NACDS NATIONAL ASSOCIATION OF CHAIN DRUG STORES

IssueBrief

Elements of a Pharmacy Dispensing Fee

This brief describes the importance of paying an adequate pharmacy dispensing fee and the components that comprise the cost to dispense. This brief outlines many components that go into the provision of pharmacy services, and which should be considered when developing accurate pharmacy supplying fees.[1]

Elements of Pharmacy Service Costs	
I. Staffing	
	Salaries (pharmacists, technicians, managers, cashiers, etc.) Licensure and/or continuing education for pharmacists, technicians
II. Store operations and overhead	
	Rent or mortgage Cleaning, repairs and security Utilities (heat, light, telephones) Computer systems, software and maintenance Marketing and advertising Accounting, legal and professional fees Insurance, taxes and licenses Interest paid on pharmacy-related debt Depreciation Complying with federal and state regulations (e.g., HIPAA) Corporate overhead (central management, etc.)
III. Preparing and dispensing prescriptions	
	Prescription dispensing materials (packages, labels, pill counters, etc.) Compounding the Rx (if necessary) Special packaging (unit dose, blister packs, bingo cards) Special supplies (syringes, inhalers)
IV. Assuring appropriate use of medication	
	Drug use review Consumer/patient counseling Consulting with prescribers Disease management Education and training
V. Reasonable profit	

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[1] The survey instrument from a South Carolina Medicaid dispensing fee study and a listing of included elements of a pharmacy dispensing fee from Myers and Stauffer's California dispensing fee study are included with this memo as background material.

Staffing: Staffing is listed as the first item in Figure 1 because it is probably the most important factor in determining an accurate pharmacy supplying fee. Labor costs include total salaries, payroll taxes and benefits. Prior studies that estimated dispensing costs typically allocated these costs based on employees' time spent in the prescription department. Owner compensation, particularly in the case of pharmacist owners, may require special modifications to account for differences unrelated to the normal compensation for a typical employee or employee pharmacist. Corporate overhead must be considered in any cost of dispensing calculation.

Pharmacy staffing costs are particularly important in California. California has one of the highest average salaries in the nation for pharmacists, an estimated $91,170 as of May 2003. The national average pharmacists' salary for the same period was $78,620. California also has a very low technician-to-pharmacist ratio, 1:1 for the first pharmacist and 2:1 for additional pharmacists. Many states allow ratios of 3:1 or higher. Given that the average technician salary in California was just over $32,000 in May 2003, this low technician ratio leads to higher costs for California's pharmacies. In fact, Myers and Stauffer's June 2002 study of Medi-Cal Pharmacy Reimbursement highlights higher pharmacist salaries as the primary reason why California has a higher cost of dispensing than other states that they have observed.

Overhead & Other Dispensing Costs: Overhead and other dispensing costs are important factors that can be difficult to quantify, particularly by outside observers. In its June 2002 study, Myers and Stauffer considered the following costs to be entirely prescription-related:[2]

- Prescription department fees
- Prescription delivery expense
- Prescription computer expense
- Prescription containers and labels
- Continuing professional education for a pharmacist

Overhead costs that Myers and Stauffer did not allocate as prescription expenses include income taxes (because they are based on profit), bad debts, advertising and contributions. South Carolina appears to allocate all taxes based on the prescription department's sales ratio, and also includes prescription department advertising under the cost of dispensing.

Most other overhead costs were partially allocated as prescription costs by both Myers and Stauffer and South Carolina. Some overhead costs were allocated as a percentage of floor space, such as real estate taxes, rent, janitorial service, and utilities.

Repairs and depreciation were allocated based on floor space by Myers and Stauffer, but sales ratio by South Carolina. Other overhead costs were allocated based on sales ratio by both studies, including: personal property and other taxes, insurance, interest, accounting and legal fees, telephone and supplies, dues and publications.

[2] NACDS prepared an analysis of the Myers and Stauffer study that indicated key shortcomings of and exclusions from their dispensing fee estimates. This document is available from NACDS.