DIGITAL PHARMACIST®
A Lumistry Company

eBook

How to Offset DIR Fees and Increase Pharmacy Profitability

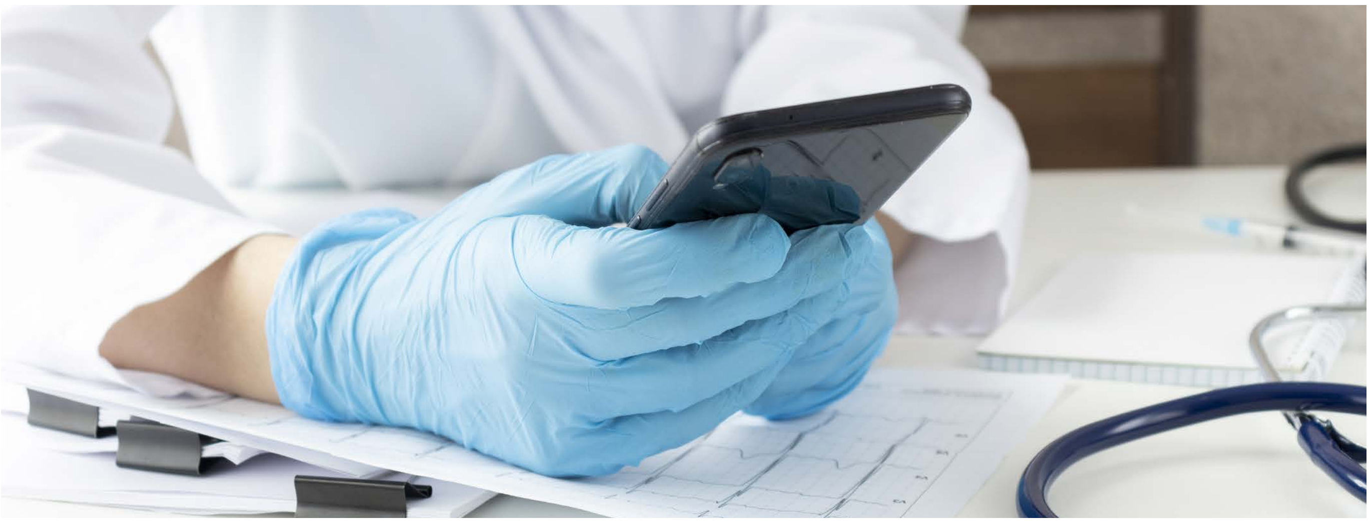
Table of Contents

CHAPTER 3:

Summary

Pharmacies today struggle to manage unpredictable DIR fees, which can cut into reimbursement rates and severely affect profit margins. This eBook explores the evolution of DIR fees, what changes are coming to DIR, and information to help you offset fees and ensure pharmacy growth. We will also explain how leveraging digital tools can help mitigate some of these issues and provide better service to your patients.

Introduction



Originally intended as an accountability system for Medicare Part D plans, Direct and Indirect Remuneration (DIR) fees have become an easy way for PBMs and health plans to recoup medication costs. They can cover a variety of fees levied after the point of sale, ranging from reimbursement deductions to network membership costs and performance-based fines.

In recent years there has been a drastic shift in how PBMs and plans leverage pharmacy DIRs to their advantage (and to pharmacies' detriment). The CMS recognizes numerous categories of DIR fees which include vague wording and guidelines that have ultimately led to major issues and unpredictability when it comes to pharmacies' profitability.

What About Reimbursement Rates?

Prescription drugs represent about 90% of an independent pharmacy's sales revenue. The two main types of reimbursement rates, patient co-pays and PBM adjudication, are largely set by health plans and often fluctuate.

To sustain growth, pharmacies need to leverage tools and solutions that can counteract DIR fees and declining reimbursements. But before that can happen, it's important to understand exactly how these business challenges can affect your finances overall.

CHAPTER 1

An Overview of Pharmacy Profitability and Reimbursements

Your pharmacy's financial success can be summarized in a single document: the pharmacy income statement. This is where you track monthly, quarterly, and annual revenue, and get a bird's eye view of your business's cash flow.

Calculating Pharmacy Profitability

To get a sense of how profitable your pharmacy is, you need to calculate your net sales, gross profit, and net profit. Here is how those formulas break down:

- Net sales: Amount remaining after taking out deductions from any pharmacy revenue. These can be applied at the point of sale, or later, like with DIR fees. If a customer has a $10 copay with a 20% DIR, for example, your net sale from that transaction would be $8, rather than $10.
- Gross Profit: The number you get once you've subtracted net sales from the cost of goods sold (COGS). This is where rising drug costs and wholesaler deals will affect profitability; lower COGS means higher profits.
- Net Profit: The final step to determining profitability, net profit is the amount left after you subtract operating expenses from gross profit. This gives you the best idea of your pharmacy's profit as a whole, rather than in terms of sales alone.

How Reimbursement Rates Affect Profit Margins

As we can see, any type of fee or deduction can make a difference to a pharmacy's profit margins. Reimbursement rates can cut into profitability in a number of ways:

Patient co-pay "clawbacks"

PBMs may instruct pharmacies to collect higher co-pays than the contracted reimbursement amount and then retrieve and pocket the difference, sometimes charging pharmacies more.

Controlled ingredient costs

State programs like Medicare have their own drug pricing thresholds, or maximum allowable costs (MAC), for generic and multi-source brand-name drugs. This sets a ceiling for reimbursement and, when drug prices rise, pharmacies often have to swallow the difference if insurers and PBMs don't make consistent updates to their MAC lists.

Dispensing fees

Dispensing fees are meant to cover reasonable costs for dispensing services, but according to a 2020 NACDS study, the vast majority of states don't pay enough to cover pharmacies' cost of dispensing.

Performance-based DIR fees

From network participation and performance or compliance fees to administrative costs, these "pay to play" reductions are often difficult to counter or prepare for. DIR fees represent a growing issue with unpredictable and arbitrary costs that eat into reimbursement rates, shrink profit margins, and result in patients paying more for their prescriptions.

CHAPTER 2

The Evolution of DIR Fees

DIR Fees are the collective charges pharmacies participating in Medicare Part D incur from PBMs outside of administration fees. These fees were initially implemented to ensure that CMS pays the accurate price for the medications by taking into account all price concessions. In particular, to capture the formulary rebates paid from pharmaceutical manufacturers to PBMs. However, in recent years PBMs have manipulated the implementation of DIR fees to their advantage by creating obscure performance-based standards and continually raising DIRs each year.

Between 2010 and 2020, CMS reported (§ 423.100) that retroactive DIR fees increased by an astonishing 107,400%.

This evolution of DIR had extended well beyond the CMS' intentions and has resulted in pharmacies experiencing diminishing profit margins. In some instances, the fees surpass the drug costs meaning pharmacies are even losing money when processing claims through Medicare Part D.

How DIR Fees are Calculated

Fee Structures

Dollar-Based - Flat-dollar fees were once the most prevalent structure among retail pharmacies, however, most plans have shifted to a percentage-based model to capture higher fees off high-priced brands/specialties. This DIR structure is beneficial for high-cost medications but detrimental to low-cost generics, sometimes resulting in fees higher than the reimbursed rate from PBMs.

Dollar-Based Example: With a $5 flat rate fee, a patient is taking a $1,000 medication every month. Annually the pharmacy pays $60 DIR for that medication.

Percentage-Based - Percentage-based fees are now more common, especially among specialty pharmacies. This DIR structure is beneficial for low-cost generics, but detrimental to high-cost brand/specialty medications, allowing PBMs the opportunity to charge thousands of dollars per claim in some scenarios.

Percentage-Based Example: With a 10% percentage-based fee, a patient is taking a $1,000 medication every month. Annually the pharmacy pays $1,200 DIR for that medication.

Contract Types

Most independent pharmacy owners participate in pharmacy services administrative organizations (PSAOs) to represent them in negotiations with PBMs, while chain pharmacies negotiate with PBMs directly. Chain pharmacies and PSAOs participating in Medicare Part D plans operate using either a preferred or standard contracting strategy.

Preferred - With preferred plans the pharmacy is participating in the plan's preferred cost-sharing network, which means the patient receives the lowest retail pharmacy copay available. These plans are being offered less to independent pharmacies and chain pharmacies are declining these plans due to their increasing fall in profitability. However, preferred contracts can still be beneficial if the pharmacy creates additional monetary value with patients. For example – selling OTCs effectively.

Standard (not preferred) - With standard plans, the pharmacy does not participate in the plan's preferred network, resulting in patients' paying higher co-pays. DIRs are often 2% lower on standard plans, and as a result, both chain pharmacies and independent pharmacies are opting for standard plans at an increasing rate.

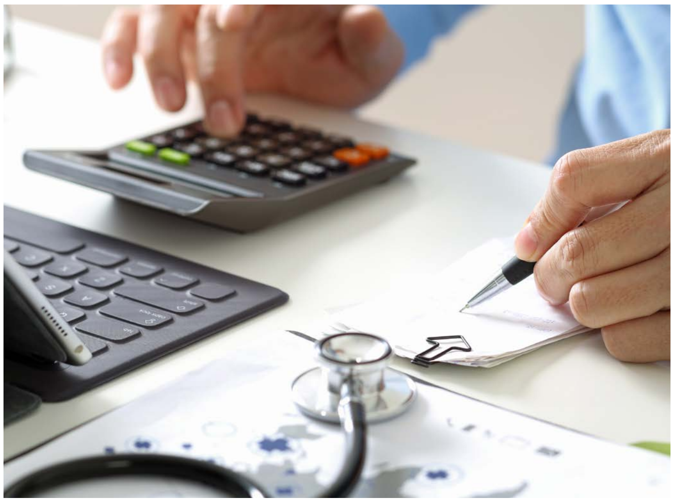
Performance Metrics

CMS applies Star Ratings at the plan level, which in turn create performance metrics for their pharmacy network. The pharmacy's performance in those metrics can determine its DIR formula.

- **Medication Adherence:** Non-adherence to three chronic disease categories — oral diabetes medications, statins for cholesterol, and hypertension medications — impacts a pharmacy's adherence score.
- **Medication Safety:** This is evaluated based on the appropriate use of high-risk medications in the elderly, and the type of blood pressure medication used by patients with diabetes.
- **Medication Therapy Management (MTM):** A part D sponsor must offer Medication Therapy Management that meets MTM program requirements. In short, MTM programs require coordination between patients, pharmacists, and other healthcare providers to ensure the proper use of medications and prevent any inappropriately treated conditions.
- **Statin Use in Persons with Diabetes (SUPD)** - The SUPD measure was created to determine the proportion of patients with diabetes receiving statin therapy. To comply, pharmacies need to coordinate with doctors to get statins prescribed to patients with diabetes.

The Future of DIR: Changes Coming in 2024

The CMS issued a final rule that will bring major reform to DIR, eliminating retroactive DIR fees and requiring PBMs to reflect fees based on the negotiated price paid at the point of sale as opposed to months later. This final rule will go into effect January, 1 2024 (Contract year 2024).



While this doesn't mean these arbitrary fees are going away, pharmacy owners will know their revenue from a prescription upfront, rather than making predictions based on variable fees they won't incur for weeks or even months after dispensing that prescription. Although this fee transparency will ultimately provide relief to both patients and pharmacies, there are some challenges pharmacies will have to face before the benefits can be reaped.

The Short-Term Impact of Upcoming DIR Changes on Pharmacies

In the first quarter of 2024, pharmacies will have the retroactive DIRs from 2023, and the new DIRs they will occur at the point of sale. This means pharmacies will be paying double the amount of DIR fees that they normally would for the first part of 2024 until all of the retroactive fees have been paid.

With this increased transparency on prescription profit, pharmacies will begin declining to fill more scripts as data on a prescription's profitability will be available at the point of dispensing, as opposed to months later with the prior retroactive model.

The Long-Term Impact of Upcoming DIR Changes on Pharmacies

Once retroactive fees have been paid and cash flow was been recovered, pharmacies will know what fees they will occur upfront and therefore be able to better predict their profitability and budget accordingly.

While the elimination of retroactive fees is a step in the right direction for pharmacies' profitability, PBMs will still be able to collect obscure fees and concessions and pharmacies must adjust their business plans and have additional revenue streams to drive profits aside from prescriptions.

The Potential Impact DIR Changes Will Have on Patients

With the retroactive DIR model not only are pharmacies taking a huge hit – patients are too. Because these variable fees are often retroactive and are not calculated at the point of sale when a patient's copay is determined, patients often end up getting overcharged.

For example:

Let's say the full cost of a medication is $100, and it is subject to a 30% copayment, so they have a $30 copay. Six months later the PBM takes back a $15 DIR. Meaning in actuality, the full cost of the medication is $85, and the patient's copay should have only been $25.50.

With fee transparency, pharmacies will know what fees will be incurred upfront and be able accurately price medications, thus saving patients money. According to CMS, this is predicted to save beneficiaries an estimated $26.5 billion between 2024 and 2032, which accounts for both cost-sharing savings and minimal expected premium increases.

CHAPTER 3

Offsetting Fees With Pharmacy Profit

With cashflow interruptions guaranteed in the near future, it might seem difficult to find a good balance between serving your community and staying in business. Trying to crack the code at pharmacy performance metrics and improving your star rating can seem like you are shooting at an ever-moving target. Because there is so much variability as to what will or will not lower your DIR fees, hone in on what you can control – offsetting diminishing profit margins by increasing profitability. Let's explore a few ways to achieve this.

Reduce Labor Expenses

As the second highest expense for pharmacies, labor costs are something that should be monitored carefully. Staff time equals money, so finding ways to reduce the amount of time your staff needs to complete routine tasks can keep expenses low and increase your net profit.

According to Sykes and Company P.A., pharmacy labor costs should not exceed 10.5% of revenue and several steps can be taken to make sure you keep labor costs as low as possible:

Have Proper Reporting

Make sure you have proper reports in place to be able to determine the percentage of your total revenue that is going to payroll. You will also want to be able to look at what days and times revenue is coming in so that you can staff accordingly.

Reduce Hours During Slow Times

If your reports reflect that there are hours when you aren't covering your labor costs, then you might want to consider trimming your hours down during those times. This can make a big difference throughout the course of the year for your payroll costs.

Rely on Technology

Automating processes that make your staff more efficient can drastically decrease your payroll costs. Whether this be automating refills, pill counting, communication, etc. Think through what processes your staff spends the most hours on and seek equipment or software that can streamline that process.

A technology to make sure you are utilizing is EQUIPP, which most pharmacies have free access to through their PSAO membership. This tool provides insights to quality measure performance information from participating health plans. EQUIPP provides standardized, benchmarked data that help pharmacies understand their scores for all measured metrics.

Maintain Patient Adherence

Non-adherence and non-persistence (failure to refill prescriptions) can put a dent in reimbursement revenue and cost you extra staff hours and increased return-to-stock.

There are many ways to improve medication adherence, but here are a few of the main things you want to consider doing to help your patients be more adherent:

Prioritize the Right Patients

The adherence of certain patients can weigh more heavily than others depending on how the plan measures performance, so understanding those metrics can help you determine which patients to prioritize. Some plans are aggregated at the PSAO, meaning that individual pharmacies have little impact on their scores as they are based on an average of all pharmacies in the PSAO. Other plans are measured at the store level, meaning pharmacies can improve their own standings.

Offer a Delivery Service

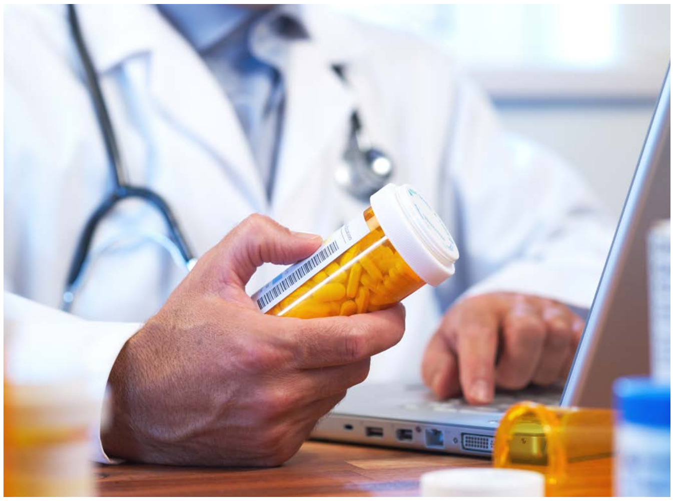
With more and more online and mail-order pharmacies popping up, delivery options are becoming more of an expectation for patients. Without that convenience, patients are more likely to become non-adherent simply because getting their medications is considered a hassle.

Provide Medication Therapy Management (MTM)

A great way to dig deeper into your patients' specific needs is to set up an MTM call or in-person meeting with them. This allows you to gain a better understanding of their medication usage and provide personalized recommendations to help them remain adherent.

Synchronize Medications & Use the Appointment-Based Model (ABM)

Giving patients the option to enroll in the ABM and have a designated day to pick up all their medications each month can make their lives more convenient while also making your pharmacy workflow more efficient. This allows pharmacy teams to align with a synchronized schedule rather than retroactively filling prescriptions.



Send Call/Text Refill & Pickup Reminders

In the midst of the daily hustle and bustle, it's easy for patients to forget to refill or pick up their prescriptions. Texts and calls can be an easy and automated way to remind patients to get their medications or reminders for them to refill their scripts.

Build a Profitable Patient Base

Patients aren't created equally – some need more care than others, and some are more profitable than others. Many times those two go hand in hand so when you think about targeting new patients, here are a few types of patients that will benefit the most from your extra level of care – and at the same time make your pharmacy more money – a win-win.

Evaluate Insurance Plans

Determine which insurance plans and prescriptions are the most profitable, and optimize your digital presence to gain more patients that might be using said prescriptions. You could also communicate with local doctors to determine which ones are prescribing profitable medication and seek to build a relationship with them to fill that need for their patients.

Attract Cash-Paying Patients

We're seeing more and more cost plus pharmacies, both among giants like Amazon Pharmacy and Mark Cuban Cost Plus, as well as independents moving toward insurance-free pharmacies. The reason for this goes back to the diminishing margins dealing with PBMs and the burden this puts on both patients and pharmacies.

> A study from USC found that 28% of patients' copays on generic prescriptions exceed the total costs of the drug itself.

While you might not want to take the plunge into a completely different business model, making sure your costs are competitive for uninsured patients can help patients save costs, while also improving your pharmacy profit margins.

With the repeal of the gag clause, there is no longer a rule in place preventing pharmacists from informing patients of savings potential by paying cash as opposed to going through insurance. Therefore, you might want to explore the possibility of converting patients to cash if your pharmacy's cash payment is lower than the patient's copay.

Offer Specialty Medications

Patients that suffer from multiple chronic conditions require the greatest level of care and will benefit the most from the level of service that your community pharmacy has to offer. Many of these patients require specialty medications to manage these conditions, which come with significantly higher profits than generic drugs. According to ASPE, specialty drugs represented 50% of total drug spending in 2021, while only 2% of the population uses specialty drugs.

Find Your Pharmacy's Niche

The saying goes – "the riches are in the niches" and when it comes to the future of independent pharmacies, this is more true than ever before. Traditional pharmacies that are merely filling scripts and not evolving and diversifying their revenue streams are the ones who are struggling the most. While there are many niches that can give your pharmacy a competitive edge, they are not one-size-fits-all, so you will want to carefully consider which niche is best for your pharmacy. Below are a few considerations you make when finding your niche.

Geographic Location

Your pharmacy's location has a large impact on your business. If you are the only pharmacy or only independent pharmacy in your area, then you already have a large advantage over pharmacies in high-traffic areas with more local competition. You will want to take your location into account when deciding what products and services to offer. For example, if you are in an urban area, you might want to incorporate a holistic approach with vegan or gluten-free options.

Patient Demographics

To get to know your clientele, it is easiest to define them by their demographics. How old are they? What do they like to purchase? What is more important to them: cost or quality? By analyzing these simple questions you may realize that there is a niche demographic that you can cater to that others can't or don't. This could open up many doors for new revenue streams.

Your Competition

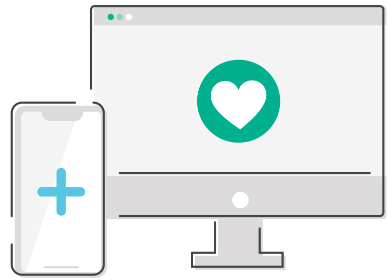
Analyze what your competition is doing. It's no longer niche if everyone around you is doing it too. Assess their strengths and why their business is doing well or vice versa. This is an important step when planning business changes because others have a lot to learn from. Independents have an upper hand on chains because they are able to make important changes without having to go to a board for approval or wait for other stores to roll out the same offerings. Use your size to your advantage.

Potential Opportunities & Growth

Make the most of your independent pharmacy by assessing external factors around you to make your growth plan. Through analyzing location, patient demographics and competition, you'll be better equipped to determine what you can do to make your pharmacy stand out and grow. Many niche markets can coincide and could have you expanding your horizons far past what you had originally planned.

CHAPTER 4

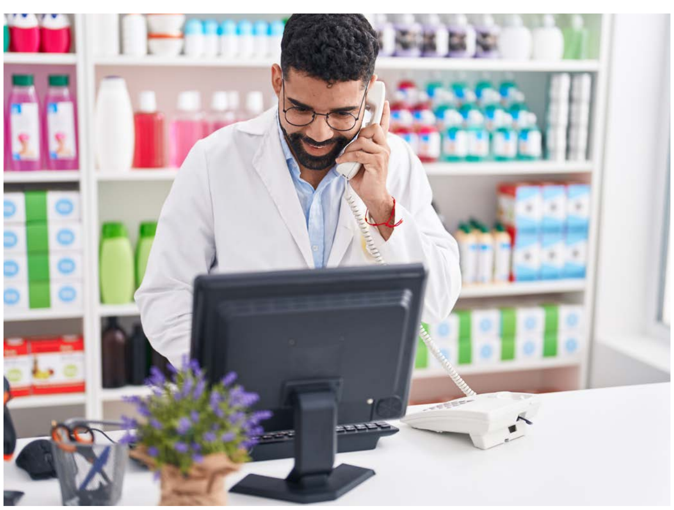
Leveraging Technology to Increase Profits



Going digital has a myriad of benefits above and beyond helping to offset DIR fees and reimbursements. Not only can you become more profitable in the face of rising costs, but you also set your pharmacy up for long-term success. Digital tools give you the ability to compete effectively with big-box stores, promote patient adherence, and provide better quality care.

Seamless Experience Means Better Adherence

Today, patients often look for the same seamless experience in healthcare that they encounter while shopping online. Pharmacies can offer the same experience with digital tools so patients can manage their healthcare faster and easier.



An intuitive, user-friendly app allows patients to request refills in seconds from wherever they are, instead of having to wait on hold or visit the pharmacy in person. With easy sign-ins and a secure profile, they can save all their prescription information online and keep track of their prescriptions.

By offering an easy-to-use solution for prescription management, you can encourage more patients to refill their medications regularly, improving their PDC and overall adherence. And with more refills come more consistent revenue, both from reimbursements and the opportunity to introduce new service offerings to a consistent and increasing patient base.

Improved Patient Experience & Increased Profitability with Technology

According to Statista, there are over 4.5 billion internet users and 4.2 billion mobile internet users active around the world today. 9 out of 10 American adults access the internet regularly, and they aren't all from younger generations. Nearly 75% of seniors aged 65 and over are online daily as well. As a result, digital tools have also become an important part of healthcare as the industry rapidly adopts new transformative solutions like telehealth, mobile health apps, and connected health devices.

Independent and community pharmacies often have the advantage of a more intimate patient base and the ability to build meaningful relationships with customers, but according to the NCPA, 3 out of 4 patients want to engage with their pharmacist via digital channels. By implementing digital tools, independent pharmacies can deliver a more personalized approach to patient care, but while also by giving patients access to a lot of the same tech-savvy solutions offered by chain pharmacies and online prescription services.

Best Digital Tools to Increase Efficiency & Revenue

To help offset DIR fees successfully, your pharmacy's digital toolkit should contain solutions that reduce costs and increase profit margins. A successful pharmacy should have automated solutions in place to streamline customer service and online tools that support pharmacy services as well as new and existing customers.

Digital Patient Communication Platform & Appointment Scheduler

Our Patient Engagement Platform & Appointment Scheduler is built to drive patient engagement and retention. This solution enables you to offer a variety of appointment-based services, allowing patients to communicate and schedule appointments online or through a mobile app at times convenient for them. If you are considering implementing any clinical services to diversify your revenue stream, our appointment scheduler can help you do so efficiently, ***minimizing the time required from your staff, and maximizing your revenue potential from your clinical services.***

You will also be able to answer questions, exchange multimedia information, and identify clinical opportunities easily and efficiently. This will not only increase prescription adherence but also reduce the time your employees have to spend on the phone by offering communication alternatives for patients at any time of day.

Interactive Voice Response (IVR)

A software system for managing inbound calls, IVR helps patients, pharmacists, and healthcare professionals communicate easily and securely using cloud-based technology. The system plugs directly into your pharmacy server and phone lines so you can route calls, process prescription refill requests and authorizations, and pre-record pharmacy information.

With visual voicemail and after-hours settings, pharmacists can also maintain and revisit messages on a single database and accept new

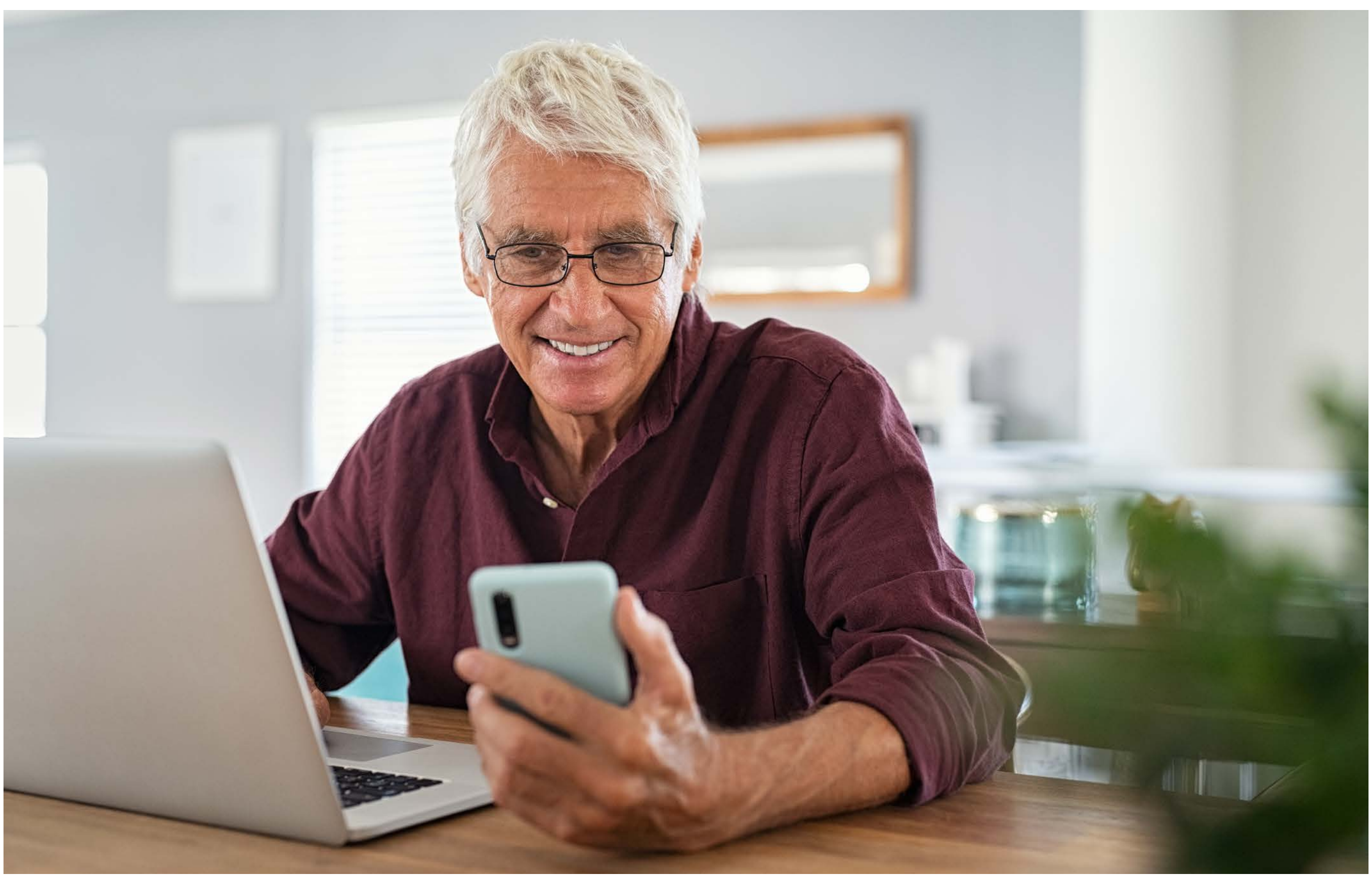
requests and messages 24/7. This ***simplifies your pharmacy workflow and serves patients*** *without requiring a staff member to handle all calls*, reducing pickups and increasing pharmacy call containment rates.

Pharmacy Healthsite and Mobile App

Branded healthsites and mobile apps act as digital business cards for your pharmacy, enabling new and returning patients to find and interact with you online. Together these tools create a ***HIPAA-compliant, multichannel experience.***

A healthsite is a secure website built with healthcare professionals in mind, so you can safeguard protected health information (PHI) while attracting new patients.

PMS system integration and digital refill capabilities give pharmacies the ability to offer online services seamlessly and increase revenue. With digital and mobile patient profiles, customers can manage their families' medications, increasing adherence.



CONCLUSION

As pharmacies continue to battle against revenue-slashing below-cost reimbursements and unexpected fees, many have had to close their doors. Although progress on free transparency is on the horizon, cash flow in the coming year will be interrupted so it is important to have a plan to stabilize and diversify your revenue streams to ensure future success. Let's recap and establish some tangible action items your pharmacy can take to be profitable in the coming years:

1. Understand where your pharmacy profitability stands.
2. Anticipate and prepare for interrupted cash flow with DIR changes in 2024.
3. Offset DIR fees with increased profits by:
   a) Improving workflow efficiency and reducing labor expenses
   b) Taking steps to increase patient adherence
   c) Targeting profitable patients that will benefit most from your service
   d) Finding a niche that differentiates your pharmacy from the competition
4. Implement technology and utilize digital tools that will set your pharmacy up for success.

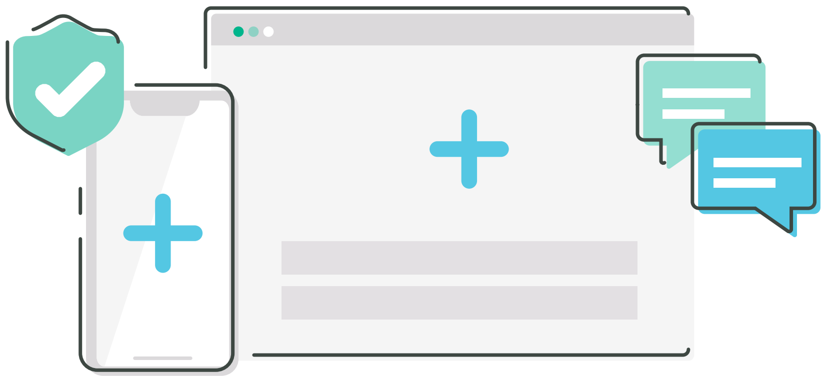
Once you have solid numbers in front of you, it should be easy to estimate how much revenue your pharmacy needs to generate to offset changeable fees and reimbursement rates. This will become your target revenue goal for any digital solutions you implement.

ABOUT

Digital Pharmacist

Digital Pharmacist, A Lumistry Company, offers a comprehensive HIPAA-compliant digital engagement suite that helps pharmacies connect with patients. Our goal is to transform the way you do business.

Digital Pharmacist's all-in-one platform combines cloud-based communication and adherence solutions with digital marketing and management, integrating with over 70 pharmacy management systems. We also power the Cardinal Health Pharmacy Marketing Advantage Program, enabling patients to get the help they need via self-service and automated platforms.



CONTACT US TODAY:

connect@digitalpharmacist.com

digitalpharmacist.com | 877-959-7550

DIGITAL PHARMACIST®
A Lumistry Company