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Update to “Saint Louis County, Drugs, and Competitive Bidding: A Privatization Success Story” — Show-Me Institute Case Study No. 2 January 29, 2008

By David C. Stokes

The release of Saint Louis County’s 2008 budget has provided the Show-Me Institute with additional information that warrants an update of this study of the privatization of Saint Louis County pharmacy operations. After making the primary adjustments to the figures we were originally given, the 2006 actual pharmacy department expenditures rose from \$4,286,000 to \$6,252,371, and the 2007 department appropriation fell from \$5,749,312 to an adjusted figure of \$5,478,712.

The original 2006 actual expenditure total that we cited was provided to the author by the Saint Louis County Department of Health in an e-mail dated July 12, 2007. The budget process has since resulted in an exact total that differs from the earlier figure. While the updated 2006 expenditure total is significantly higher than the number we were first given, it remains lower than the 2002 expenditure of \$6,498,722, which was the last full year before privatization. While this does not represent a reduction of 34 percent since 2002, as the former number indicated, the updated figure still reflects a savings of 4 percent over four years. This total is not adjusted for inflation.

We did not use the original 2007 pharmacy budget figures when calculating the growth rate, because we were uncertain of their accuracy while the year was still ongoing, and because all other rate figures measured changes in actual — rather than budgeted — expenditures. However, the more accurate “adjusted budget” totals are now available for 2007, and this gives us a more useful basis for comparison. Indeed, the revised 2006 actual expenditure total is very close to the 2006 adjusted budget figure, and we expect to see a similar closeness for the 2007 figures when they are released. If we were to include 2007 adjusted budget numbers when calculating the growth rate, we would see a decline of 16 percent since 2002, without adjusting for inflation. If the pharmacy costs from 2002 had merely risen at the same rate as general inflation, expenses in 2007 would have been \$7,452,398.* However, health care expenses have generally risen much faster. Consider that from 1997 to 2002, pharmacy expenses increased by 180 percent. If we were to adjust for inflation, the savings from pharmacy privatization would be even larger.

It is important to note that fiscal savings are not the only measure of success for pharmacy privatization in Saint Louis County. Pharmacy access and services to patients have also greatly improved. With LDI now managing pharmacy benefits for Saint Louis County, patients have access to hundreds of locations — from national chains to their neighborhood pharmacies — to fill their prescriptions. LDI also operates online, mail-in, and telephone systems for filling prescriptions. This comprehensive, 24-hour prescription access is a dramatic improvement over the old county pharmacy, which operated out of one location in North Saint Louis County, kept standard government hours, and filled walk-in prescriptions only.

The privatization of pharmacy services in Saint Louis County has been a tremendous success. The program has seen savings of 16 percent since privatization was instituted, services to patients have improved dramatically, and neighborhood pharmacies throughout Saint Louis County are now able to participate in filling prescriptions. Other government health departments throughout Missouri should emulate this program. ■

* Source: Federal Reserve Bank of Minneapolis inflation calculator: minneapolisfed.org/research/data/us/calculator/