

# MONTANA DRA FACTS & FIGURES

- There are approximately 197 pharmacies in Montana, including:
  - approximately 99 chain pharmacies
  - approximately 98 independent pharmacies
- Community pharmacies employ 8,390 full and part-time employees, including about 576 pharmacists.
- Community pharmacies pay an estimated \$27.49 million in total taxes to the state of Montana each year.
- Community pharmacies' average net profit: 2% to 3%.
- Estimated cost to dispense a Medicaid prescription: \$11.46 (2007 Grant Thornton, LLC Report)
- 2007 Montana Medicaid dispensing fee range: \$2.00 to \$4.70
  - Last change in fee: July 2002, when the maximum fee was increased 50 cents from \$4.20
  - 1986 maximum Medicaid dispensing fee: \$3.75
- Average cost of a generic drug under Montana Medicaid: \$25.40  
Average cost of brand name drug under Montana Medicaid: \$123.40
- Montana Medicaid generic utilization rate: 59.1%. Rank of rate among states: top 50 percent

## DEFICIT REDUCTION ACT OF 2005

Effective First Quarter of 2008:

Reduces the maximum reimbursement state Medicaid programs can pay pharmacy for multiple source (generic and off-patent) drugs by changing the "Federal Upper Limit" payment formula

Old Formula based on lowest list price (AWP or WAC)

New Formula based on lowest average manufacturer price (AMP, average price at which manufacturers sell drug to wholesalers for resale) -- No wholesale markup

ALSO: Increases the number of drugs affected by FULs

Pre-2008: No FULs set until TWO generics on market

First Quarter 2008: FULs set as soon as FIRST generic hits market

Estimated loss of reimbursement for generic product: 70%

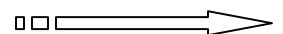
Estimated total reimbursement loss for generic prescriptions (product cost plus dispensing fee): 25%

### Impact of the DRA on Montana State Pharmacies:

Reduction of \$7.20 for EACH generic prescription dispensed under Medicaid

Projected total loss to Montana Pharmacy over 12 months: \$4.6 million

FEDERAL EXPRESSIONS OF INTENT



## Federal Expressions of Intent on Increasing Dispensing Fees Under the DRA

- In his May 12, 2006 letter to Department of Health and Human Services Secretary Michael Leavitt, Senate Finance Chairman Charles Grassley said **“CMS should make clear to states that they should reconsider their dispensing fees paid to pharmacies under Medicaid, particularly for generic drugs.”**
- That sentiment reflected Senator Grassley’s earlier November 3, 2005 floor colloquy with Senator Jack Reed during the DRA debate, when Senator Grassley indicated **“states will need to review and increase the fees that they pay pharmacies for dispensing Medicaid prescriptions.”** Chairman Grassley concluded that **“The overall assumption under the bill is that states will increase their fees to account for the fact that states would probably be paying pharmacists a lower amount for the drug product that more accurately reflects the cost of the drug being dispensed.”** (See *Congressional Record, Senate*, November 3, 2005, p. S12326).
- The Congressional Budget Office’s (CBO’s) projected savings from the DRA were based on the “expectation” that states would increase dispensing fees in response to decreased reimbursement for drug acquisition costs. Its January 27 report on the DRA stated that savings estimates of \$3.6 billion and \$11.8 billion **“reflect CBO’s expectation that states would raise dispensing fees to mitigate the effects of the revised payment limit on pharmacies and preserve the widespread participation of pharmacies in Medicaid.”** (See CBO, *Cost Estimate: S. 1932 Deficit Reduction Act of 2005*, at p. 37.)
- Former CMS Administrator Mark McClellan acknowledged in his May 22, 2006 remarks to the National Community Pharmacists Association (NCPA) that:
  - ***if states do not maintain the right incentives for generic utilization, any [DRA] savings will be lost to higher and more expensive brand name utilization. For this reason, CMS guidance encourages states to align incentives for generic utilization and consider paying pharmacists more in dispensing fees to support state savings from greater use of generics.***
- On November 15, 2006, Deirdre Duzor, the CMS Center for Medicaid and State Operations Pharmacy Director, told attendees at the Fall 2006 National Association of State Medicaid Directors Conference that, given the impact of the DRA on community pharmacy, **states should be reviewing the adequacy of Medicaid pharmacy reimbursement.**
- A March 13, 2007 letter sent to CMS Administrator Leslie Norwalk by 46 U.S. Senators asked that CMS revise its proposed rule defining AMP for purposes of calculating the new FULs, because **the proposed rule as drafted would “require pharmacies to shoulder significant losses for participating in the Medicaid program.”**
- CMS in the preamble to the published final regulations states that the agency **“encourage[s] States to review their dispensing fees when they consider changes to reimbursement for ingredient costs.”**