Minnesota has roughly 1,200 pharmacies and 195,000 people on fee-for-service Medicaid. Minnesota loses on average 12-13 pharmacies per year and has a shortage of approximately 400 pharmacists. Pharmacists in rural Minnesota also serve many nursing homes, hospitals and other entities by providing medication reviews for patients and ordering and delivering medications.

**POTENTIAL NEGATIVE IMPACT IF LEGISLATION IS ENACTED**

Changes to Medicaid pharmacy reimbursement formulas could unintentionally impact patients’ access to medications and access to the knowledge of a pharmacist. Average pharmacy profit margins are in the range of 1.8% - 2.2%. Further reduction in reimbursement will put pharmacists’ profit margin below the cost of dispensing in many cases and force pharmacies to no longer accept Medicaid patients. This would limit a patient’s access to their medications and the drug therapy expertise a pharmacist provides.

**PHARMACIES HAVE LITTLE CONTROL OVER COSTS**

**COST OF DRUG PRODUCT:** Pharmacists have no control over the prices of pharmaceuticals they purchase. Drug prices are set by the manufacturer. Wholesalers then mark up the products and offer pharmacies a contracted rate plus the state imposed tax on pharmaceuticals.

**MN WHOLESALE DRUG DISTRIBUTOR TAX:** There are some state policies that impact the cost of pharmaceuticals, specifically, the imposition of the Minnesota Wholesale Drug Distributor Tax. This tax is paid by the Wholesale Drug Distributor and passed on to the pharmacy as a line item on their invoice for pharmaceutical purchases. No other state has this tax. Minnesota Medicaid is the only payer, including Medicare, not required to reimburse pharmacies for this tax.

**COST OF DISPENSING:** The Cost of Dispensing refers to the cost of providing the dispensing service. This service includes overhead, staff and the professional services of the pharmacist related to the dispensing function. The Minnesota Department of Human Services conducted a survey of dispensing costs for pharmacies participating in the Minnesota Medicaid program. The results, released in February 2007, found the statewide average (mean) cost of dispensing, weighted by Medicaid volume, was $9.59 per prescription. This cost did not factor in the Wholesale Drug Distributor Tax that the state does not pay.

**PHARMACISTS’ REIMBURSEMENT CONTROLLED BY THE STATE**

Pharmacists do not “mark-up” their cost of goods to make a profit. Medicaid reimbursement for pharmaceuticals and dispensing services are set in Minnesota Statute. Pharmacies are reimbursed the lower of:

1. The formula set in MN Statute for brand name drugs (Currently at AWP -14% + $3.65).
2. The maximum allowable cost (MAC) set by the state for generics, plus the dispensing fee (MAC + $3.65)
3. The pharmacy's usual and customary price.

This formula does not reimburse pharmacists for the Minnesota Wholesale Drug Distributor Tax of 2%. This formula also does not take into account uncollected co-pay amounts Medicaid recipients do not pay.

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Impact as Reported by one Regional Pharmacy Chain:

The Governor’s budget indicates that it is the department’s intent to “bring the MA reimbursement rate closer to the private sector average reimbursement rate.” The ten prescription plans that our company does the most business with account for 86% of our total third party business. Of those ten plans, Minnesota Medicaid had the lowest reimbursement for filling a prescription.

Medicaid is $1.91 below the average for those ten plans, and $0.32 below the next lowest plan. If bringing MA reimbursement closer to the private sector reimbursement is the true intent, then MA reimbursement should be increased.

Over the past four years, reimbursement to a pharmacy for filling a generic Minnesota Medicaid prescription has decreased $1.84 or 20% (NOT inflation adjusted). It is now about $2.65 below the cost of dispensing. Sixty-five percent of the Medicaid prescriptions we fill are generics.

On generic and brand prescriptions combined, over the same four year period, reimbursement from Minnesota Medicaid has decreased $1.91, or 15% (again, NOT inflation adjusted).

Co-pays from the recipient are intended to be a part of pharmacy reimbursement for Medicaid. However, Medicaid is the only prescription plan that requires a pharmacy to dispense a prescription, even if the patient is unable or unwilling to pay the co-pay. Unpaid co-pays for Medicaid prescriptions cost our pharmacies an average $0.23 per prescription. Add this loss in reimbursement to the above and today a pharmacy is being paid $2.14, or 17%, less than four years ago for filling a Medicaid prescription.

During the same four year period, because of the labor market, pharmacists’ salaries have increased 19%, and, according to a report from the legislative auditor, administration costs at DHS have increased 46%.

If a few pharmacies in the twin cities area go out of business, it may not have a significant impact on constituents, but there are 149 communities in the state of Minnesota with only one pharmacy. Many people in these communities (not just Medicaid recipients) rely solely on that pharmacy for access to pharmacy services. This proposed cut certainly places those pharmacies, and their patients, at risk.

MN PHARMACIES HELP SECURE SAVINGS FOR HEALTH CARE SYSTEM

Pharmacies in Minnesota have taken action in several different ways to help secure savings for the health care system. These efforts have included:

■ Implementing a preferred drug list saving the state roughly $14 million per year
■ Maintaining a generic substitution rate of 59.3% for the Medicaid program
■ Implementing Medication Therapy Management services for Medicaid patients

FURTHER REDUCTIONS IN PHARMACY PAYMENTS COULD RESULT IN REDUCED ACCESS

This will be the fourth Medicaid reimbursement cut in the last five years, including cuts incurred during the 2003, 2005, 2008 and now 2009 sessions. In addition, Minnesota has become one of the most aggressive states in setting State Maximum Allowable Cost (MAC) prices for generic drugs.

The Governor’s proposal would further reduce pharmacy reimbursement and would in most cases push compensation to pharmacies below their cost of dispensing. This loss of revenue threatens pharmacists’ ability to participate in MA and remain viable community businesses and could result in restricted access to pharmacies.