

# DIR Fee Trends, Planning, and Unknowns

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## Learning Objectives

- Describe the upcoming “DIR Fee Cliff” that will occur when new CMS rules take effect in Medicare Part D on Jan. 1, 2024.
- Discuss the importance of regularly reviewing pharmacy key performance indicators to be able to track and improve revenue performance.
- Discuss the importance of carefully reviewing and adjusting pharmacy expenditures to improve cash flow.
- List reasons why a pharmacy should diversify its revenue streams to maximize non-dispensing revenue.
- Explain the value of using dispensing data metrics to understand and track reimbursement amounts.

## About Sykes & Company, P.A.

### Firm Vision

Our vision is to take the best possible care of our Staff and our Clients and help them be the best they can be. We strive to foster a responsive and proactive Team to serve and build meaningful relationships with engaged pharmacy Clients by providing a premium level of service with integrity. This fundamental level of care will allow our Team and our Clients to thrive individually, professionally, and help everyone take the best care of their families and communities.

### Firm Values

- Value, build, and enhance relationships with our Team and our Clients
- Be responsive with our Team and our Clients
- Exercise integrity with our Team, Clients, and our work product
- Produce the highest quality work product
- Practice an approachable and open-minded attitude



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## S&C<sup>co</sup> | DIR Fees

- DIR is reality; complaining will not get set you up for success
- CMS concerned that the actual cost of a drug was being muddled by rebates that were not captured at POS. Since then, PBM's have been taken the matter into their own hands
- Administrative Performance Fee, Flat Fee Based etc.
- Percentage Fee or Percentage Based based on performance criteria
- Performance measured periodically and PBM has control over "performance" metrics

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## S&C<sup>co</sup> | DIR Trends

- DIR continues to trend higher
- Now the third largest expense in a pharmacy
- 2020 averages approximately 2.5% of gross revenue
- 2021 average approximately 3.5% of gross revenue
- 2022 average approximately 5.5% of gross revenue
- Assume 2023 average approximately 6% of gross revenue???



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## S&C<sup>co</sup> | DIR Accounting

- DIR Fees should be included on your books
- Technology must be utilized to capture the data
- An accounting journal entry is made monthly to record DIR Fees
- Net change is zero or a wash to the bottom line, however, you now have data you can utilize when assessing your pharmacy performance and KPI's

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## DIR Fee Changes for 2024

- DIR, “lowest net price”, will be reflected at the Point-of-Sale (POS) starting 1/1/2024 but retroactive fee collection is still allowed
- 2023 Retroactive DIR Fees will also hit pharmacy cash flow in first quarter of 2024 – primarily March & April is the prediction
- Retroactive 2023 DIR with the reduced 2024 reimbursement will negatively impact cash flow but no one knows exactly how this will shake out
- So, what can you do to plan for this cash flow impact?

## Preparing for 2024

## S&C<sup>co</sup> | DIR Fee Preparation Outline

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**Fundamental  
Accounting**

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**Revenue & Expenses**

3

**PSAO**

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**Mindset**

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## S&C<sup>co</sup> | DIR Planning – Fundamental Accounting

- You will need to rely on your accounting fundamentals to plan and prepare for 2023 and 2024 DIR Fees
- Pharmacy owners **MUST** know how their cash flow works in their pharmacy
- Pharmacy metrics are already tight in addition to the inherent cash flow conundrum in pharmacy
- Pharmacy accounting fundamentals begin with the balance sheet
- Build reserves. Average Current Ratio in pharmacy is 2.5 / 1. Consider aiming for 3 / 1 or higher depending on your DIR 2023 and 2024 estimates and planning.

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## S&C<sup>co</sup> | DIR Planning – Revenue

- The pharmacy business model has been changing more rapidly with the onset of the pandemic and you must change with it
- Pharmacy owners must maximize their script volume & performance but also look towards more diversified and cash-based revenue streams
- Expanding revenue with cash can expand your gross margin, bottom line, increase cash flow, and leave you with other options rather than relying on uncertain PBM revenue
- Net change is zero or a wash to the bottom line, however, you now have data you can utilize when assessing your pharmacy performance and KPI's

## S&C<sup>co</sup> | DIR Planning – Expenses

- Know your key expenses
- Cost of Goods Sold / Inventory Management
- Wages
- DIR Fees
- Owner distributions or draws
- Debt service
- Consider new automation, technology, and operational efficiencies to trim costs and waste
- Optimize tax planning for 2023 & early 2024



## S&C<sup>co</sup> | DIR Planning – PSAO

- Work with your PSAO to determine how your current contracts may change in 2023 and 2024 and what can be done to plan and prepare
- Update pharmacy software with DIR Fee estimates for 2023 so you can have a feel for what is happening at the POS
- In many instances, pharmacy owners are choosing not to fill certain prescriptions (brands) when analyzing the DIR impact
- Know your Star Ratings & Network performance
- Med. Sync, Adherence, MTM, drug manufacturers
- For those patients who qualify to change plans during the year (and not just during open enrollment) proactively transition to plans now to plans that have no DIR fees or DIR fees that are collected now instead of later to spread out cash flow crunch

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## S&C<sup>co</sup> | DIR Planning – Mindset

- Pharmacy owners need to adjust their mindset
- Pharmacy DIR is here, it's growing, and it's changing all at once
- Control what you can control
- Network with your peers to find what works, what doesn't work and how to adapt
- Pharmacy owners with lower-than-average DIR are ENGAGED with DIR Fee mitigation
- When there are challenges, there is opportunity – embrace the opportunity! You did it during the pandemic, you can do it again!

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**Thank you!**



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