



HB 166 Testimony

Fruth Pharmacy

Lynne Fruth

Chairman Dolan, Vice Chair Burke, Ranking Member Sykes, and members of the Ohio Senate Finance Committee, thank you for the opportunity to provide testimony on HB 166 and the need to address Ohio's ongoing Medicaid pharmacy benefits crisis.

My name is Lynne Fruth, and I have been president of Fruth Pharmacy for nearly a decade. Fruth Pharmacy is family-owned regional pharmacy chain of 31 practices with 11 locations in Ohio. Fruth Pharmacy was founded 67 years ago by my father and Ohio State University alum Jack Fruth, and our company has served Ohioans for nearly 50 years.

Fruth Pharmacy serves many rural communities in Southeastern Ohio with a disproportionate share of Medicaid patients. Overall, Fruth's Ohio pharmacies average 36% Ohio Medicaid, with some locations approaching a Medicaid prescription volume of 50%. Fruth is the only provider in some of these rural communities.

In partnership with hospital providers, Fruth operates needed Retail Clinics in 10 of our pharmacies, with three located in Ohio serving rural, underserved areas.

The current reimbursements through the Ohio Medicaid managed care system has dropped to an all-time low and is well below operating costs. In May, Fruth saw an average reimbursement that was only of \$3.75 above acquisition cost. Our cost to dispense ranges from \$10-\$11 per prescription. These costs are in line with the results of Ohio Cost of Dispensing Study, meaning that our pharmacies have similar costs to operate as a large share of pharmacies across the state.

These numbers mean that essentially, on average our pharmacies are losing around \$6-7 per prescription when serving Ohio Medicaid managed care patients. It is completely unsustainable. And we are not alone.

In the past year, we have had over 30 pharmacies contact us about purchasing their pharmacies. After reviewing their financials, we determined that none would be viable, given the high volume of Medicaid patients served and the continued erosion of Medicaid reimbursement. These pharmacies and Fruth Pharmacy have served the Medicaid population, and provided the extra care that this population needs. As a result of the lower reimbursements, Fruth and other pharmacies are being paid the least to care for patients who often require the most care. Now, Fruth and many of these community pharmacies are on the verge of going out of business in Ohio.

As a multi-state pharmacy chain, Fruth can compare the reimbursements from Medicaid programs across different states. West Virginia moved from a PBM-controlled Medicaid managed care system, and instead, cut out the middlemen and paid pharmacies directly through the Fee for Service system and implemented a reimbursement of National Average Drug Acquisition Cost (NADAC) plus a \$10.49 dispensing fee for pharmacies, which was set based on the results of Ohio's Cost of Dispensing Survey. By paying pharmacies essentially \$7 more per prescription versus Ohio's paltry \$3.75 within managed care, you would think that West Virginia drug costs would be through the roof. They're not.

Despite the higher rates paid to pharmacies, by cutting out the middlemen and using reference-based pricing, the state of West Virginia has saved \$58 million in a Medicaid program that is a fraction of the size as Ohio's. Kentucky Medicaid provides an even higher dispensing fee than West Virginia. Ohio is woefully behind, and unsurprisingly, pharmacies are fleeing high-Medicaid parts of the state like there's a plague.

While NADAC may not be an absolute value of the cost of every individual product, it is an actual average of what pharmacies are paying to acquire medications from wholesalers, and we have found it to be the most accurate approximation of drug acquisition costs.

By moving to a model that ensures drug and the service is covered, the state can remove the ambiguity of drug prices and provide enough sustainability to keep pharmacies like ours open in the areas where you need access the most.

Fruth employs nearly 200 people in Ohio. In addition, Fruth provides free delivery services in all our communities, which often helps Medicaid patients who lack transportation.

Ohio has seen nearly 200 community pharmacies go out of business in the last few years. Many of these were closed and merged into large, national pharmacy chains. This has displaced many patients and has cost many jobs in communities that are desperately needed. According to pharmacy merger & acquisition brokers that we work with on a regular basis, over 125 of these stores were purchased by CVS Health, the parent company of Caremark, which has served as the PBM for four of the five Medicaid managed care plans in Ohio, including CareSource. As Caremark amassed 90% of all Medicaid managed care lives, they proceeded to slash rates to all Ohio pharmacies, while reporting much higher rates back to the state. And while pharmacies were looking for ways to escape the market, CVS was enthusiastically buying up the pharmacies that their PBM was underpaying.

Imagine the despair that has been felt by pharmacy owners who were pushed to the point of business failure by the Medicaid reimbursement, only to find themselves having to sell their pharmacy (and their life's work) to the same company that was largely responsible for driving them out of business.

I have read a lot of the headlines out of Ohio regarding this pharmacy crisis, and while I have seen it discussed at length of the impact on independent pharmacies, I am here to tell you that

it is killing chain pharmacies too. Just this year, as Medicaid moved to a supposedly improved transparent, pass-through pharmacy program, CVS made another massive acquisition when they purchased Ritzman Pharmacies in northeast Ohio. Upon the acquisition of the 20 Ritzman Pharmacy locations, CVS turned around and closed 16 of those pharmacies. Those locally-invested and operated pharmacies were gone with just a stroke of a pen. Hundreds of Ritzman employees lost their jobs, patients lost their local health care providers, and communities were left without a pharmacy.

I am here to tell you, we do not want to be the next Ritzman. Today, now that the state has begun finally reforming the PBM system, the payments to pharmacies have barely budged. Under this new pass-through system, it's hard to tell if the Department of Medicaid has fixed anything or not, but regardless, whether it's the PBM's fault, the MCO's fault, or the Department of Medicaid's fault, the reimbursements to pharmacies are still in the tank, and it is crushing our practices.

If Fruth is unable to continue operations in Ohio, most of our employees will be without jobs. We staff our pharmacies safely and responsibly, unlike many national pharmacy chains. If we leave the Ohio market, not only will the state lose the benefits of a competitive pharmacy market, the important patient access that we provide, but if the problem isn't fixed, the same program that drove Ritzman's out of business or that could drive us out of business, will just drive the next pharmacy out of business too.

I have been informed by the Ohio Pharmacists Association that there is currently a proposal being considered that would require the state to reimburse pharmacies at NADAC plus a \$5 dispensing fee. While I could argue anything would be an improvement over this current disaster, a \$5 dispensing fee is only half of the actual cost to fill a prescription. This rate of reimbursement is an improvement, but still positions pharmacies to operate at a loss within the Medicaid program. For pharmacies like ours that can have as much as 50% Medicaid patients, it is still unsustainable.

If you are looking for another indication of just how bad things have gotten within Ohio Medicaid, let me tell you what the market is saying. When a pharmacy is acquired by another pharmacy, what typically occurs is known as a "file buy." The purchasing pharmacy acquires the prescription files of the selling pharmacy and is paid on a per prescription or per patient basis. While the patient is free to go to whatever pharmacy they want, many will use the purchasing pharmacy, which is why it's of financial interest to the purchaser. According to pharmacy brokers that we work with, for the first time ever, national pharmacy chains will not pay a single dime for an Ohio Medicaid prescription. This is the market telling you that the current system places zero value on an Ohio Medicaid prescription, and thus zero value on an Ohio Medicaid patient. While we do not feel this way about our Medicaid patients, the policies of the state of Ohio have made the market value of serving Medicaid patients equivalent to nothing.

But if only that were actually the case. Medicaid prescriptions aren't just worth nothing. For our pharmacies that serve a disproportionate share of Medicaid patients. It's actually less than

nothing. Our Ohio pharmacies have lost nearly 1 million dollars since January 1, 2019. This system does not need a few tweaks. It needs an overhaul.

As a local company, whose employees live and work in Ohio, Fruth respectfully asks for Ohio to set a fair reimbursement based on your own Cost of Dispensing Study and require pharmacies to be reimbursed at NADAC plus \$9.48 at a minimum, which is the weighted average cost to fill a prescription in Ohio, according to the 2018 Cost of Dispensing Survey. NADAC plus \$5 will slightly improve things and make reimbursements more predictable, but it will not solve the crisis of high Medicaid pharmacies having enough resources to stay open. The Ohio Cost of Dispense Study proves this.

The large pharmacy chains will use the revenue from other states to ride out the storm as they watch *your* local Ohio pharmacy businesses close. When we are all gone, then Ohio will be left to negotiate with only a few large chains that have no connection to Ohio. The large chains will have all the leverage in determining the pricing after others have been driven out of business, and their quality and customer service will get worse than it already is, because patients will have nowhere left to go.

Doing nothing will mean that the future Ohio pharmacy market will be overconsolidated, uncompetitive, with poor patient access. If you think you are paying too much for less care today, the problem will only get worse.

Please stop this madness. The state of Ohio expects a lot from pharmacists. It's insane to think that pharmacies can deliver on those expectations when your Medicaid program pays them under \$4 for something that costs nearly \$10. Please step up and help provide fair reimbursement to save your pharmacies and continue to ensure access for Ohio's underserved.

Thank you for allowing me to provide testimony on HB 166, and I'd be happy to answer any questions you may have.