



**Pennsylvania Association of Chain Drug Stores
Pennsylvania Pharmacists Association**

Written Testimony - April 13, 2017

Verbal Testimony presented by:

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The Pennsylvania Association of Chain Drug Stores (PACDS) and the Pennsylvania Pharmacists Association (PPA) have no specific position on the merger proposal of the four agencies but do have some specific questions, concerns, and issues on the merger and especially around some of the underlying issues.

Our largest concern is that the very financial basis for this merger is not netting a complete budgetary savings based on efficiencies earned but rather cites a cut to pharmacy reimbursement as the funding source. While there has been some debate and back pedaling on the actual amount, original budget projections of a \$45 million dollar savings. When you cut pharmacy reimbursement, let's be clear this is not a cut to the large drug manufacturers; this is out of the pocket of community pharmacies. Many of whom are already struggling to remain in business given the escalating prices of many drugs.

The stated proposal is to “better align the PACE reimbursement” but is being done despite the fact that a revised fair and transparent system was just put into place less than four months ago on November 21, 2016, following months of debates and hearings and aligning with a national trend to revamp and modernize pharmacy payment methodology. It seems inconceivable that what was good policy just months ago is now being completely reversed; apparently just to put a good face on and make a merger proposition work.

Governor Wolf originally proposed to reduce the dispensing fee **by nearly 70% to \$4**, without changing the ingredient cost benchmark back to what it was before the dispensing fee was raised. According to the Department of Revenue, last year's change was already a **reduction of \$23.6 million** in pharmacy reimbursement for the 2017-2018 fiscal year. This additional change further slashes that reimbursement cut by **\$45 million to a total \$68.6 million**. There's no doubt this **draconian** proposal will have a detrimental effect on pharmacies' ability to serve our Commonwealth's seniors, who rely on us to keep them healthy. Recent testimony on the merger has agency heads suggesting that the PACE fee may **“only”** be slashed to \$7. However,

it is still being said that there will be \$45 million in savings and at a recent hearing Secretary Dallas said the range was \$38 to \$55 million. What is the savings? But no matter what the savings, the money is clearly from pharmacies! There is no way to see this except as a substantial and terribly unreasonable cut to community pharmacies.

It is important to keep in mind that ALL pharmacy payment models are based on two components: an Ingredient/drug cost and a Dispensing Fee. These two components MUST be considered together, along with their correlating impact, to ultimately result in a fair payment for both the payer (In this case the Commonwealth) AND the pharmacy. Fair payments to pharmacies are essential. Pharmacies are an important part of our communities throughout the state. Many are small businesses but all of them are employers and pay taxes.

More importantly these pharmacies take care of patients. It is a known fact that people who are adherent to the appropriate drug therapy for their acute and chronic conditions stay healthier and avoid other much higher healthcare costs, such as emergency room visits and lengthy hospitalizations and readmissions. Pharmacists play an important role in helping avoid these other costs.

Across the country, lawmakers, agencies, and other benefit payers have long struggled to find a system that was reasonably easy to understand, fair to ALL, and transparent. Pharmacies have long asked for a better reimbursement system, one that made sense and treated all parties fairly. In the last year, the Centers for Medicaid and Medicare Services (CMS) issued a final rule which called on Medicaid Departments across the country to adopt a more transparent and cost based system of payment, such as the National Average Drug Acquisition Cost (NADAC), AND a fair professional dispensing fee. All states are to file a State Plan Amendment (SPA) and begin implementation by April 1, 2017.

On March 23, 2017, Pennsylvania's Office of Medical Assistance Programs announced that they plan to submit a SPA for a revised system of NADAC, and if no NADAC is available for a drug using an adjusted Wholesale Acquisition Cost (WAC), plus a professional dispensing fee of \$7. The Department has stated that this is an increase but pharmacy calculations are showing a substantial decrease and this fee is below others throughout the country. **Most states are adopting a dispensing fee in the range of \$10 to \$13.**

In looking at the Cost of Dispensing Fee analysis submitted, we believe that the low number of independent pharmacy response rate contributes to the skewing of our numbers. It appears that there is less than a 20% response rate from this group. This is very disconcerting. We feel more could have been done to encourage participation including more advance warning of the dates, more outreach of our associations to help bolster that, and more coaching on what some of the line values included.

NADAC is considered to be this fair, transparent pricing mechanism for the purchase and reimbursement of pharmacy claims and what is being adopted throughout the U.S. The prices are updated weekly, employ sound systems, and are available on the CMS website. PPA and PACDS supported the adoption of NADAC in the PACE system when the dispensing fee was established at a fair level of \$13. We would also support utilizing NADAC in Medicaid but...

It is extremely important when moving to NADAC that a fair professional dispensing fee is established. The dispensing fee for pharmacies is to cover all costs associated with processing and dispensing a prescription. It should also allow for a reasonable profit. This includes but is not limited to the actual direct costs such as paper, bags, labels, vials, claims transmission costs, eprescribing transmittal fees, etc. But also all the overhead allocated to each prescription including pharmacist and pharmacy technician salaries/benefits/taxes, professional liability insurance, building costs, heating/air, lighting, computer software and hardware, taxes, inventory fees for stocking medications, business owners insurance, and more. It also must include bad debt and many Medicaid patients are unable to afford the copayment and pharmacies MUST give them their prescriptions and incur this debt.

Both PACE and Medicaid patients are among some of the most vulnerable individuals. Operating a pharmacy is a business venture and not a charitable non-profit. Reimbursing pharmacies below the cost of purchasing the drugs is not a viable option yet this is what the Governor has proposed.

We call upon the legislature to seriously question funding the merger on the backs of pharmacies and demand that the community pharmacies of the Commonwealth be treated fairly in both the PACE and Medicaid programs so that they can continue to serve patients. As always we appreciate your support and are more than willing to provide additional information.