

## Pharmacy Services Administrative Organizations (PSAO) Basics

### What Are PSAOs and What Do They Do?

- Approximately 80% of independent pharmacies use PSAOs to represent them in their business relationships with third party payers like health plans and pharmacy benefit managers (PBMs).
  - PSAOs provide services including: negotiating reimbursement rates, payment terms, and pricing updates; filing reimbursement challenges and appeals; audit assistance; payment reconciliation; and other business support functions. Additionally, PSAOs assist independent pharmacies in complying with state and federal laws and contractual performance guarantees.
  - Many PSAOs also offer their pharmacy members services such as drug distribution and group purchasing. While most PSAOs do not require their pharmacy members to use these services, some do. For example, some require pharmacy members to join their group purchasing organizations, which help them get better volume discounts from wholesalers.<sup>1</sup>

### Who Owns PSAOs and How Many Pharmacies Do They Represent?

- PSAOs are predominately owned and operated by drug wholesalers such as AmerisourceBergen, Cardinal and McKesson. Some PSAOs such as Epic Pharmacy Network and American Pharmacy Network Solutions are owned by the member pharmacies.<sup>2</sup> In 2013, the U.S. Government Accountability Office (GAO) estimated that some of the larger PSAOs had more than 3,500 members, which translates into significant market power<sup>3</sup> and, therefore, contract leverage. In recent years, PSAOs have begun to merge or otherwise combine,<sup>4</sup> resulting, for example, in one new joint venture representing more than 6,600 member pharmacies.<sup>5</sup>
  - An estimated 9,500 to 12,000 independent pharmacies, of the 21,000 in the U.S., participate in franchise or marketing programs that are owned and operated by one of the three largest wholesalers.<sup>6</sup>

### Why Are PSAOs Important?

- By hiring a PSAO, independent pharmacies gain significant bargaining clout in negotiations with health plans and PBMs, contrary to the common perception that independent pharmacies are at a disadvantage in negotiating contract terms with payers. PSAOs process billions of dollars paid by health plans and other payers to independent pharmacies and negotiate critical contract terms on behalf of these pharmacies. These large and sophisticated—yet largely unknown—organizations have remained below the public policy radar, with little to no oversight by any government agency. It is important for policy makers to better understand the important roles they play in the drug supply chain.

<sup>1</sup> GAO, "Prescription Drugs: The Number, Role and Ownership of Pharmacy Services Administrative Organizations," January 2013.

<sup>2</sup> *Id.*

<sup>3</sup> *Id.*

<sup>4</sup> See, e.g., Drug Channels, "Surprise PSAO Consolidation: H.D. Smith and AAP Form Fourth-Largest Pharmacy-PBM Negotiating Group," March 1, 2016, and "McKesson Leads Another Round of PSAO Consolidation," April 17, 2018.

<sup>5</sup> Business Wire, "McKesson Launches Health Mart Atlas," April 18, 2018.

<sup>6</sup> GAO, "Prescription Drugs: The Number, Role and Ownership of Pharmacy Services Administrative Organizations," January 2013.