Information on Various Pharmacy Bonds

Rosenzweig Insurance Agency, Inc.
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Written by Lynn Rosenzweig Derby
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Most of you have an insurance policy of some type, whether for your home, your car, your life, your health, or your business. And many of you even have a surety bond and may not even realize it. But not many people know what a surety bond is, why you may need one, what purpose they serve, and how you even get a bond in the first place. This article will break it down for you and explain the basics of who needs a bond, why, and how.

First of all, what are bonds?

Bonds are a guarantee of payment between three parties, the Principal, the Obligee, and the Surety.

The Principal is you, the business owner. In order for your business to be contracted with certain third parties, such as Medicare or Express Scripts, these parties may require that you obtain a bond. Thus, these third parties, like Medicare or Express Scripts, are called the Obligee- the party who is requiring the bond as a guarantee that you will live up to your obligation to them. The final party is the Surety, or Bond company. This is an insurance company who is guaranteeing that the Obligee will be paid up to the face amount of the bond in the event of a breach by the Principal. Some bonds are required by Governmental agencies for a license and other bonds are required by private entities in order to do business with them.

And unlike insurance policies, if a bonding company pays a claim, they have the right to come after the store and the owner of the store for reimbursement.

What types of bonds do some pharmacies need?

1. Medicare DMEPOS bond - (For Medicare Part B providers) This is generally a $50,000 bond with Medicare at the Obligee. Every pharmacy and other business that bills Medicare for Durable Medical Equipment (DME) throughout the country must provide this bond. Some stores are required to provide a $100,000 bond. The larger bond is generally required if the store had a lapse in coverage or had billing issues with Medicare. These bonds are generally easy to obtain, and based on the business owner's credit, they generally cost between $250 and $1,000 per year, and must be renewed every year. Additionally, depending upon the financial and disciplinary history of the pharmacy owner(s) and of the pharmacy, the bond requirement may become a multiple of the $50,000 (depending upon what the past history demonstrates), which is much more difficult to obtain logistically and is much more costly to the Pharmacy.

2. Medicaid Bond – These bonds are only occasionally required by certain States or in certain geographic areas. The amount of the bond is determined by the State that the pharmacy is located in.

3. Express Scripts Bond – This is a $500,000 bond with Express Scripts as the Obligee. This is a relatively new bond and is very expensive, usually

costing at least $15,000 per year. Only new pharmacies in certain geographic areas are required to carry this bond. For example, if you were to open a new store in, or even purchase an existing store in Brooklyn, or certain other "heat zones" throughout the county, you will be required by Express Scripts to carry this bond. If you do not provide the bond, you will not be able to do any business through Express Scripts. They require this bond to be in force for "at least" two years. Since the cost is generally at least $15,000 per year, this means it will cost the owner of a new store $30,000 in the first two years.

How do bonding companies underwrite and decide if they want to provide a bond for your business and at what cost?

1. <u>Business – financials and credit rating</u> – They can run a credit report on the business and also review your financial reports.
2. <u>Personal – financials and credit score</u> – They will run a credit check on all owners and possibly ask for a financial statement.

What can you do if you or your business do not have good enough financials to obtain the needed bonds?

1. <u>Co-signer</u> – Some bonding companies will allow a friend or relative with good financial strength to sign as a guarantor for you.
2. <u>Collateral</u> – There are times that a bonding company does not want to take the full risk and will allow you to provide them with collateral, such as them holding your bank account or a certified check.
3. <u>Letter of credit</u> – If you have a good relationship with your bank, they may be willing to give the bonding company a letter of credit for all or part of the bond amount.
4. <u>Higher premium</u> – if your credit is not quite good enough, some bonding companies may be willing to provide you with a bond at a higher price.

Who do I contact to obtain a surety bond?

Start by contacting the insurance agent or broker who handles your business insurance policies. Ask them if they also handle these types of bonds. If they do not, you can do an online search, or you can even contact Medicare, Express Scripts, your local pharmacy association, or even your attorney for a referral to an insurance professional who handles these types of bonds.

~Lynn Rosenzweig Derby
Vice President
Rosenzweig Insurance Agency Inc.

Rosenzweig Insurance Agency is located in Mineola, New York, and insures over 1,000 independent pharmacies in New York and the United States. Please contact us by phone at 516-352-7495 or by e-mail at pharmacy@rosenzweiginsurance.com.