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## **DIR FEES: WHAT YOU NEED TO KNOW**

### **JULY 13, 2017**

### **9:00 – 10:00 AM**

**ACPE UAN:** 0107-9999-17-078-L04-P 0.1 CEU/1.0 hr

**Activity Type:** Knowledge-Based

**Learning Objectives for Pharmacists:** *Upon completion of this CPE activity participants should be able to:*

1. Define Direct and Indirect Remuneration (DIR) fees
2. Discuss methods to prepare and accrue for DIRs fees
3. Analyze how performance improves reimbursement
4. Review the 2017 CMS Summary position on DIR fees

**Speaker: Valerie C. Fortin, B.A.**

Valerie Fortin is the Senior Director, PBM Relations at McKesson AccessHealth. In this capacity, she is responsible for contracting with PBMs and Plans for over 5,700 independent and small to medium-sized chain pharmacies. In addition, Ms. Fortin is responsible for the MAC Success Manager Program. Ms. Fortin has been with McKesson since January, 2011. Ms. Fortin has 15+ years of pharmacy industry experience. Prior to joining McKesson, Ms. Fortin worked for Cardinal Health for 12 years. She worked in purchasing (3 years), generics (3 years), and managed care (6 years). Prior to Cardinal Health, Valerie worked for Borden selling consumable products to pharmacy chains located east of the Mississippi, including Walgreen, CVS, and Rite Aid. Ms. Fortin holds a B.A. in Biology from Wittenberg University, Springfield, OH.



**Speaker Disclosure:** Valerie C. Fortin reports no actual or potential conflicts of interest in relation to this CPE activity. Off-label use of medications will not be discussed during this presentation.



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# DIR Fees: What You Need to Know

Valerie Fortin, PBM Relations, Access Health

## Disclosure

Valerie Fortin reports she is an employee of Access Health, a wholly owned subsidiary of McKesson

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## Learning Objectives

Upon successful completion of this activity, pharmacists should be able to:

1. Define Direct and Indirect Remuneration (DIR) fees
2. Discuss methods to prepare and accrue for DIRs fees
3. Analyze how performance improves reimbursement
4. Review the 2017 CMS Summary position on DIR fees

# History of DIR Fees

## Definition and Background

## Definitions

### **Term used by the Centers for Medicare and Medicaid Services (CMS) for price concessions related to the Medicare benefit**

- Short Answer: Discounts to pharmacy reimbursement not captured at the point of sale
- Long Answer: Per CMS.....includes discounts, chargebacks or rebates, cash discounts, free goods contingent on a purchase agreement, upfront payments, coupons, goods in kind, free or reduced-price services, grants, or other price concessions or similar benefits offered to some or all purchasers from any source, including manufacturers, pharmacies, enrollees, or any other person, that would serve to decrease the costs incurred by the Part D sponsor for the drug.

## Background

### **First introduced to PSAs / independent pharmacies as part of Medicare Part D network reimbursement for the 2013 plan year**

- DIR growth:
  - ✓ Number of Medicare Plan Sponsors using DIR
  - ✓ Complexity of how DIRs are calculated
- CMS' guidance to Plan Sponsors for the 2016 plan year
  - ✓ Only have a DIR if the DIR cannot be reasonably calculated at the point of sale
- Currently, DIR fees for the applicable plans are variable and tied to clinical and/or operational performance criteria

<https://www.gpo.gov/fdsys/pkg/FR-2014-05-23/pdf/2014-11734.pdf>

## What are DIR fees

### **“DIR fees” describes a number of different types of “fees” or charges that are collected from pharmacies participating in Medicare Part D**

- DIR fees are collected on the remittance statements after the claim has already been adjudicated
- Plan Sponsors are required to submit a DIR report to CMS on an annual basis
- CMS uses the data in the annual DIR report along with the data from the Prescription Drug Event (PDE) to calculate the true cost of what is paid to a Medicare Part D plan by CMS for a given plan year

## You may hear of DIR fees as:

### “Pay to play”:

A fee to participate in a preferred pharmacy network.  
*[Keep in mind, can be used for non-preferred pharmacies, too]*

### A charge consisting of:

The difference between the agreed upon reimbursement rate and another variable contractual metric.

### A fee based on:

Compliance with contractually imposed performance metric or more often, performance offset by another fee

• <http://www.ncpa.co/pdf/dir-one-pager-2016.pdf>

## What DIR fees are, What they aren't

### DIR fees ARE:

Regulated by CMS

Assessed post-adjudication

One part of reimbursement

Typically used to lower cost and/or improve patients' health outcomes

### DIR fees are NOT:

Applied at point of sale

Exclusive to any one PSAO

Retained by PSAO

Exclusive to preferred networks

• <https://www.gpo.gov/fdsys/pkg/FR-2014-05-23/pdf/2014-11734.pdf>

# Calculating DIR fees

Examples

## Example 1: DIR as a percentage of the ingredient cost

	Ingredient Cost Paid (AWP - x%)	\$10		Ingredient Cost Paid (AWP - x%)	\$10
+	Dispense Fee	\$1	x	DIR %	5%
<b>POS Reimbursement</b>		<b>\$11</b>		<b>DIR</b>	<b>\$0.50</b>

POS Reimbursement (\$11) - DIR (\$0.50) = Actual Reimbursement **\$10.50**

## Example 2: DIR as a flat dollar amount

	Ingredient Cost Paid (AWP – x%)	\$10		
+	Dispense Fee	\$1		Flat DIR Amount
<b>POS Reimbursement</b>		<b>\$11</b>		<b>DIR</b>
				\$2

POS Reimbursement (\$11) – DIR (\$2.00) = **Actual Reimbursement \$9.00**

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## Generic Effective Rate (GER)

- Generics are paid according to a Maximum Allowable Cost (MAC) Schedule. The MAC schedule varies by drug, PBM, Plan Sponsor, etc. There can be multiple MAC lists.
- Generic Effective Rate (GER) is the average reimbursement for all generics in terms of AWP – y%.
- If the MAC runs at AWP – x%, and the contractual GER is AWP – y%, then the true-up/DIR is the difference between AWP – x% and AWP – y%



**Example 3:** As difference between adjudicated reimbursement amount and contractual reimbursement amount (GER)

Ingredient Cost Paid (AWP – x%)	\$10		Contractual Ingredient Cost (AWP – y%)	\$5		POS Reimbursement	\$11
+ Dispense Fee	\$1	+	Dispense Fee	\$1	-	Agreed-upon Reimbursement	\$6
<b>POS Reimbursement</b>			<b>Contractual Reimbursement</b>			<b>True-up/DIR</b>	
	<b>\$11</b>			<b>\$6</b>			<b>\$5</b>


POS Reimbursement (\$11) – True-up/DIR (\$5) = Actual Reimbursement **\$6**

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# Preparing for DIR fees

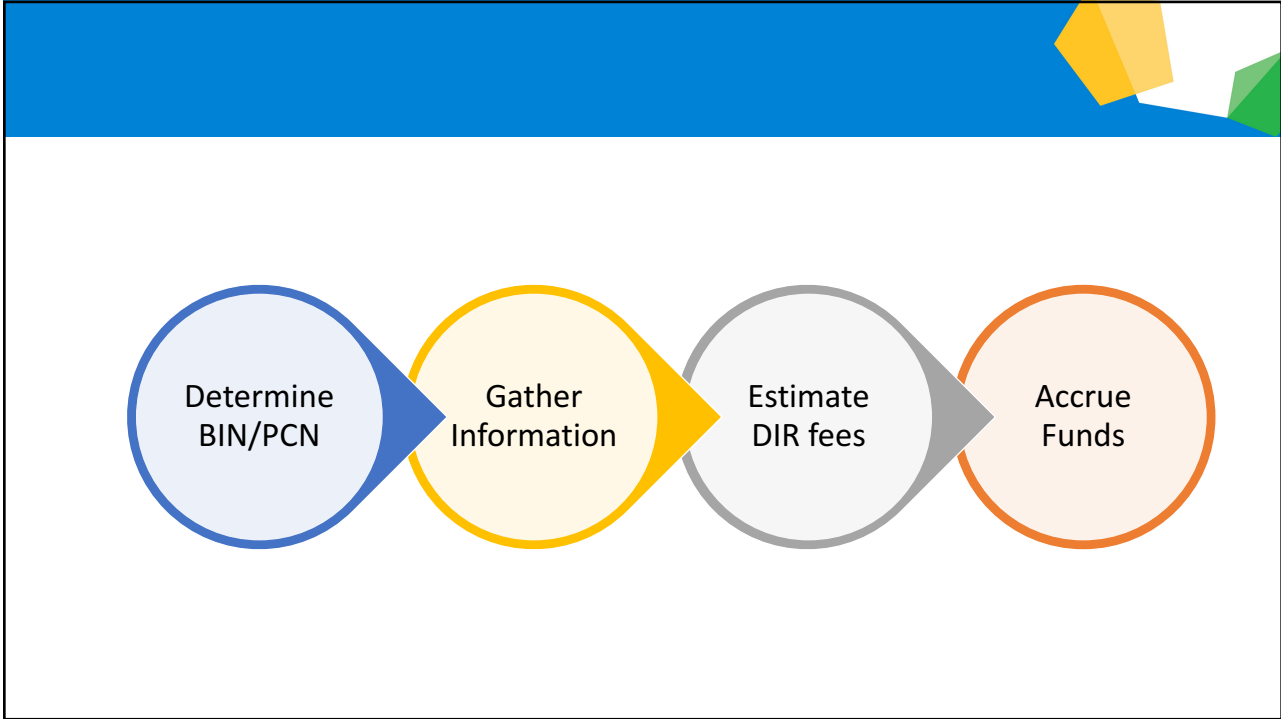
Calculating DIR Accruals

## Know the Schedule; and Accrue

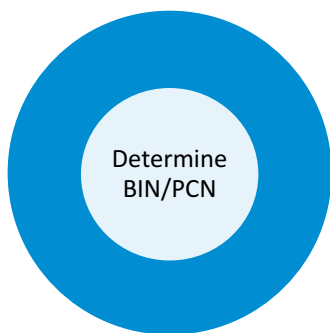
 Lump sum DIR

DIR Schedule

	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May
Pharmacy Accrues	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
A							DIR collected each week				DIR collected each week				DIR collected each week		
B	Collection weekly throughout the year – no need to accrue												Rebate				
C	Collection weekly throughout the year – no need to accrue												Collection or rebate				
D	Collection: Every other week throughout the year – no need to accrue												Rebate				
E						Collection			Collection			Collection			Collection		



## Step 1: Determine BIN/PCN

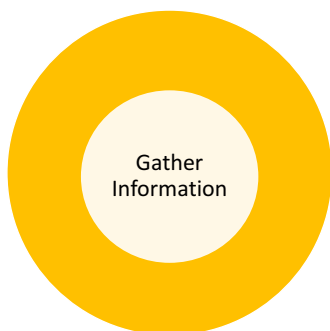


Utilize resources

- PSAO
- PBM
- Plan
- CMS (see link below)

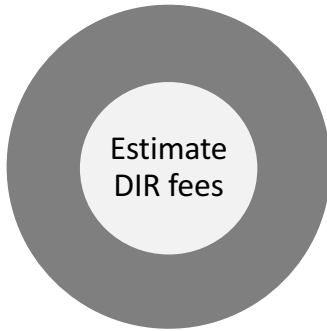
<https://www.cms.gov/Medicare/Prescription-Drug-Coverage/PrescriptionDrugCovGenIn/Pharma.html>

## Step 2: Gather Information



- Run reports from your pharmacy system
- Data points: ingredient cost, claim count

## Step 3: Estimate DIR fees



- DIR calculators
- Manual tracking (see examples)

<https://www.cms.gov/Medicare/Prescription-Drug-Coverage/PrescriptionDrugCovGenIn/Pharma.html>

### Monthly DIR Accrual Calculation: Percentage based

	Monthly ingredient cost paid for claims subject to DIR	\$20,000
x	DIR percentage	5%

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<b>Monthly accrual amount</b>	<b>\$1,000</b>
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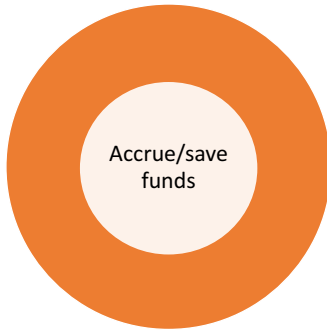
**Monthly DIR Accrual Calculation: Flat dollar based**

	Monthly claim volume for claims subject to DIR	400
x	DIR amount per claim	\$2.00
<hr/>		
	<b>Monthly accrual amount</b>	<b>\$800</b>

**Add up the total monthly accruals by PBM/Plan**

	PBM/Plan #1	\$1,000
+	PBM/Plan #2	\$800
<hr/>		
	<b>Monthly accrual amount</b>	<b>\$1,800</b>

# Step 4: Accrue funds







- Set aside funds each month so the money is available when DIR fees are collected

<https://www.cms.gov/Medicare/Prescription-Drug-Coverage/PrescriptionDrugCovGenIn/Pharma.html>

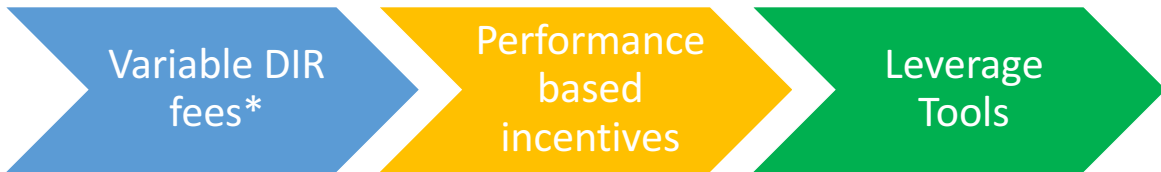
## Know the Schedule; and Accrue

 Lump sum DIR

DIR Schedule

	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May
Pharmacy Accrues	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
A							DIR collected each week				DIR collected each week				DIR collected each week		
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E						Collection 		Collection 			Collection 			Collection 			

# Focus on Performance



\*reduced for top performers

## DIR Management

Using Performance to Reduce DIR fees

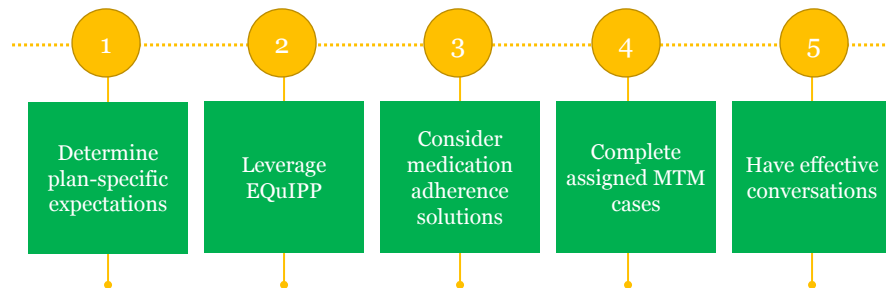
## DIR Criteria Varies by Plan Sponsor

- Ensure you know what each plan requires in order to minimize DIR fees, which ultimately maximizes your overall reimbursement.
- Some plans measure at the individual pharmacy level; other plans measure at the PSAO/network level.
- If you are directly contracted with a PBM or Plan that has a DIR, refer to your contract for specific details.
- A plan may have one or more of the common clinical and operational criteria listed below.

Gap in care (Statin)	HTN (RAS) Adherence	Cholesterol Adherence	Diabetes Adherence	High Risk Medication	CMR Completion Rate	Formulary Compliance	Generic Dispensing Rate (GDR)	% of 90 Day Fills
✓	✓	✓	✓	✓	✓	✓	✓	✓

## Focus on Performance

### How you can improve clinical performance





## Questions? Answers!

**Q: Do DIR fees apply to claims for dual eligible members?**

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**Q: Do DIR fees apply to claims for dual eligible members?**

**A: If a dual eligible member is enrolled in a plan that has a DIR as a component of reimbursement, then a DIR fee would apply and be collected from the pharmacy based on that plan's performance criteria.**

## Questions? Answers!

**Q: Do dual eligible members pay the same copay regardless of the pharmacy being preferred or non-preferred?**

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**Q: Do dual eligible members pay the same copay regardless of the pharmacy being preferred or non-preferred?**

**A: Yes, and No.** If the preferred cost sharing copay for a plan is greater than the dual eligible member's LIS copay, then the dual eligible member pays the same LIS copay regardless of the pharmacy. However, if the plan's preferred cost sharing copay is less than the dual eligible member's LIS copay, the dual eligible member benefits from the lower preferred cost sharing copay.

## Questions? Answers!

**Q: Do commercial plans charge DIR fees?**

## Questions? Answers!

**Q: Do commercial plans charge DIR fees?**

**A: Right now, no. However, what happens in Medicare tends to flow into commercial and managed Medicaid.**

## Questions? Answers!

**Q: If DIR goes away, or becomes disallowed by CMS, does that mean my reimbursement will be higher?**

## Questions? Answers!

**Q: If DIR goes away, or becomes disallowed by CMS, does that mean my reimbursement will be higher?**

**A: No, the reimbursement would likely be the same whether there is a DIR or not. Let's look at an example to illustrate this scenario.**

## Total Reimbursement

	With DIR	Without DIR
Ingredient Cost	\$14	\$6.50
+ dispensing fee	\$1	\$0.50
- DIR	\$8	NO DIR FEES
<b>Total Reimbursement</b>	<b>\$7</b>	<b>\$7</b>

## Questions? Answers!

**Q: Do DIRs apply for preferred pharmacies only?**

## Questions? Answers!

**Q: Do DIRs apply for preferred pharmacies only?**

**A: No, for some plans, DIRs also apply for non-preferred pharmacies. Additionally, there are some plans where there are no preferred pharmacies, and a DIR applies to all pharmacies.**

## Questions? Answers!

**Q: Do DIR fees apply to 340B claims?**

## Questions? Answers!

### **Q: Do DIR fees apply to 340B claims?**

**A: The short answer is, yes, a DIR fee would apply to 340B claims if that claim is reimbursed under a contract that has a DIR. A pharmacy would need to work with their contracted covered entity to make adjustments to account for the DIR fee.**

## Questions? Answers!

### **Q: Do DIR fees apply to Long Term Care claims?**

## Questions? Answers!

**Q: Do DIR fees apply to Long Term Care claims?**

**A: If a pharmacy is being reimbursed for a LTC claim based on a Long Term Care contract, a DIR fee would not apply. Keep in mind, LTC is defined by CMS, and is generally a skilled nursing facility; and it is not assisted living or a group home.**

## Questions? Answers!

**Q: I paid my taxes, and then at a later date DIR fees were collected for the tax year in which I already filed. What should I do?**



## Questions? Answers!

**Q: I paid my taxes, and then at a later date DIR fees were collected for the tax year in which I already filed. What should I do?**

**A: A pharmacy could overpay on taxes if the DIR fees are not properly accounted. It is important to seek advice from a tax advisor regarding your pharmacy's DIR fees.**

## Questions? Answers!

**Q: What is the best way to minimize DIR?**

**A: Make sure you understand the measurement criteria for the plans most important to your business. The higher the performance, the lower the DIR amount, and ultimately the higher your overall reimbursement.**

## Advocate

### What you can do:

- Encourage CMS to finalize Proposed Guidance on DIR and Pharmacy Price Concessions
- Urge Congress to Enact H.R. 1038/S. 413, the Improving Transparency and Accuracy in Medicare Part D Spending Act
- Submit concerns to CMS
- Write a letter to the editor of your local newspaper

<http://www.napanet.org/advocacy/dir-fees>

## Questions?

Valerie Fortin, PBM Relations, Access Health