



Finding relief from the **DIR Hangover**

Understanding what you can do to help ease the pain.

In the spring of 2022, the Centers for Medicare & Medicare Services issued its final rule for Medicare Part D for contract year 2023 (with some effective dates that hit in 2024). In the final rule, the definition of negotiated price was revised to include all pharmacy price concessions at the point of sale, effective Jan. 1, 2024. As a result, for the first time ever, pharmacy price concessions will be defined and accounted for, and plans have to report price concessions (DIR fees) separately to CMS. The final rule further defined price concessions to include any form of discount, direct or indirect subsidy, or rebate received by the Part D sponsor or the PBM from any source that serves to decrease the cost incurred under the plan by the sponsor. The negotiated price must include pharmacy price concessions but does not require inclusion of manufacturer rebates.

Steve Postal, NCPA director of policy and regulatory affairs, said, "The final rule changed the way that negotiated price was defined. Previously, PBMs were able to exploit that definition via a loophole and assess retroactive DIR fees. Now all price concessions, or DIR fees, are moved and reported at point of sale and serve to lower patient out-of-pocket costs. Practically speaking, this is a win as it gives much transparency to the opaque practices of PBMs."

WHAT'S LOOMING IN DIR?

Fixing pharmacy DIR fees has been NCPA's top advocacy priority for years. While the final rule provided some positive provisions for pharmacy, there are concerns about a "DIR hangover" when it comes to cash flow. The reason? Starting Jan. 1, 2024, transparent pharmacy payments will no longer include retroactive DIR pharmacy fees, but the pharmacy DIR bills for the end of 2023 will come due.

"We're concerned that with lower upfront net payments to pharmacies, and pairing that with end-of-year 2023 DIR bills, we could see a real problem with pharmacy cash flow," said Ronna Hauser, NCPA senior vice president of policy and pharmacy affairs. "We're trying to address those concerns and face them head-on to better prepare our members."

Hauser says that NCPA is working closely with federal government agencies to advocate for pharmacies.

"We've already warned them of this concern, and they are well aware of it," she said. "They have told us they will do everything within their power. CMS can't mandate, but it has highly encouraged PBMs to offer possible payment plans to pharmacies to get through this period. It's on us, our profession, and our industry to keep tabs on what's happening and to understand how difficult this hangover could be. We need to make sure the folks over at CMS are aware of this and how bad it could be and what they can do to help. We also want to make sure our members best prepare."

by Chris Linville



Ollin Sykes

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THE ACCOUNTANTS’ PERSPECTIVE

In a *Pharmacy Times* Independent Rx Forum podcast, independent pharmacy financial gurus Ollin Sykes and Scotty Sykes from Sykes & Company, P.A., addressed the financial issues around the final rule, with suggestions on mitigating the effects of a DIR hangover. The following is excerpted from that podcast, which can be seen in full at bit.ly/3DUav1L.

Q. WHAT HAVE YOU SEEN HISTORICALLY FROM AN ACCOUNTING PERSPECTIVE RELATED TO THE GROWTH IN DIR FEES?

Ollin: “It’s been a real mess with DIR fees. For 2022, the year we just completed, across the board we’ve seen 5.5 to 6 percent of revenue in DIR fees at most pharmacies, which was up from 3.5 percent in 2021, and up from about 2 percent the year before, so we’ve seen dramatic increases in DIR fees over the last several years. At the same time, we have seen a bit better transparency from some of the third-party reconciliation companies, which has allowed the accounting for that to be more clear and concise for those pharmacies that are keeping their accounting on an accrual basis.

“We don’t really know yet what ’23 is going to give us even before we get to ’24. Whether we are going to see an increase in fees this year versus last year, or whether they will stay stagnant, but that’s what we’ve seen to this point through ’22.”

Scotty: “There are some pharmacies that are lower than the average (5 percent) for 2022, and some are 3 percent or so. There’s a number of reasons for that. A lot of it is the pharmacy owners are engaged with the fees, how they are hitting their pharmacy, what prescriptions, what plans, what payers. When I ask

them why their fees are lower than what we typically see, it always comes to being more engaged in what’s going on and how these DIR fees are affecting their pharmacy. If pharmacies are not doing so now, they really need to get engaged with their PSOs, with their plans, understand which DIR fees are causing the most problems, which prescriptions and so on and so forth, and learning all they can about these fees and how they are affecting their pharmacy. That seems to be a clear delineation between average [fees] and below average [fees].”

Q: IF YOU HAD YOUR CRYSTAL BALL OUT IN FRONT OF YOU, WHAT DO YOU THINK WILL OCCUR IN ’23?

Ollin: “I wouldn’t be surprised to see higher DIR fees in ’23 over ’22. Again, those pharmacies that are engaged and very closely watch their star ratings, making sure their patients are compliant in areas where the star ratings very clearly affect the DIR fees, can mitigate those fees, though certainly not eliminate them. But we have clearly seen those pharmacies that have become fully engaged in the whole process reduce DIR fees year over year when they really stay on top of it.”

Q. WHAT ABOUT THE DOOM AND GLOOM PREDICTIONS SOME HAVE BEEN PREDICTING?

Ollin: “I’ve heard some people say that ’24 is going to be a complete apocalypse. I happen to be one who doesn’t think it’s going to be an ‘apocalypse,’ but I do think it’s going to have a major impact on pharmacies. Here’s what we believe is going to happen. Obviously when we get to the end of January and the beginning of February of ’24, with the POS DIR fees initiating on Jan. 1, 2024, we’re not only going to have DIR fees taken out of that POS process in ’24, but the PBMs that are clawing back monthly will be clawing back



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in their usual process at the end of January or first of February. So yes, you'll get hit with two months in February, from January of '24 and a month probably in the fourth quarter of '23. Same thing happens in February, same thing happens in March, and so on.”

Q: WHAT OTHER TYPES OF CLAWBACKS COULD WE SEE AND WHAT WOULD BE THEIR EFFECT?

Ollin: “In my mind the real issue is going to hit when there are some of the clawbacks that occur on a trimester basis. It will hit in March and April of '24. But once you get past the April time frame in '24, things should begin to level themselves out. If your DIR fees are running 5 percent now and you get hit with twice that during that first quarter or first trimester of '24 then yes, your DIR fees are going to be twice that, in theory and actuality as far as cash reduction from your revenues. That will probably take a great deal of the profitability away from the pharmacy if all you are doing is relying strictly on prescriptions, which is why the whole process of concentrating your services not only on prescriptions, but also clinical services become even more important. I do think it's going to have a major impact, but I don't think it's necessarily going to close pharmacies down unless they just have their heads completely in the sand.”

Q. NOW THAT WE KNOW WHAT MIGHT OCCUR AND IN WHAT TIME FRAME, WHAT CAN PHARMACIES DO NOW TO PREPARE FOR THESE CHANGES?

Scotty: “I think pharmacies really need to start looking at doing what they can to diversify their revenue, find a niche-based revenue source, preferably cash-based, coming into the pharmacy, and really dive deep into it for 2023. COVID-19 accelerated that reach for pharmacies to look beyond just filling prescriptions, and I think

it has to accelerate even more, as bringing in some additional cash-based revenue into the pharmacy is going to be very important. Pharmacy is moving in that direction overall to be that wellness center, not just filling prescriptions. The rubber is going to meet the road in 2023 and I think those pharmacies that haven't gotten into that space need to get in there.”

Ollin: “Many pharmacies, with the advent of COVID, have really gotten on the bandwagon and have started to understand that cash-based clinical services and being that wellness and nutritional center is really a huge option for providing to them really decent gross margins without DIR fees, and clearly those are the kinds of things that pharmacists are going to have to continue to do and expand.”

Q. INCREASING REVENUE IS IMPORTANT, BUT WHAT ARE OTHER WAYS FOR PHARMACIES TO HELP THEMSELVES?

Scotty: “The revenue side is certainly going to be important, but also the expense side. Understanding those expenses in your pharmacy - payroll, efficiencies, what technologies can you adopt that you haven't adopted – there's going to be some things in the internal workflow of a pharmacy that needs to be addressed. That can be a source of assistance in dealing with this. Obviously, the accounting piece is important, making sure that balance sheet is tied down, and that the profit and loss sheet is tied down so you can understand those numbers, understand those areas of your pharmacy so you can ask questions. Why is my payroll a little higher than the national average or NCPA average? Then you can ask those questions and ideally take action to address those.”

Q. WHAT ARE SOME OF THE NUMBERS THAT MEMBERS SHOULD BE THINKING ABOUT, SUCH AS KEY RATIOS THAT THEY HAVE TO UNDERSTAND FROM A BUSINESS OWNERSHIP PERSPECTIVE GOING INTO THIS PERIOD?

Scotty: "That current liquidity ratio has always been an important key performance indicator for a pharmacy, and it's going to continue to be. You typically see a current ratio around 2.5-1 (\$2.50 of current assets/cash receivables/current inventory for every \$1 of current debt), so understanding that current ratio is going to be key. A 2.5-1 current ratio gives you a nice comfort level in terms of liquidity in your pharmacy, and you shouldn't have problems paying the wholesaler with a 2.5-1 ratio, but going forward a goal of 3-1 is something to shoot for if you are a pharmacy owner, to give you that additional cushion going into 2024. The accounting is very important when you are analyzing that current ratio. You have to make sure that balance sheet is where it needs to be, in terms of current assets and current liabilities to get an accurate ratio. It is a key liquidity ratio that gives you a feel for the cash flow in the pharmacy. Any pharmacy that is below a 2-1 ratio right away has problems with cash flow."

Q. WHAT QUESTIONS SHOULD PHARMACY OWNERS ASK IF THEIR RATIOS AREN'T WHERE YOU WANT THEM TO BE?

Scotty: "If you're not where you should be with that current liquidity ratio, then you ask yourself why. What is going on in my pharmacy? What is the accounting telling [me about] why I'm not at 2.5-1 or 3-1? Is it the inventory issue? Are the expenses out of line? Is it a margin issue? Is it a DIR fee issue? Is it an ownership draw/taking money out of the pharmacy issue? Why aren't you where you need to be? Then you can address those problem areas for your pharmacy. That accounting is just critical here."

Q. WHAT ABOUT THIRD PARTIES AND INVENTORY MANAGEMENT?

Ollin: "We are constantly running into pharmacies that are not managing their third-party reconciliation systems. Verifying your deposits and keeping your third-party receivables accurate in your system is so vitally important, and we run into so many pharmacies that just leave that to the third-party reconciliation companies and don't really manage that process or work in a partnership with those third-party reconciliation systems. Also, it's important to keep a perpetual inventory system and doing cycle counts periodically to make sure your inventory turns are maximized. The national average is about 12 turns a year, though we have many pharmacies turning 20-25 times a year. Suffice it to say that their cash flow is a heck of a lot better than that pharmacy just turning it 12 times a year. When you have next-day inventory delivery available for basically anything that you buy, not increasing your inventory turns works against your cash flow, and these are the kind of things that you need to stress and keep in order."

Q. WHY IS IT IMPORTANT TO CLOSELY MONITOR POINT OF SALE?

Scotty: "I will say if you are a pharmacy out there and you're not already getting those POS estimates for DIR fees, get the PSAO information loaded into [your dispensing system] so you can see at the POS for 2023, and how the DIR fee could potentially affect that script crossing that bench. That's a huge driver for mitigating fees, so you might understand that you're not making \$1,000, you're losing \$1,000."

Throughout 2023, NCPA will continually report on the final rule and what it means to your business as more information becomes available. Visit www.ncpa.org for tools and resources, including webinars. Be sure to stay tuned to our daily electronic newsletter qAM for breaking news and updates. ■

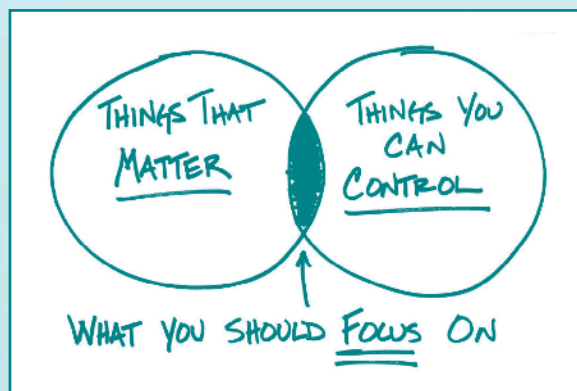
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The **FINAL Rule**

An independent pharmacy owner's perspective

by Chris Linville

Scott Pace, PharmD, said in the general scheme of things are two concepts that people understand: things that matter and things they can control. If you put each in a circle, he points out that you'll see that they are rarely the same thing as there is almost no overlap.



As a pharmacy owner, Pace said, "What I'm doing to prepare for 2024 is to focus on that small sliver of those two circles that do overlap. I tend to get fixated on things that matter that are completely out of my control, like getting Congress to make changes to Medicare Part D."

Pace, co-owner (with wife Anne) of Kavanaugh Pharmacy in Little Rock, Ark, credits NCPA for its efforts in helping influence the Centers for Medicare & Medicare Services final rule for Medicare Part D, but he knows that there is still a lot of uncertainty going forward. As an owner he understands firsthand the challenges.

"Cash flow has slowed and that could begin hurting because of the DIR changes," he said. "It's not just DIR that going to potentially affect cash flow, it's also decreases in reimbursement rates."

Another area that Pace said doesn't get much attention is generic price deflation. "That has affected cash flow because you are getting paid less for drugs that cost less to buy now."

In this article, Pace describes things he is doing to mitigate the DIR hangover, and areas where pharmacists can target to ease pain, if not eliminate it.

COST OF GOODS

Pace notes that owners often think cost of goods is an area where they don't have control, but he said that cost of goods is one of the biggest spending areas they have, and there are ways to keep a handle on it.

"It's important to maximize your cost of goods sold, working with your wholesaler, shopping the marketplace when it's appropriate and when your prime vendor agreement allows it," he said. "When I lecture to pharmacy students, I try to simplify down from the *NCPA Digest* (sponsored by Cardinal Health) pie chart. I say if you look at a pie, your overall total revenue as a pharmacy is the whole pie, and there's really only four pieces of the pie that matter – your cost of goods, your payroll expenses, your other expenses – which is everything else we have to pay, and then your net profit."

Pace said that even making a 1 percent change to cost of goods can make a difference, as it goes directly to net profit. He said the same applies to payroll and other expenses.

"That's why leading up to the 2024 DIR changes it's really a good time to evaluate what your pie chart looks like – what is your cost of goods, what is your payroll, what are your overhead expenses? Those are the things that we are taking a hard look at in our pharmacy. Along with the cash flow changes that are going to happen with DIR, we're in a big inflationary time right now, where labor costs more, so it might be time to look at automation as a possible solution, or tech order entry."

PART D CLAIMS

Pace said it might be a good idea for pharmacies to look at the origin of their Medicare Part D claims.

"I know we sometimes get in the habit of our third-party payment file being a bit messed up in our pharmacy management system," he said. "I've been in pharmacies over the years that still have Advanced Paradigm listed as a payer in their payment file, and they can't necessarily differentiate between a commercial or Part D plan. This is a good time to get your third-party plan file in order in your pharmacy system in 2023 and to prepare for 2024 so that Wellcare PDP plan X in your region corresponds with its contract ID."

The reason that's important? "Because the power of knowing that allows you to understand what the DIR implications are for one individual plan compared to another individual plan, which can give you some real forecasting insights to know what am I looking at, what's the time horizon for the collection of these DIR fees, and how much can I expect based on what the contracts are," Pace said. "It pays benefits when you can track what you are doing."

DIR LAG

Pace explains that each different part D plan leading into 2024 already has different time horizons for how their DIRs are collected. For example, CVS Caremark does it by trimester.

"I am seeing the monthly (or every two week) reconciliation statement DIRs happening a lot faster than they used to happen," he said. "Understanding what percentage of your Part D plans that you fill prescriptions for are on the trimester cycle versus the two-to-four-week cycle can really help you plan for how long the 2024 DIR hangover going to last for you. Is it going to be a 60-day impact or a 140-day impact? Those are the things you can get by having a good third-party file and understanding your current volume."

BIG PICTURE ON EXPENSES

Congress and state legislatures sometimes get fixated on the minutiae when they are talking about budgeting, Pace believes.

"Sometimes they'll say we need to cut spending for something that's a very minute percentage of the overall federal budget," he said. "I think we do that sometimes as operators of our businesses, where we fixate on some of the small expenditures instead of where the real expenditures are."

In Pace's view, it's important not to forget the larger picture, such as cost of goods, wages, and payroll expenses.

"Those are where your big expenses are, so figuring out how you can maximize those is important," he said. "Is it time to invest in a robot? Is it time to add that extra technician and bump up on my ratios more than I have before because it's more efficient to invest in a tech to do order entry or some other function such as vaccinating? A lot of pharmacies are using technicians to vaccinate. It's time to evaluate those things because they can help you maximize where your wages and cost of goods are."

Cost saving measures

- Scale med sync.
- Centralize operations and inventory.
- Optimize your buy plan.
- Optimize work schedules/wages.
- Reprice vials, labels, and other office supplies.
- Measure billable services plus prescriptions.
- Scale current and seek out new non-dispensing revenue.
- Assess automation and technology.
- Partner with colleagues to "share" expenses.

Financial injury avoidance

- Know in advance where (and when) economic stressors will occur.
- Med sync as many prescriptions as possible (not optional).
- Determine your current cost to dispense and cut expenses.
- Begin setting back reserves to cover a potential "injury" period.
- Implement efficiencies into service delivery today so you can scale non-dispensing services quickly.
- Look for new non-dispensing revenue that can begin paying off over the next six to 12 months.

Pace said there are several cost-saving measures that can help pharmacies save money and avoid financial crunches. He said medication synchronization can be useful in managing the ebbs and flows that happen daily in a pharmacy.

"It can help with staffing and reduce the day-to-day chaos that we're all familiar with when filling maintenance medications," he said.

Inventory sitting on shelves adds to costs, but Pace said there are technology solutions.

"If you aren't looking at perpetual inventory yet, it's time to do so," he said. "If you aren't using automated ordering for your pharmacy management system and setting reorder points so you can know how much is on your shelf at any given point in time, I think it's time to do that."

Pace lists other expenses to address, such as insurance costs. Even seemingly small ticket items such as office supplies can add up.

"What do vials cost? Labels?" he said. "A lot of people still like laser-printed labels, but they are just more expensive than thermal labels. Those little things add up to real dollars at the end of the day."

Along with automation for inventory, it can be useful for general workflow also.

"We put a Parata in our store recently and it's gone really well," he said. "One of the things I have come to realize is I was assessing the price of automation based upon a 2,080-hour a week employee, which was a misnomer on my part. I need to look at the overall hours I'm open because I don't get one full-time employee out of a piece of automation; in this case I get 1.25 FTE based on how many hours I'm open, which really changes the value proposition on what it costs per hour to operate. Sometimes it's hard to spend money in this environment, but if you do it in the right way, it can really make you more efficient."

CASH IS KEY

It's stating the obvious, but cash is going to be key going into 2024, Pace said.

"I would be remiss not to say this is a time to not only start looking at cutting your costs and your expenses and investing in more efficiencies, but it's also a time to start setting something aside, even if it's just an extra \$1,000 a month, to start preparing for 2024," he said. "It's a time to be thinking about setting aside some potential reserves to prepare for what that 60 to 120-day period could look like."

Pace said it's also an ideal time build your business into other non-dispensing areas.

"Flu season has been really good for us this year, not only from an over-the-counter perspective when we can get OTC items, but with flu vaccine volume, point-of-care testing, and treatment options in many states," he said. "It seems like it's a small amount of revenue potential, but if you do it right, if you market it right, if you get the right champion, it's really a substantial revenue line that has a much higher profit margin. It's a professionally satisfying thing to do, and it adds real dollars to your bottom line, and those things are more necessary now than ever."

Pace comes back to the circles when looking ahead.

"Focus on that part in the middle," he said. "There's a lot more there that you can control that we don't spend enough time doing. It's not just going to get us through the DIR situation, it will allow us to be successful."

In Pace's opinion, there's still a place for old-school pharmacy while mixing in modern concepts.

"I am convinced more than ever that we can still make money dispensing prescriptions," he said. "I'm not prepared to give up on that. It's a valuable service that people rely on, and it's a great clinical service that we bring to the table. But I'm also not going to give up on finding new ways to innovate my business and preparing for a challenge that we know is ahead." ■

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