

**DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF DIRECTOR**

ACTION REFERRAL

TO <i>Giese</i>	DATE <i>8-12-11</i>
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DIRECTOR'S USE ONLY	ACTION REQUESTED
1. LOG NUMBER <i>101075</i>	<input type="checkbox"/> Prepare reply for the Director's signature DATE DUE _____
2. DATE SIGNED BY DIRECTOR <i>cc: Mr. Keek</i> <i>clear 9/6/11, letter attached</i>	<input checked="" type="checkbox"/> Prepare reply for appropriate signature DATE DUE <i>8-23-11</i>
	<input type="checkbox"/> FOIA DATE DUE _____
	<input type="checkbox"/> Necessary Action

APPROVALS (Only when prepared for director's signature)	APPROVE	* DISAPPROVE (Note reason for disapproval and return to preparer.)	COMMENT
1.			
2.			
3.			
4.			



July 28, 2011

Mr. Anthony E. Keck, Director
South Carolina Department of Health and Human Services
P. O. Box 8206
Columbia, SC 29202-8206

Re: 2010 University of South Carolina Final Report -- "Development and Testing of a Prescription Drug Benefit Reimbursement Methodology for South Carolina Medicaid"

Dear Director Keck:

On behalf of its members operating approximately 692 chain pharmacies in the state of South Carolina, the National Association of Chain Drug Stores ("NACDS") is writing to convey our concerns with the recent study prepared for South Carolina Medicaid by the University of South Carolina ("USC") in October 2010 analyzing various facets of the Medicaid pharmacy reimbursement methodology. In particular, we have concerns with the findings relating to pharmacies' cost of dispensing. We believe the report's findings on this subject are flawed, and should not be used for any future changes to pharmacy reimbursement.

The recently published USC report suggests that the cost of dispensing a prescription under the Medicaid program is approximately \$8.26.¹ By comparison, a national cost of dispensing study conducted by Grant Thornton LLP and published in 2007 determined that the mean cost of dispensing a prescription in South Carolina was \$9.40 per prescription. Similarly, the study completed by USC for the South Carolina Department of Health and Human Services that was used as the basis for SPA submitted to CMS in 2007/2008 to increase the dispensing fee found the dispensing fee to \$9.94. The disparity between the 2010 study results as compared to the earlier studies is troubling, especially given that the cost of doing business in the state of South Carolina has only increased over the last four years.

We are concerned that the report arrived at the flawed cost of dispensing figure as a result of the limited scope of the USC survey, which did not adequately collect information on all of the costs that contribute to a pharmacy's cost of dispensing. Compared to previous

¹ This approximation is based on using the midpoint of two separate cost allocation approaches that suggest the cost of dispensing fee is either \$8.12 or \$8.39.

studies that have been conducted on this matter, we note that the latest USC survey was not as extensive as other cost of dispensing surveys that have been used as the basis for past studies. Notably, the questions circulated on the survey prepared by USC focused primarily on labor costs. By comparison, in addition to labor costs, the Grant Thornton cost of dispensing study accounted for the following additional cost elements:

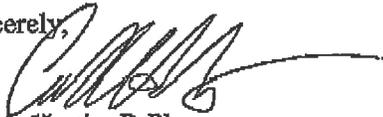
- Other prescription department costs - Prescription containers, labels and other pharmacy supplies; professional liability insurance; licenses, permits and fees; bad debts for prescriptions (including uncollected co-pays); computer systems; transaction fees
- Facilities costs - Rent, utilities, real estate taxes, insurance, depreciation, mortgage interest
- Other store/location costs - Marketing and advertising, professional services (e.g., accounting, legal, consulting), telephone and data communication, computer systems and support, other depreciation and amortization, office supplies, other insurance, taxes other than real estate, payroll or sales taxes, franchise fees, if applicable, other interest, other costs not included elsewhere
- Allocated corporate overhead, where applicable - central or corporate costs incurred totally in support of the prescription departments (i.e. corporate pharmaceutical procurement, third-party payment processing or compliance with pharmacy regulations), corporate costs that support only non-prescription products and services, central or corporate costs such as general administration, accounting, human resources, information systems, general marketing, etc

It is our belief that the absence of specific cost data on these factors led to the calculation of a flawed cost of dispensing figure.

We understand that South Carolina Medicaid may be looking to make further changes to pharmacy reimbursement in the future. If that is the case, we would urge the state not to use the dispensing fee calculation from the 2010 USC report, as this calculation is not accurate. Rather, any future changes to pharmacy reimbursement (and in particular to the pharmacy dispensing fee) should be done in accordance with the results of a cost of dispensing study that truly accounts for all of the factors that contribute to pharmacies' costs of dispensing.

We appreciate your consideration of chain pharmacy's concerns on this matter. We welcome the opportunity to discuss this and other matters of mutual concern.

Sincerely,



Curtis Hartin, R.Ph.
Senior Director of Pharmacy
BI-LO, LLC

DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF DIRECTOR



ACTION REFERRAL

TO <i>Giese/Williams</i>	DATE <i>8-12-11</i>
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APPROVALS (Only when prepared for director's signature)	APPROVE	* DISAPPROVE (Note reason for disapproval and return to preparer.)	COMMENT
1.	<i>B2</i>		
2.	<i>Let me see response</i>		
3.			<i>[Signature]</i>
4.			<i>email to B2 8/18</i>

Curtis Martin
Sr Director Pharmacy
1041 East Butler Road
Greenville SC 29607



SCACDS

SC Association of Chain Drug Stores

July 28, 2011

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P. O. Box 8206
Columbia, SC 29202-8206

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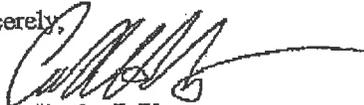
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Sincerely,



Curtis Hartin, R.Ph.
Senior Director of Pharmacy
BI-LO, LLC

Log # 75



September 6, 2011

Mr. Curtis Hartin, R.Ph.
Senior Director of Pharmacy
SC Association of Chain Drug Stores
1041 East Butler Road
Greenville, South Carolina 29607

Dear Mr. Hartin:

Thank you for your letter regarding concerns with the October 2010 study conducted to develop a new prescription drug reimbursement methodology for the South Carolina Department of Health and Human Services (SCDHHS). As you know, the study analyzed various facets of the Medicaid pharmacy reimbursement methodology and was prepared for the agency by the pharmacoeconomics department of the South Carolina College of Pharmacy.

This study was commissioned in part to respond to the Centers for Medicare and Medicaid Services (CMS) directive requiring states to identify a new drug price benchmark by September 2011, which replaces AWP (Average Wholesale Price). While the methodology was not identical to that used in other cost of dispensing studies, SCDHHS remains confident with its validity and believe its conclusions to be accurate.

Thank you for bringing your concerns to our attention and for the continued participation of your members in the South Carolina Medicaid program. If you have any additional questions please feel free to contact a Program Representative in the Division of Pharmacy Services at (803) 898-2876.

Sincerely,

Melanie "Bz" Giese, RN
Deputy Director

MG/m