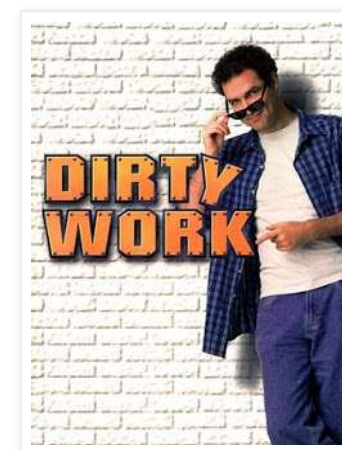
Thursday, February 13, 2020

Pharmacy DIR Fees Hit a Record $9 Billion in 2019—That's 18% of Total Medicare Part D Rebates



Pharmacy-related price concessions in Medicare Part D—known as **pharmacy DIR fees**--have grown faster than most people realize.

We estimate that these payments reached $9.1 billion in 2019. This figure indicates that about 18% of total Medicare Part D rebates are now paid by pharmacies, not manufacturers. Details below.

To address concerns about how these fees are computed, the Centers for Medicare & Medicaid Services (CMS) has proposed some minimal transparency requirements for monitoring the metrics behind DIR fees. I suspect that the proposal will have no near-term impact on slowing the growth trends.

Our long time readers know that I've been skeptical about pharmacy owners' claims regarding the impact of DIR fees. But it does now appear that these payments have become a significant economic burden. When the facts change, I change my mind. What do you do?

DIR-ECTIONS

In the Medicare program, rebates are part of **direct and indirect remuneration (DIR)**, a broad term that encompasses various types of payments made to a Part D sponsor. At the end of each year, plans report to CMS all rebates and other price concessions as DIR.

Rebates from manufacturers constitute the majority of DIR. However, most Medicare Part D plans also collect post-point-of-sale (POS) price concessions from pharmacies. These price concessions, which are collected from pharmacies after claim adjudication, are considered DIR under federal requirements. The payments from pharmacies to Part D plans therefore function like rebates. I refer to pharmacy-related price concessions as **pharmacy DIR fees**.

Part D plans base pharmacy DIR on quantitative performance criteria applied to pharmacies. The pharmacy earns less

reimbursement—and pays a higher price concession—when it achieves lower levels of performance on quantitative metrics of quality. Conversely, the pharmacy earns an incentive payment—or avoids a deduction—for better performance.

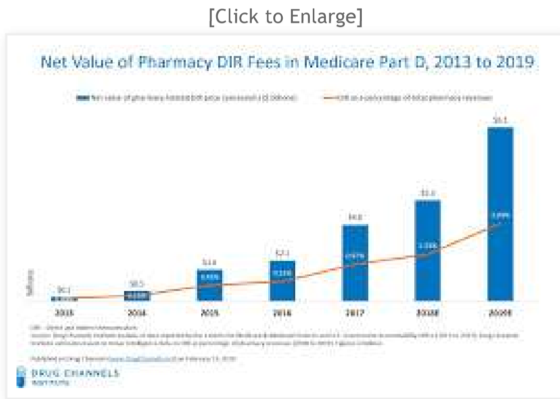
Pharmacy DIR is passed through to plan sponsors, not retained by PBMs. That's because Part D plans compensate PBMs with fees paid by the plan sponsors, not by permitting PBMs to retain manufacturer or pharmacy rebates. However, the PBM/plan distinction becomes less relevant when we consider that the biggest PBMs are vertically-aligned within the same organizations that sponsor Part D plans. See Insurers + PBMs + Specialty Pharmacies + Providers: Will Vertical Consolidation Disrupt Drug Channels in 2020?.

Rebates (DIR) can create some perverse incentives in Part D and can raise out-of-pocket costs for patients. See my comments in the "Patient Impact" section of Why Part D Plans Prefer High List Price Drugs That Raise Costs for Seniors.

DIRE DIR

The chart below shows the net value of pharmacy-related DIR price concessions in Medicare Part D. It also illustrates these payments' share of total pharmacy industry dispensing revenues.

[Click to Enlarge]



Over the past two years, significant new disclosures have clarified the value of pharmacy DIR fees. The total dollar value of pharmacy DIR from 2013 to 2017 reflect actual data published by CMS and the U.S. Government Accountability Office (GAO). The dollar values for 2018 and 2019 were computed by multiplying Inmar Intelligence data on DIR as percentage of pharmacy revenues by Drug Channels Institute's estimates of total pharmacy industry revenues.

The data show that pharmacy DIR fees are now large enough to have a significant effect on a pharmacy economics:

- The net value of pharmacy price concessions has grown significantly, from $229 million in 2013 to an estimated $9.1 billion in 2019. Pharmacy DIR fees accounted for more than 18% of total DIR paid to Part D plans in 2019.
- These DIR fees have also grown as a share of pharmacy industry revenues, from 0.08% in 2013 to an estimated 2.04% in 2019.

- Pharmacies pay out more to plans than they earn in performance payments. For 2016 (the most recent year for which data are available), the GAO reported that Part D plan sponsors received $2.3 billion from pharmacies—but paid only $211 million to pharmacies. The net value of these amounts, $2.1. billion, appears in the chart above.

It's ludicrous to blame retail pharmacies' competitive challenges entirely on pharmacy DIR fees. But DIR are a contributing factor, as I noted in The State of Retail Pharmacy: Independent Pharmacy Economics Stabilize—But Dropping, Owner Salaries Are.

DIR-ECT FROM CMS

CMS has sharply criticized the design of current pharmacy DIR computations, based partly on how plans and PBMs measure pharmacy performance to generate price concessions. CMS has also raised concerns about the unbalanced nature of pharmacy performance payments. I highlighted some key excerpts in CMS Considers Point-of-Sale Pharmacy DIR: Another Prelude to a World Without Rebates?

DIR fees are part of confidential contracts between pharmacies and Part D plans, so limited public data exist on the precise fees and metrics for any particular plan.

Last week, CMS took a baby step toward bringing some transparency to these fees. The details appear in § 423.514 of Contract Year 2021 and 2022 Medicare Advantage and Part D Proposed Rule (CMS-4190-P).

CMS proposes that:

- Part D plan sponsors disclose—and CMS publish—pharmacy performance measures
- The industry develop standardized metrics

CMS offered the following somewhat vague recommendations for pharmacy performance measures in Part D. Per CMS, these metrics should:

- ”Improve medication use and outcomes for the beneficiaries served
- Be specified at the right level of attribution and appropriate level of comparison considering pharmacy type
- Factor in both pharmacy accountability and drug plan performance goals
- Have clear specifications and be established prior to the measurement period
- Be reliable, transparent and fair
- Use threshold minimums if appropriate”

As you can see, there is a lot of wiggle room in these guidelines.

We’ll have a full update on DIR economics in our forthcoming *2020 Economic Report on U.S. Pharmacies and Pharmacy Benefit*

Managers, which will be available on March 10.

In the meantime, keep an eye on the Prescription Drug Pricing Reduction Act (S. 2543), which contains a provision that would require plans to include the value of pharmacy DIR fees in the negotiated price. It also addresses pharmacy quality measures and disclosure requirements.

You can also click here to share your $0.02 with CMS at any time before 5 p.m. on April 6, 2020. Commenting is dirty work, but someone has to do it.

Adam J. Fein, Ph.D. on Thursday, February 13, 2020

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