TOTAL	**1,781**	**17**	**1,764**	**434**	**24.6%**

Table 2.2 Pharmacies in Virginia

	Count
Virginia Pharmacies Licensed by Virginia Board of Pharmacy	1,720
Virginia Pharmacies Enrolled by DMAS	1,514
Virginia Pharmacies NOT Enrolled in DMAS [A]	206

[A] *Pharmacies not enrolled in DMAS includes free clinics, hospital based, infusion, and other non-retail pharmacies.*

Tests for Reporting Bias

For the pharmacy traits of affiliation (i.e., chain or non-chain) 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. 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.

Of the 434 usable cost surveys, 316 were from chain pharmacies and 118 were from non-chain pharmacies. There was a response rate of 25.2 percent for chain pharmacies compared to a

[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.

response rate of 23.2 percent for non-chain pharmacies. The results of the χ^2 test indicated that the difference in response rate between chain and non-chain pharmacies was not statistically significant at the 5 percent confidence level.

A χ^2 test was also performed with respect to the urban versus rural location for responding pharmacies that were located in the Commonwealth of Virginia. Of the 1,514 non-exempt pharmacies located in the Commonwealth of Virginia, 1,257 pharmacies (or 83 percent) were located in an urban area. The remaining 257 pharmacies (or 17 percent) were located in a rural area. The number of pharmacies that returned a completed survey from an urban location was 280 (a response rate of 22.4 percent) and the number of pharmacies that returned a completed survey from a rural location was 64 (a response rate of 25.1 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 5 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 dispensing cost per prescription was to calculate the total dispensing-related cost and divide it by the total number of prescriptions dispensed:

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

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 groceries, durable medical equipment, medical supplies, over-the-counter (OTC) drugs, non-medical items and other goods 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 Costs

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

- **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: $0.87 per prescription).
  - Certain other expenses that were separately identified on Lines (32a) to (32t) of Page 7 of the cost survey (Exhibit 1).[7]

[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).

- **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]
  - 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:

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[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.

- **Area ratio**

  In order to allocate expenses that were considered to be reasonably related to building space an area ratio was calculated. The process to calculate the area ratio included multiple steps. First, a ratio was calculated as prescription department floor space (in square feet) divided by total floor space. This initial ratio was then 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. Finally, 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). This final calculation was considered to be the area ratio to use for cost allocation purposes.

  Overhead expenses allocated on the area ratio include: [13]

  - Depreciation
  - Real estate taxes
  - Rent [14]
  - 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 ration which was calculated as prescription sales divided by total sales.

  Overhead expenses allocated using the sales ratio include:

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

[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."*

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 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,

[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.

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 2.3. 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 2.3 Hourly Wage Limits for Owners

Owner Type	Lower Limit (Hourly)	Upper Limit (Hourly)
Pharmacist	$60.94	$88.29
Non-Pharmacist	$18.87	$57.69

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 434 pharmacies in the cost analysis, owner limits impacted 47 pharmacies, or 10.8 percent. Of these, 20 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 27 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 approximately $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:

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

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 434 pharmacies included in the cost of dispensing analysis, this limit was applied to 18 pharmacies. In total, the final estimate of average pharmacy cost of dispensing per prescription was decreased by approximately $0.34 as a result of the labor cost restraint.

Inflation Factors

All allocated costs for overhead and labor were totaled and multiplied by an inflation factor. Inflation factors are intended to reflect cost changes from the middle of the reporting period of a particular pharmacy to a common fiscal period ending December 31, 2024 (specifically from the midpoint of the pharmacy's fiscal year to June 30, 2024 which is the midpoint of the fiscal period ending December 31, 2024). The midpoint and terminal month indices used were taken from the Employment Cost Index (ECI), (all civilian, all workers; seasonally adjusted) published by the Bureau of Labor Statistics (BLS) (Exhibit 7). The use of inflation factors is preferred in order for pharmacy cost data from various fiscal years to be compared uniformly. The majority of submitted cost surveys were based on a fiscal year which ended on or within four months of December 31, 2023.

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 of 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 2.4.

Table 2.4 Dispensing Cost per Prescription – All Pharmacies

	Dispensing Cost
Unweighted Mean	$31.52
Mean Weighted by Medicaid Volume	$13.70
Unweighted Median	$12.73
Median Weighted by Medicaid Volume	$11.69

n=434 pharmacies
Dispensing costs have been inflated to the common point of June 30, 2024 (midpoint of year ending December 31, 2024).

See Exhibit 8 for a histogram of the dispensing cost for all pharmacies. There was a large range between the highest and the lowest dispensing cost observed. However, the majority of pharmacies (approximately 70 percent) had average dispensing costs between $6 and $17.

Exhibit 9 includes a statistical summary with a wide variety of measures of pharmacy dispensing cost with breakdowns for many pharmacy attributes potentially of interest. 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.

Specialty Pharmacies

Several pharmacies included in the cost analysis were identified as specialty pharmacies. There is not a statutory, regulatory, or universal industry accepted definition of "specialty pharmacies". 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. Although some state Medicaid programs have established lists of “specialty drugs” for specific purposes, these lists are not uniform across all Medicaid programs. For purposes of this report, “specialty pharmacies" are pharmacies that self-reported sales for intravenous, home infusion, clotting factor and/or other specialty products of 30 percent or more of total prescription sales. The analysis revealed significantly higher cost of dispensing associated with pharmacies with these criteria.

In most pharmacy cost of dispensing studies 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.

The difference in dispensing costs that were observed for providers of specialty products compared to those pharmacies that did not offer these specialty products is summarized in Table 2.5. Of the 79 pharmacies classified as “specialty” for purposes of Table 2.5, there were 48 of these pharmacies that were located outside of Virginia; the remaining 31 pharmacies were located inside Virginia.

Table 2.5 Dispensing Cost 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)	Unweighted Mean	Mean Weighted by Medicaid Volume
Specialty Pharmacies	79	Mean: 132,921 Median: 34,988	Mean: 4,411 Median: 291	$107.95	$23.23
Other Pharmacies	355	Mean: 124,514 Median: 75,010	Mean: 9,557 Median: 6,065	$14.51	$12.72

n= 434 pharmacies
Dispensing costs have been inflated to the common point of June 30, 2024 (midpoint of year ending December 31, 2024).

Non-specialty Pharmacies

The analyses summarized in Tables 2.7 through 2.11 below exclude the 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 2.7 restates the measurements noted in Table 2.4 excluding pharmacies that dispensed significant volumes of specialty prescriptions.

Table 2.7 Dispensing Cost per Prescription – Excluding Specialty Pharmacies

	Dispensing Cost
Unweighted Mean	$14.51
Mean Weighted by Medicaid Volume	$12.72
Unweighted Median	$11.82
Median Weighted by Medicaid Volume	$11.39

n= 355 pharmacies

Dispensing costs have been inflated to the common point of June 30, 2024 (midpoint of year ending December 31, 2024).

Relationship of Dispensing Cost with Prescription Volume

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

Pharmacies were classified into meaningful groups based upon their differences in total prescription volume. Dispensing costs were then analyzed based upon these volume classifications. Table 2.8 displays the calculated cost of dispensing for non-specialty pharmacies arrayed into tiers based on total annual prescription volume. Table 2.9 provides statistics for pharmacy annual prescription volume.

Table 2.8 Dispensing Cost by Pharmacy Total Annual Prescription Volume

Statistic	Value [A]
Mean	124,514
Standard Deviation	328,771
10th Percentile	31,164
25th Percentile	54,286
Median	75,010
75th Percentile	102,321
90th Percentile	132,344

n= 355 pharmacies

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

Dispensing costs have been inflated to the common point of June 30, 2024 (midpoint of year ending December 31, 2024).

Table 2.9 Statistics for Pharmacy Total Annual Prescription Volume

Total Annual Prescription Volume of Pharmacy	Number of Pharmacies [A]	Unweighted Mean	Mean Weighted by Medicaid Volume
0 to 54,999	92	$22.04	$17.87
55,000 to 88,999	137	$12.51	$11.96
89,000 and Higher	126	$11.17	$11.79

n= 355 pharmacies

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

Dispensing costs have been inflated to the common point of June 30, 2024 (midpoint of year ending December 31, 2024).

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

Other Observations Associated with Dispensing Cost and Pharmacy Attributes

The dispensing cost of the surveyed pharmacies was broken down into the various components of overhead and labor related costs. Table 2.10 displays the means of the various cost components for surveyed pharmacies. Labor-related expenses accounted for approximately 67 percent of overall prescription dispensing costs.

Expenses in Table 2.10 are classified as follows:

- Owner professional labor – owner's labor costs were subject to constraints in recognition of its special circumstances as previously noted.

- Employee professional labor consists of employee pharmacists. Other labor includes the cost of delivery persons, interns, technicians, clerks and any other employee with time spent performing the prescription dispensing function of the pharmacy.
- Building and equipment expense includes depreciation, rent, building ownership costs, repairs, utilities and any other expenses related to building and equipment.
- Prescription-specific expense includes pharmacist-related dues and subscriptions, prescription containers and labels, prescription-specific computer expenses, prescription-specific delivery expenses (other than direct labor costs) and any other expenses that are specific to the prescription dispensing function of the pharmacy.
- Other overhead expenses consist of all other expenses that were allocated to the prescription dispensing function of the pharmacy including interest, insurance, telephone, and legal and professional fees.

Table 2.10 Components of Prescription Dispensing Cost

Type of Expense	Mean Weighted by Medicaid Volume [A]
Owner Professional Labor	$0.496
Employee Professional and Other Labor	$7.975
Building and Equipment	$1.097
Prescription Specific Expenses (including delivery)	$1.515
Other Overhead Expenses	$1.642
Total	**$12.725**

n= 355 pharmacies

[A] *Excludes specialty pharmacies, which for purposes of this report are those pharmacies that self-reported sales for intravenous, home infusion, clotting factor and/or other specialty products of 30 percent or more of total prescription sales.*

Dispensing costs have been inflated to the common point of June 30, 2024 (midpoint of year ending December 31, 2024).

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

In addition to pharmacy dispensing cost 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 2.11, 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 2.11 Non-Allocated Expenses per Prescription

Expense Category	Mean Weighted by Medicaid Volume [A]
Bad Debts	$0.024
Charitable Contributions	$0.008
Advertising	$0.156

n= 355 pharmacies

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

Dispensing costs have been inflated to the common point of June 30, 2024 (midpoint of year ending December 31, 2024).

Additional Cost of Dispensing Analysis

During the survey tool development phase of the project, based on discussions with stakeholders and consultation with DMAS, various questions were included on the cost of dispensing survey form to address specific areas of concern. Stakeholders expressed a concern that open and unfilled pharmacist and technician positions were having an impact on their pharmacy business, and that those impacts were not necessarily reflected in the collection of pharmacy overhead and labor cost. This led to additional questions being incorporated into the personnel cost page of the survey tool (see Exhibit 1, page 5).

Pharmacies were requested to identify if they had any unfilled pharmacist positions, and if so, the number of those open pharmacist positions. An affirmative response regarding open pharmacist positions was received from 16 pharmacies (i.e., 3.7 percent of all respondent pharmacies). For these 16 pharmacies, they reported an average of approximately one open pharmacist position.

Pharmacies were similarly requested to identify if they had any unfilled pharmacy technician positions, and if so, the number of those open pharmacy technician positions. An affirmative response regarding open pharmacy technician positions was received from 52 pharmacies (i.e., 12 percent of all respondent pharmacies). For these 52 pharmacies, they reported an average of approximately two open pharmacy technician positions.

Exhibit 1
Virginia Medicaid Pharmacy Cost of Dispensing Survey - Survey Form

Virginia Medicaid Pharmacy Cost of Dispensing Survey

Survey forms by Myers and Stauffer LC under contract with the Virginia Department of Medical Assistance 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 **October 17, 2024**

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

An electronic version of the Virginia 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 Virginia Medicaid pharmacies are requested 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.

Virginia 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, 2023, or December 31, 2022, if 2023 records are not yet complete). **(Include month/day/year).**

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

(a) **List the total number of all prescriptions dispensed during your most recently completed fiscal year as follows:**

1. New _____ **2. Refill** _____ **3. Total** _____

"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.

(b) **Sales and Floor Space**

	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.

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 and 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).

(c) Amount of State Sales Tax collected during fiscal year used for survey (round to nearest whole dollar) **$** _____

(d) 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 _____ %

(e) 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 _____ %

(f) Ownership Affiliation

1. □ Independent (1 to 3 units) 2. □ Chain (4 or more units)
3. □ Institutional (service to LTC facilities only) 4. □ Other (specify) _____

(g) Type of Ownership

1. ☐ Individual 2. ☐ Corporation 3. ☐ Partnership 4. ☐ Other (specify) _____

(h) Location of Pharmacy (please check one)

1. □ Medical Office Building 2. □ Shopping Center
3. □ Stand Alone Building 4. □ Grocery Store / Mass Merchant
5. □ Outpatient Hospital 6. □ Other (specify) _____

(i) Does your pharmacy purchase drugs through the 340B Drug Pricing Program?

1. □ Yes 2. □ No

If yes, are prescriptions dispensed to Virginia Medicaid members provided from 340B inventory?

1. □ Yes 2. □ No

If you are a provider that participates in the 340B discount program, indicate if you are a:

1. □ Covered Entity 2. □ Contract Pharmacy

Myers and Stauffer will keep financial information strictly confidential.

Virginia Medicaid Pharmacy Cost of Dispensing Survey

SECTION IA -- PHARMACY ATTRIBUTES, CONTINUED

(j)	Do you own your building or lease from a related party (i.e., yourself, family member, or related corporation)? If so, mark yes, on page 7 you should only report expenses related to building ownership, i.e. interest, taxes, insurance, maintenance, etc. 1. □ Yes 2. □ No
(k)	How many hours per week is your pharmacy open? _____ Hours
(l)	How many years has a pharmacy operated at this location? _____ Years
(m)	Do you provide 24-hour emergency services for pharmaceuticals? 1. □ Yes 2. □ No
(n)	What percentage of prescriptions dispensed were generic products? _____%

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

(o)	How many total prescriptions were dispensed to long-term care facilities or assisted living homes?_____
(p)	Do you dispense in unit dose packaging to long-term care facilities (e.g., medisets, blister packs, etc.)? 1. □ Yes 2. □ No If yes, how many total prescriptions were dispensed in unit dose packaging? _____
(q)	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 (r) through (v) as applicable.

(r)	How many total prescriptions filled are delivered? _____
(s)	How many Virginia Medicaid prescriptions filled are delivered? _____
(t)	Does your pharmacy deliver prescriptions by mail (U.S. Postal Service, FedEx, UPS, etc.)? 1. □ Yes 2. □ No If yes, what is the total number of prescriptions that are delivered by mail? _____
(u)	Are you presently providing specialty products or services (e.g., intravenous, infusion, enteral nutrition, clotting factors or derivatives, other pre-filled injectable or oral specialty products)? 1. □ Yes 2. □ No **If yes, you must complete the product breakdown in section IC on page 4.**
(v)	How many total prescriptions dispensed were compounded? _____ How many total prescriptions were compounded in a sterile environment? _____ 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.

Myers and Stauffer will keep financial information strictly confidential.

Virginia Medicaid Pharmacy Cost of Dispensing Survey

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

If you answered yes to question (u) 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 factors can be prefilled, however place it in "clotting factors 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 factors 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 and all other specialty products not include in other categories above			(2b)
Total for Specialty			(2c)
Non-specialty			
Orals			(3a)
Topicals			(3b)
Injectables			(3c)
Compounded (non-infusion)			(3d)
Enteral nutrition			(3e)
All Other (including opthalmic, 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 if needed.

Myers and Stauffer will keep financial information strictly confidential.

Virginia 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.

			Percent of Time Spent					
Employee Classification	Estimate of FTEs[1]	Total Salaries (including bonuses and draws for owners)[2]	Dispensing Activities[3]	Other RX Related Duties[4]	MTM and Vaccine Administration[5]	Non Rx Related Duties[6]	Total[7]	Line No.
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[8]		(15)
Total Labor Expenses		(16)

(17) Do you currently have unfilled pharmacist positions at this pharmacy? 1. □ Yes 2. □ No

(18) If you answered yes to question 17, how many open pharmacist positions do you have at this pharmacy? _____

(19) Do you currently have unfilled pharmacy technician positions at this pharmacy? 1. □ Yes 2. □ No

(20) If you answered yes to question 19, how many open pharmacy technician positions do you have at this pharmacy? _____

(21) Please describe any additional pharmacist professional services provided to patients that affect the cost of dispensing at this pharmacy, in the box below. Attach additional pages if needed.

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

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 understood 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 employee(s) in each 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) ÷ 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. All columns must total 100%.
8	Other Employee Benefits includes employee medical insurance, disability insurance, education assistance, etc.

Virginia Medicaid Pharmacy Cost of Dispensing Survey

SECTION IIB -- OVERHEAD EXPENSES

Complete this section using your internal financial statement or tax return for the **same fiscal year as 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, 2023, or December 31, 2022, if 2023 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 7, 8, and 9).**

*** 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.

2023 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	21*	26*	20*	Insurance (other than employee medical)			(8)
16a&b	15	18	13	Interest			(9)
17	21*	26*	20*	Legal and Professional Fees			(10)
27a*	21*	26*	20*	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	21*	26*	20*	Utilities (a) Telephone			(14)
25	21*	26*	20*	(b) Heat, Water, Lights, Sewer, Trash and other Utilities			(15)
18&22	21*	26*	20*	Operating and Office Supplies (exclude prescription containers and labels)			(16)
8	21*	22	16	Advertising/Marketing			(17)
27a*	21*	26*	20*	Computer Expenses (systems, software, maintenance, etc.)			(18)
9,27a*	21*	26*	20*	Prescription Delivery Expenses (wages to a driver should only be reported on pg. 5)			(19)
27a*	21*	26*	20*	Prescription Containers and Labels			(20)
24a&b	21*	26*	20*	Travel, Meals and Entertainment			(21)
27a*	21*	26*	20*	Switching / E-Prescribing Fees			(22)
27a*	21*	26*	20*	Security / Alarm			(23)
27a*	21*	26*	20*	Bank Charges			(24)
27a*	21*	26*	20*	Credit Card Processing Fees			(25)
27a*	21*	26*	20*	Interior Maintenance (housekeeping, janitorial, etc.)			(26)
27a*	21*	26*	20*	Exterior Maintenance (lawn care, snow removal etc.)			(27)
27a*	21*	26*	20*	Pharmacy Licenses / Permits			(28)
27a*	21*	26*	20*	Employee Training and Certification			(29)
27a*	21*	26*	20*	Continuing Education			(30)
				Total Page 7 overhead expenses (lines 1 to 30)			(31)

Myers and Stauffer will keep financial information strictly confidential.

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 on page 7, 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 8 overhead expenses (lines 32a to 32t)			(33)

Myers and Stauffer will keep financial information strictly confidential.

Virginia 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 2023 tax forms:

1040C - Line 28
1065 - line 22
1120 - line 27
1120S - line 21

Myers and Stauffer will keep financial information strictly confidential.

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

COMMONWEALTH of VIRGINIA

Department of Medical Assistance Services

CHERYL J. ROBERTS
DIRECTOR

SUITE 1300
600 EAST BROAD STREET
RICHMOND, VA 23219

September 12, 2024

To: Pharmacy Providers Enrolled with the Department of Medical Assistance Services

Subject: 2024 Pharmacy Cost of Dispensing Survey

The Virginia Department of Medical Assistance Services (DMAS) is conducting a pharmacy cost of dispensing survey as required by Virginia Administrative Code 12VAC30-80. DMAS requests all pharmacy providers enrolled with DMAS to participate in the survey and provide all necessary documentation to the designated vendor.

Background

DMAS has contracted with the firm of Myers and Stauffer, LC, Certified Public Accountants, a reputable firm with extensive experience in developing and conducting pharmacy cost of dispensing surveys, to conduct a comprehensive study to determine the cost of dispensing prescriptions to Virginia Medicaid fee-for-service members.

Survey

To accomplish the amount of work which must be performed and to ensure an accurate and valid measurement of dispensing costs, all forms must be completed as quickly and accurately as possible. Both DMAS and Myers and Stauffer guarantee confidentiality of your survey responses.

Please return the completed survey directly to Myers and Stauffer, no later than **October 17, 2024**. If you would prefer to complete the survey electronically, please contact Myers and Stauffer to request an Excel spreadsheet.

Contacts

The enclosed instructions include a toll-free number to assist you in completing the survey. If you have questions or concerns that Myers and Stauffer is unable to answer, call, Kiara Jasper, Pharmacy Systems Administrator at (804)762-3112 or email Kiara.jasper@dmas.virginia.gov.

Thank you for your cooperation and continued support of the Virginia Medicaid Pharmacy Program.

Sincerely,

Cheryl J. Roberts, JD
Director

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

MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

September 12, 2024

Re: Virginia Department of Medical Assistance Services- Pharmacy Cost of Dispensing Survey

Dear Pharmacy Owner/Manager:

The Virginia Department of Medical Assistance Services (DMAS) has contracted with Myers and Stauffer LC, a national Certified Public Accounting firm, to conduct a pharmacy cost of dispensing survey as part of the process to evaluate the costs associated with dispensing medications in the Commonwealth of Virginia. All pharmacies enrolled in the Virginia Medicaid Pharmacy Program are requested to participate in the survey according to the following instructions:

1. Complete the enclosed "Virginia Medicaid Pharmacy Cost of Dispensing Survey".
2. For your convenience, Myers and Stauffer 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.

Responding in an electronic format is preferred:

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 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:

Please send completed forms to:

Myers and Stauffer LC
Certified Public Accountants
Attn: Virginia 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.

Pharmacies are encouraged to return the requested information as soon as possible, **but forms must be returned no later than October 17, 2024.**

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.

It is very important that pharmacies respond with accurate information. All submitted surveys will be reviewed and validated by staff at Myers and Stauffer. If the review yields the need for additional inquiries, Myers and Stauffer staff will contact you.

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

Myers and Stauffer will be conducting informational meetings via telephonic/internet-based webinars to further explain the survey. At these meetings, Myers and Stauffer 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.

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
Myers and Stauffer, LC
Email: mhill@mslc.com

Enclosures: Letter from the Virginia Department of Medical Assistance Services
Virginia Medicaid Pharmacy Cost of Dispensing Survey Form
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)

MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

September 12, 2024

Re: Virginia Department of Medical Assistance Services – Pharmacy Cost of Dispensing Survey

Dear Pharmacy Owner/Manager:

The Virginia Department of Medical Assistance Services (DMAS) has contracted with Myers and Stauffer LC, a national Certified Public Accounting firm, to conduct a pharmacy cost of dispensing survey as part of the process to evaluate the costs associated with dispensing medications in the Commonwealth of Virginia. All pharmacies enrolled in the Virginia Medicaid Pharmacy Program are requested to participate in the survey.

Enclosed is the "Virginia 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 Virginia 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 Virginia Medicaid program. Pharmacy information is presented as shown in records from DMAS. 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 October 17, 2024.**

Respond in an electronic format is preferred:

We strongly encourage pharmacies to respond in an electronic format. You will need to submit survey data for each store on the attached list and any additional stores/locations that participate in the Virginia 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.

DEDICATED TO GOVERNMENT HEALTH PROGRAMS
700 W 47th Street, Suite 1100 | Kansas City, MO 64112
PH 816.945.5300 | PH 800.374.6858 | FX 816.945.5301
www.mslc.com

If you prefer to respond in a paper format:

You will still need to submit a completed survey for each store on the attached list and **any additional stores/locations** that participate in the Virginia 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
Virginia 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 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.

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.

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 Virginia Department of Medical Assistance Services
Virginia Medicaid Pharmacy Cost of Dispensing Survey
List of Pharmacies that participate in the Virginia Medicaid program
Myers and Stauffer LC Business Reply Envelope
Informational Meeting Invitation

Exhibit 4
Informational Meeting Flyer
(Independent and Chain Pharmacies)

Informational Meetings
Virginia Department of Medical Assistance Services
Pharmacy Cost of Dispensing Survey

The Virginia Department of Medical Assistance Services (DMAS) is conducting a pharmacy cost of dispensing survey. The survey results will be used to evaluate the costs associated with dispensing medications in the Commonwealth of Virginia.

DMAS 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)
Tuesday, September 24, 2024	3:00 PM
Thursday, September 26, 2024	8:30 AM

MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

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

REMINDER

Survey Due October 17, 2024

Virginia Department of Medical Assistance Services

Pharmacy Cost of Dispensing Survey

MYERS AND STAUFFER LC

The Virginia Department of Medical Assistance Services (DMAS) has contracted with Myers and Stauffer LC to conduct a pharmacy cost of dispensing survey. All pharmacy providers that participate in the Virginia Medicaid pharmacy program are requested to participate in the survey.

You should have received a letter from DMAS, 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 DMAS to evaluate future fee-for-service pharmacy reimbursement rates.

If you have not received a survey form or have misplaced your survey form, you can contact Myers and Stauffer LC. If you have any questions regarding the survey or need the Excel version of the survey, please contact Myers and Stauffer LC toll free at (800) 374-6858 or via email to disp_ survey@mslc.com.

Surveys are due no later than
October 17, 2024

MYERS AND STAUFFER LC

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

FINAL REMINDER

Due Date Extended to October 24, 2024

Virginia Department of Medical Assistance Services

Pharmacy Cost of Dispensing Survey

MYERS AND STAUFFER LC

The Virginia Department of Medical Assistance Services (DMAS) has contracted with Myers and Stauffer LC to conduct a pharmacy cost of dispensing survey. All pharmacy providers that participate in the DMAS Medicaid pharmacy program are requested to participate in the survey.

Several weeks ago you should have received a letter from DMAS, 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 DMAS to evaluate future fee-for-service pharmacy reimbursement rates. All Virginia Medicaid pharmacy providers should participate in the survey.

If you have not received a survey form or have misplaced your survey form, you can contact Myers and Stauffer LC. If you have any questions regarding the survey or need the Excel version of the survey, please contact Myers and Stauffer LC toll free at (800)374-6858 or via email to disp_survey@mslc.com.

Surveys are due no later than
October 24, 2024

MYERS AND STAUFFER LC

Exhibit 7
Table of Inflation Factors for Cost of Dispensing Survey

Table of Inflation Factors for Dispensing Cost Survey

Virginia Department of Medical Assistance Services

Fiscal Year End Date	Midpoint Date	Midpoint Index [1]	Terminal Month Index (6/30/2024) [1]	Inflation Factor	Number of Stores with Year End Date
5/31/2022	11/30/2021	147.6	165.5	1.121	1
6/30/2022	12/31/2021	148.1	165.5	1.117	0
7/31/2022	1/31/2022	148.8	165.5	1.112	0
8/31/2022	2/28/2022	149.4	165.5	1.108	0
9/30/2022	3/31/2022	150.1	165.5	1.103	0
10/31/2022	4/30/2022	150.8	165.5	1.097	0
11/30/2022	5/31/2022	151.4	165.5	1.093	0
12/31/2022	6/30/2022	152.1	165.5	1.088	9
1/31/2023	7/31/2022	152.7	165.5	1.084	0
2/28/2023	8/31/2022	153.3	165.5	1.08	0
3/31/2023	9/30/2022	153.9	165.5	1.075	0
4/30/2023	10/31/2022	154.5	165.5	1.071	0
5/31/2023	11/30/2022	155.0	165.5	1.068	0
6/30/2023	12/31/2022	155.6	165.5	1.064	0
7/31/2023	1/31/2023	156.2	165.5	1.06	0
8/31/2023	2/28/2023	156.8	165.5	1.055	208
9/30/2023	3/31/2023	157.4	165.5	1.051	2
10/31/2023	4/30/2023	157.9	165.5	1.048	0
11/30/2023	5/31/2023	158.5	165.5	1.044	0
12/31/2023	6/30/2023	159.0	165.5	1.041	142
1/31/2024	7/31/2023	159.5	165.5	1.038	2
2/29/2024	8/31/2023	160.1	165.5	1.034	32
3/31/2024	9/30/2023	160.6	165.5	1.031	2
4/30/2024	10/31/2023	161.1	165.5	1.027	0
5/31/2024	11/30/2023	161.6	165.5	1.024	1
6/30/2024	12/31/2023	162.1	165.5	1.021	18
7/31/2024	1/31/2024	162.7	165.5	1.017	0
8/31/2024	2/29/2024	163.4	165.5	1.013	17

Total Number of Stores	**434**

[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, 2024 (specifically from the midpoint of the pharmacy's fiscal year to June 30, 2024 which is the midpoint of the fiscal period ending December 31, 2024).

Exhibit 8
Histogram of Pharmacy Dispensing Cost

Histogram of Pharmacy Dispensing Cost

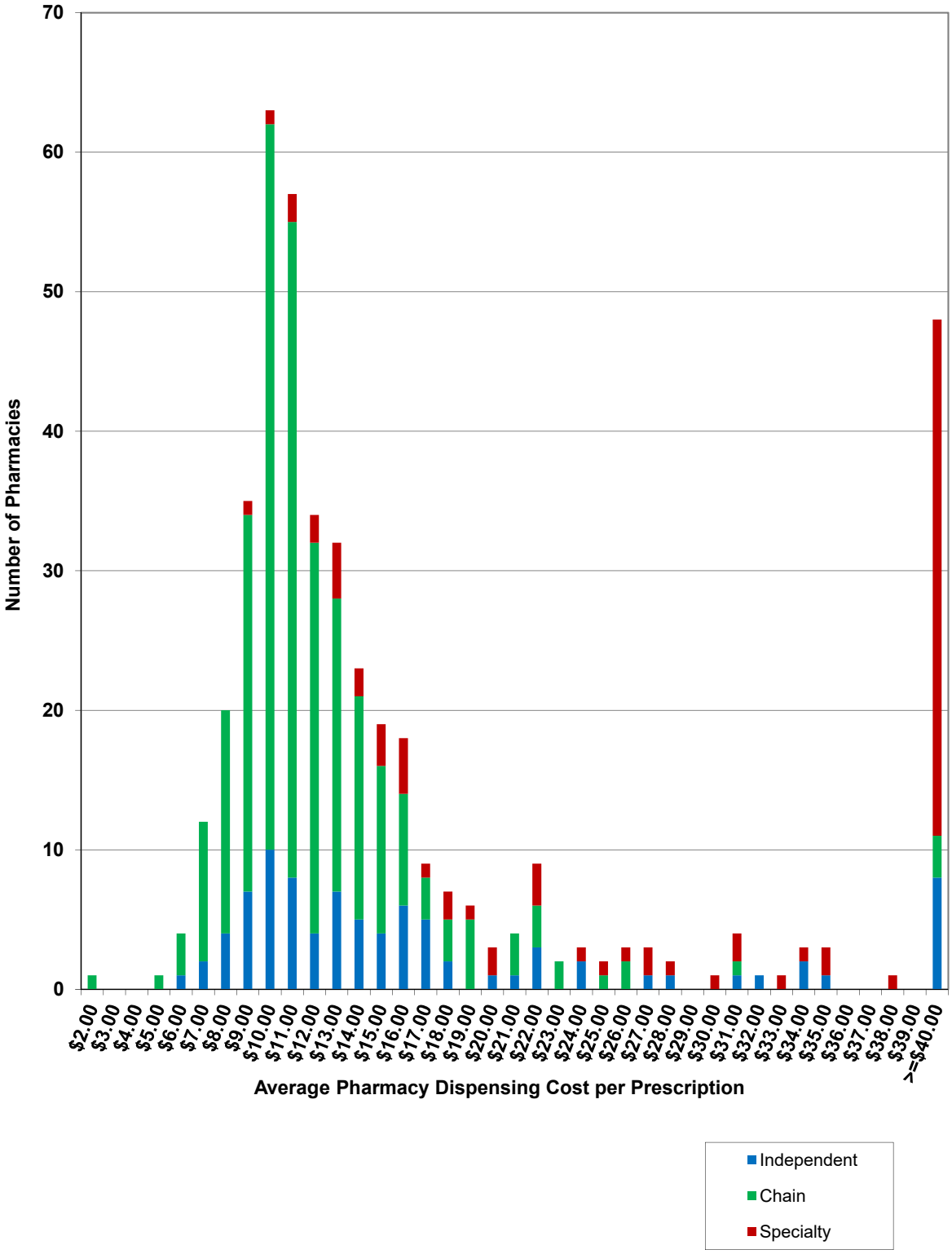


Exhibit 9
Pharmacy Cost of Dispensing Survey Data - Statistical Summary

Pharmacy Cost of Dispensing Survey
Statistical Summary
Virginia Department of Medical Assistance Services

Characteristic	n: Number of Pharmacies	Average Total Prescription Volume	Average Medicaid Prescription Volume	Pharmacy Dispensing Cost per Prescription [1] — Measurements of Central Tendency — Means — Mean	Means — Weighted by Total Rx Volume	Means — Weighted by Medicaid Rx Volume	Medians — Median	Medians — Weighted by Total Rx Volume	Medians — Weighted by Medicaid Rx Volume	Other Statistics — Standard Deviation	95% Confidence Interval for Mean (based on Student t) — Lower Bound	Upper Bound	*t* Value (with n-1 degrees of freedom)
All Pharmacies in Sample	434	126,044	8,620	$31.52	$30.00	$13.70	$12.73	$13.24	$11.69	$97.63	$22.30	$40.73	1.97
Non Specialty Pharmacies [2]	355	124,514	9,557	$14.51	$13.09	$12.72	$11.82	$11.57	$11.39	$10.43	$13.42	$15.60	1.97
Specialty Pharmacies [2]	79	132,921	4,411	$107.95	$101.19	$23.23	$35.04	$116.82	$13.55	$212.56	$60.34	$155.56	1.99
Non Specialty Pharmacies Only													
Affiliation:													
Chain	268	81,326	7,813	$12.66	$11.38	$11.64	$11.50	$10.93	$10.93	$4.95	$12.07	$13.26	1.97
Independent	87	257,552	14,929	$20.18	$14.76	$14.48	$14.01	$14.01	$14.01	$18.13	$16.32	$24.05	1.99
Location (Urban vs. Rural): [3]													
In State Urban	254	83,155	8,856	$14.23	$12.09	$12.61	$11.86	$11.16	$11.23	$9.97	$13.00	$15.47	1.97
In State Rural	59	75,206	14,169	$12.47	$11.42	$11.81	$11.47	$10.96	$10.96	$4.83	$11.22	$13.73	2.00
Out of State	42	443,900	7,316	$19.00	$14.63	$16.09	$13.74	$14.01	$15.59	$16.32	$13.92	$24.09	2.02
Annual Rx Volume:													
0 to 54,999	92	34,951	5,409	$22.04	$18.09	$17.87	$16.77	$15.33	$15.38	$16.88	$18.55	$25.54	1.99
55,000 to 88,999	137	71,022	6,533	$12.51	$12.37	$11.96	$11.90	$11.84	$11.50	$5.17	$11.64	$13.39	1.98
89,000 and Higher	126	248,070	15,874	$11.17	$12.80	$11.79	$10.48	$11.12	$10.93	$3.80	$10.50	$11.84	1.98
Annual Medicaid Rx Volume: [4]													
0 to 2,299	99	127,549	675	$18.76	$14.30	$16.69	$13.61	$11.62	$12.98	$15.31	$15.71	$21.81	1.98
2,300 to 9,499	132	89,937	5,510	$13.69	$11.46	$13.71	$11.52	$10.71	$11.41	$9.27	$12.09	$15.29	1.98
9,500 and Higher	124	158,897	20,956	$11.98	$13.30	$12.35	$11.07	$14.01	$11.34	$3.66	$11.33	$12.63	1.98
Medicaid Utilization Ratio: [4]													
0.0% to 3.49%	105	212,164	2,314	$16.79	$14.23	$14.71	$12.98	$13.24	$14.01	$13.77	$14.12	$19.45	1.98
3.50% to 13.19%	132	100,492	7,789	$12.52	$11.66	$11.68	$11.16	$11.12	$11.12	$6.79	$11.35	$13.69	1.98
13.20% and Higher	118	73,391	17,980	$14.70	$12.36	$13.00	$11.80	$11.07	$11.39	$10.00	$12.87	$16.52	1.98

Pharmacy Cost of Dispensing Survey
Statistical Summary
Virginia Department of Medical Assistance Services

Characteristic	n: Number of Pharmacies	Average Total Prescription Volume	Average Medicaid Prescription Volume	Pharmacy Dispensing Cost per Prescription [1] — Measurements of Central Tendency — Means — Mean	Means — Weighted by Total Rx Volume	Means — Weighted by Medicaid Rx Volume	Medians — Median	Medians — Weighted by Total Rx Volume	Medians — Weighted by Medicaid Rx Volume	Other Statistics — Standard Deviation	95% Confidence Interval for Mean (based on Student t) — Lower Bound	Upper Bound	*t* Value (with n-1 degrees of freedom)
Non Specialty Pharmacies Only													
Institutional:													
LTC Institutional Pharmacies [5]	9	370,410	22,972	$17.86	$16.13	$14.29	$14.07	$14.07	$14.07	$9.39	$10.65	$25.08	2.31
Non-LTC Institutional Pharmacies [5]	346	118,117	9,208	$14.42	$12.85	$12.62	$11.79	$11.39	$11.19	$10.46	$13.31	$15.52	1.97
Unit Dose:													
Does dispense unit dose	9	407,141	18,843	$18.19	$15.71	$14.28	$13.71	$13.24	$16.24	$9.10	$11.20	$25.19	2.31
Does not dispense unit dose	346	117,162	9,315	$14.41	$12.86	$12.64	$11.77	$11.35	$11.34	$10.46	$13.30	$15.52	1.97
Provision of Compounding Services													
Provides compounding (>=10% of Rxs)	5	106,633	3,307	$53.99	$36.64	$47.96	$65.28	$32.55	$65.28	$32.78	$13.29	$94.69	2.78
Compounding <10% of Rxs	350	124,769	9,646	$13.94	$12.81	$12.55	$11.79	$11.50	$11.39	$8.69	$13.03	$14.86	1.97

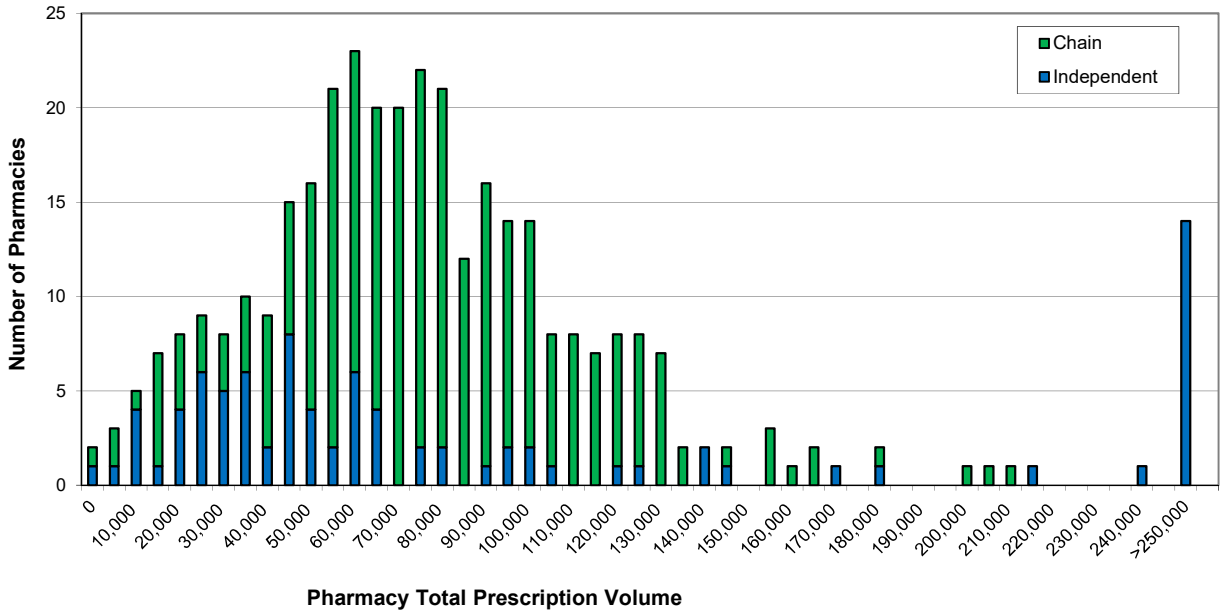
Notes:
1) All pharmacy dispensing costs are inflated to the common point of 6/30/2024 (i.e., midpoint of a fiscal year ending 12/31/2024).
2) For purposes of this report a "specialty pharmacy" is one that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 30% 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 Virginia fee-for-service Medicaid volume for the time period of July 1, 2023 to June 30, 2024.
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 Dispensing Cost 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 < 250,000)

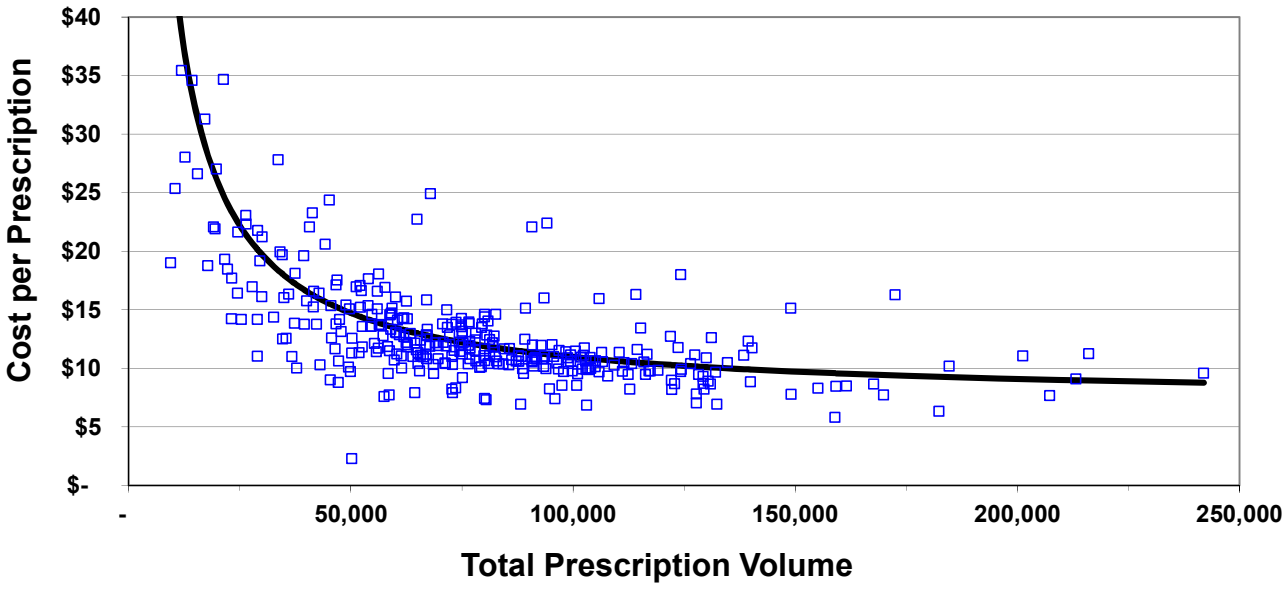


Exhibit 11
Chart of Components of Cost of Dispensing per Prescription

Chart of Components of Dispensing Cost per Prescription

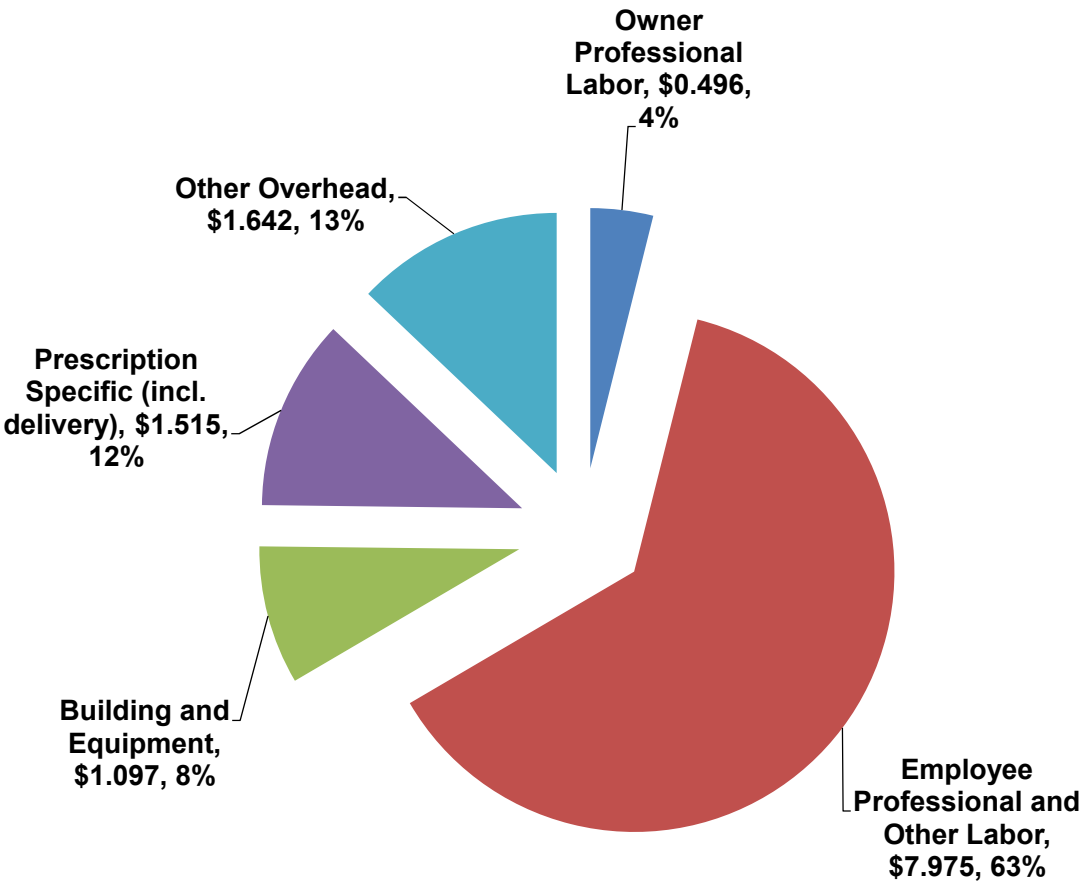


Exhibit 12
Summary of Pharmacy Attributes

Summary of Pharmacy Attributes
Virginia Department of Medical Assistance Services

Attribute	Number of Pharmacies Responding	Statistics for Responding Pharmacies		
		Response	Count	Percent
Payer Type: percent of prescriptions (averages)	434	Medicaid fee for service	N/A	2.7%
		Medicaid managed care	N/A	12.3%
		Other third party	N/A	77.5%
		Cash	N/A	7.5%
		Total	N/A	*100.0%*
Payer Type: percent of payments (averages)	434	Medicaid fee for service	N/A	2.6%
		Medicaid managed care	N/A	11.4%
		Other third party	N/A	80.9%
		Cash	N/A	5.1%
		Total	N/A	*100.0%*
Type of ownership	434	Individual	7	1.6%
		Corporation	412	94.9%
		Partnership	5	1.2%
		Other	10	2.3%
		Total	*434*	*100.0%*
Location	434	Medical office building	55	12.7%
		Shopping center	22	5.1%
		Stand alone building	248	57.1%
		Grocery store / mass merchant	58	13.4%
		Outpatient Hospital	5	1.2%
		Other	46	10.6%
		Total	*434*	*100.0%*
Building ownership (or rented from related party)	434	Yes, (own building or rent from related party)	16	3.7%
		No	418	96.3%
		Total	*434*	*100.0%*
Hours open per week	426	59.0 hours	N/A	N/A
Years pharmacy has operated at current location	432	15.8 years	N/A	N/A
Provision of 24 hour emergency services	434	Yes	96	22.1%
		No	338	77.9%
		Total	*434*	*100.0%*
Percent of prescriptions to generic products	425	Percent of prescriptions dispensed that were generic products	425	78.5%
Percent of prescriptions to long-term care facilities	434	2.9% for all pharmacies; (34.1% for 37 pharmacies reporting > 0%)	N/A	N/A
Provision of unit dose services	434	Yes (average of 24.0% of prescriptions for pharmacies indicating provision of unit dose prescriptions. Approximately 92.6% of unit dose prescriptions were reported as prepared in the pharmacy with 7.4% reported as purchased already prepared from a manufacturer)	45	10.4%
		No	389	89.6%
		Total	*434*	*100.0%*
Percent of total prescriptions delivered	434	16.0% for all pharmacies; (28.3% for 246 pharmacies reporting > 0%)	N/A	N/A
Percent of Medicaid prescriptions delivered	434	2.9% for all pharmacies; (19.8% for 64 pharmacies reporting > 0%)	N/A	N/A
Percent of prescriptions dispensed by mail	434	10.6% for all pharmacies; (36.4% for 126 pharmacies reporting >0% percent of prescriptions dispensed by mail)	N/A	N/A

Summary of Pharmacy Attributes
Virginia Department of Medical Assistance Services

Attribute	Number of Pharmacies Responding	Statistics for Responding Pharmacies		
		Response	Count	Percent
Percent of Total prescriptions compounded.	434	1.9% for all pharmacies; (2.9% for 285 pharmacies reporting >0 compounded Rxs)	N/A	N/A
Percent of Virginia Medicaid prescriptions compounded.	434	0.6% for all pharmacies; (13.8% for 19 pharmacies reporting >0 compounded Rxs)	N/A	N/A
Pharmacy has current unfilled pharmacists positions.	434	Yes (average of 1.1 open positions for pharmacies reporting yes).	16	3.7%
		No	170	39.2%
		Nonresponsive	248	57.1%
		Total	*434*	100.0%
Pharmacy has current unfilled pharmacy technician positions.	434	Yes (average of 1.9 open positions for pharmacies reporting yes).	52	12.0%
		No	134	30.9%
		Nonresponsive	248	57.1%
		Total	*434*	*100.0%*