

**PCMA**  
**Written Testimony**  
**Position: Unfavorable**

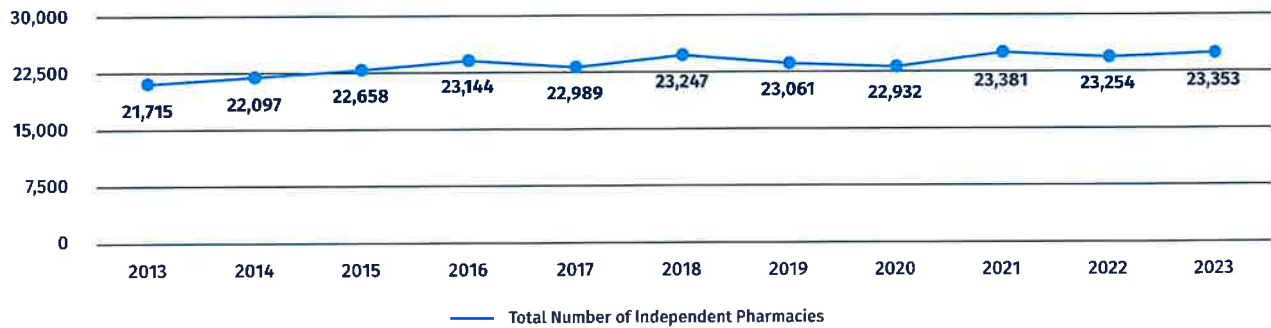
# The Number of Independent Pharmacies Remains Stable

Over the last ten years, the number of independent retail pharmacies nationwide increased by 1,638 stores or 7.5%. Over the last five years, the marketplace for independent pharmacies has experienced small fluctuations from year-to-year sometimes gaining stores, sometimes losing stores. These recent fluctuations in the overall number of stores have not dramatically shifted the independent pharmacy market. Today, the independent pharmacy market is stable.

*"The demise of independent community pharmacy has been greatly exaggerated."*

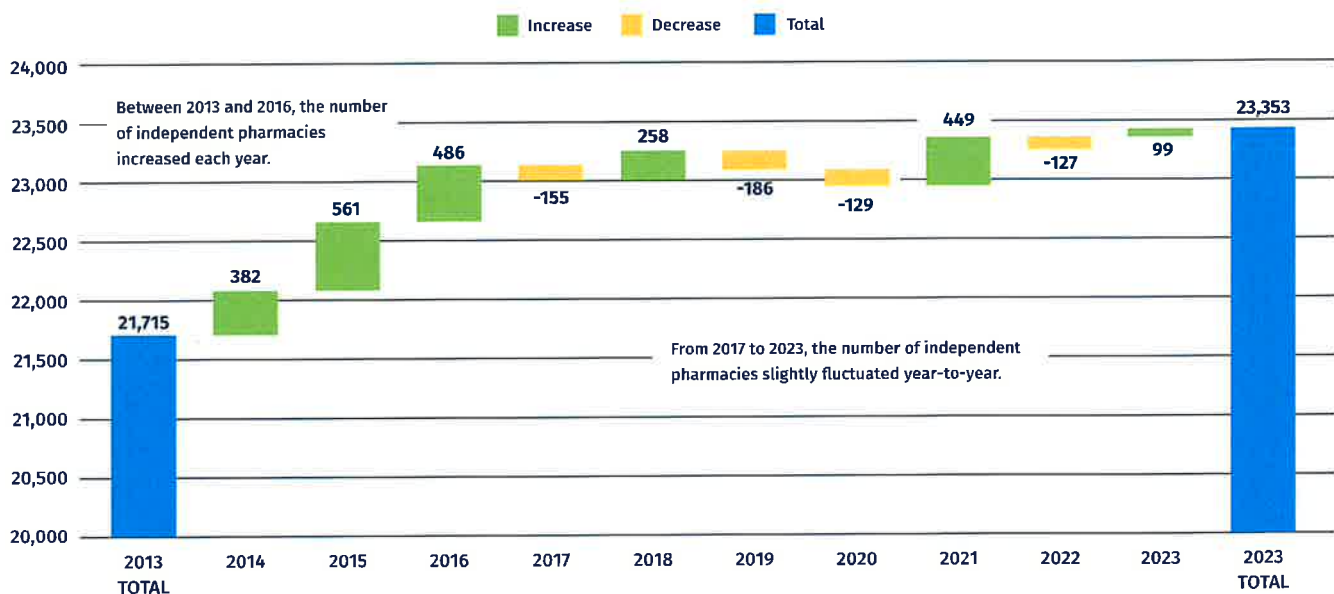
The Marwood Group

### Total Number of Independent Pharmacies



Between 2018 and 2023, the number of independent pharmacies experienced small year-over-year changes (a 0.46% increase), creating a relatively stable market.

### Change in the Number of Independent Pharmacies Year-to-Year



Source: Quest Analytics analysis of NCPDP pharmacy data, 2023. Pharmacy count data is from January of a given year.

Highlights of GAO-19-498, a report to congressional requesters

## MEDICARE PART D

### Use of Pharmacy Benefit Managers and Efforts to Manage Drug Expenditures and Utilization

#### Why GAO Did This Study

Total expenditures for the Medicare Part D drug program exceeded \$100 billion in 2016. Part D plan sponsors may use a PBM to provide drug benefit management services for Part D coverage, such as negotiating drug rebates and other price concessions and paying pharmacy claims. Policymakers have sought a better understanding of PBMs' roles in the drug supply chain and plans' and PBMs' efforts to manage Part D drug spending and use.

GAO was asked to examine the role of PBMs in the Part D program. This report examines, among other objectives, (1) the extent to which Part D plan sponsors use PBMs, (2) trends in rebates and other price concessions obtained by both PBMs and plan sponsors for Part D drugs, and (3) how PBMs earn revenue for services provided to Part D plans.

GAO analyzed Centers for Medicare & Medicaid Services (CMS) data on Part D plan sponsors' use of PBMs in 2016 as well as CMS drug expenditure, pricing, and rebate and other price concession data for all Part D drugs from 2014 through 2016 (the most recent available data at the time of our analysis). GAO reviewed service agreements between Part D plan sponsors and PBMs that were approved by CMS from January 2016 through May 2018 and had the highest enrollment as of June 2018. GAO spoke with CMS officials and 38 stakeholder groups including PBMs, Part D plan sponsors, pharmacy representatives and drug manufacturers.

View [GAO-19-498](#). For more information, contact John Dicken at (202) 512-7114 or [dickenj@gao.gov](mailto:dickenj@gao.gov).

#### What GAO Found

Medicare Part D plan sponsors used pharmacy benefit managers (PBM) to provide 74 percent of drug benefit management services and performed the remaining 26 percent of services themselves in 2016—the most recent year of data at the time of our analysis. Plan sponsors are private entities that operate drug plans; PBMs are organizations that help manage drug benefits.

Rebates and other price concessions—discounts generally paid by manufacturers to Part D plan sponsors and PBMs after the sale of a drug at the pharmacy—grew faster than Part D expenditures from 2014 through 2016. Specifically, gross expenditures (the amount paid to pharmacies by plan sponsors, or by the PBM on the sponsor's behalf, and by the beneficiary) increased 20 percent, to \$145.1 billion. During this period, rebates and other price concessions increased 66 percent, to \$29 billion—20 percent of 2016 gross expenditures. Consequently, net expenditures (gross expenditures less rebates and other price concessions) increased only 13 percent, to \$116.1 billion.

**Gross Medicare Part D Expenditures, Net Part D Expenditures, and Rebates and Other Price Concessions for All Part D Drugs, 2014-2016 (in billions of dollars)**



Source: GAO analysis of Centers for Medicare & Medicaid Services (CMS) data. | GAO-19-498

PBMs primarily earned Part D revenue through a volume-based fee paid by plan sponsors based on PBM-processed claims; a per-member, per-month fee paid by plan sponsors; or a combination of the two. PBMs also earned revenue from the rebates they negotiated with manufacturers for Part D drugs, which accounted for \$18 billion of the \$26.7 billion in rebates in 2016. PBMs retained less than 1 percent of these rebates, passing the rest to plan sponsors. Plan sponsors in turn may use rebates to help offset the growth in drug costs, helping control premiums for beneficiaries.

The Department of Health and Human Services provided technical comments on a draft of this report, which GAO incorporated as appropriate.

## JUST THE FACTS

# PRESCRIPTION DRUG PRICES, PBMs, AND PHARMACIES IN MARYLAND

PBMs are advocates for consumers in the fight against high list prices

PBMs will save Marylanders

**\$17.32B**

across all Maryland health programs over ten years (2020–2029).<sup>1</sup>

PBMs will have saved Marylanders

**\$6.7B**

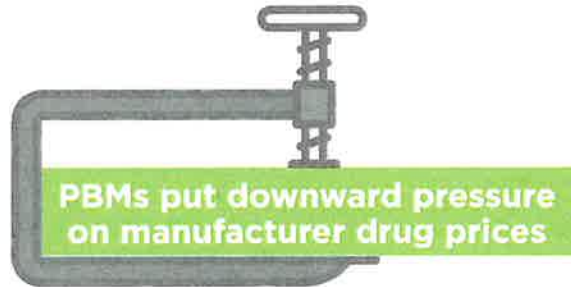
via home delivery and specialty pharmacies from 2015 to 2024.<sup>2</sup>

PBMs will save Marylanders

**\$706M**

over a 10-year period (2020–2029) in Maryland Medicaid.<sup>1</sup>

PBMs save payers and patients an average of **\$962 per person per year**<sup>3</sup>



PBMs will prevent **1 billion medication errors over the next 10 years nationally**<sup>3</sup>

### SAVINGS ARE REALIZED THROUGH:

✓  
Encouraging the use of generic and lower cost brand drugs

✓  
Reducing waste and increasing adherence

✓  
Negotiating price concessions with drug manufacturers

✓  
Creating networks of affordable, high quality pharmacies

✓  
Providing clinical support to patients taking specialty medications



### Drug makers alone set the price of drugs

Although PBMs negotiate with drugmakers to bring down the net cost of Rx drugs, manufacturers are ultimately responsible for setting the list prices of their products. **PBMs drive prices down by forcing manufacturers to compete with one another.**



### Nationwide, independent pharmacies are increasing, not decreasing<sup>4,5</sup>

Between 2012 and 2022, the number of independent pharmacies **increased by 1,719 stores, or 8%.**<sup>5</sup>



### 37% of pharmacies in Maryland are independent pharmacies<sup>5</sup>

Independent pharmacies say they're getting squeezed out of business, but according to NCPDP data and Adam Fein's Drug Channels, the number of independent pharmacies has been generally stable. Fein notes, "There is still little evidence that independent pharmacies are vanishing." In fact, independent pharmacies' financials have also been stable. From 2016 to 2020, the average per-prescription gross profit margin for independent pharmacies ranged from 20.8% to 21.1%, showing little fluctuation.<sup>6</sup>

In Maryland, between 2012 and 2022, **the number of independent pharmacies grew from 331 to 422, a 27.5% increase.**<sup>5</sup>

1 Visante, PBMs: Generating Savings for Plan Sponsors, Feb. 2020.

2 Visante, Mail-Service and Specialty Pharmacies to Save More than \$300 Billion Over 10 Years, 2014.

3 Visante, The Return on Investment (ROI) on PBM Services, 2020.

4 Independent Pharmacies in the U.S. are More on the Rise than on the Decline, March 2020.

5 Quest Analytics analysis of NCPDP pharmacy data, 2022. Pharmacy count data is from January of a given year.

6 Drug Channels, Five Things to Know About the State of Independent Pharmacy Economics, Feb. 15, 2022.

## Maryland Pharmacy Market

<b>Number of Independent* Retail Pharmacies, 2012-2022</b>											
State	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Maryland	331	349	366	388	412	415	413	426	410	423	422

<b>Independent Retail Pharmacies as Share of Total Pharmacies, 2012-2022</b>											
State	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Maryland	30.1%	31.0%	31.9%	33.2%	34.6%	34.6%	34.5%	35.6%	35.7%	36.9%	37.0%

<b>Number of Chain Retail Pharmacies, 2012-2022</b>											
State	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Maryland	767	775	783	782	778	786	783	769	737	723	718

Source: Quest Analytics analysis of NCPDP data, 2022.

(NCPDP) Pharmacy Count Data, 2022. Key points:

- The number of independent pharmacies in Maryland **increased by 27.5%** from 2012 – 2022.
- The number of chain pharmacies in Maryland **decreased by 6.4%** from 2012 – 2022.
- The concentration of independent pharmacies as a percentage of the total pharmacy market in Maryland **increased by 6.9%** from 2012 – 2022.

\*For the purposes of this analysis, “independent retail pharmacy” consists of both independent and franchise pharmacies. The vast majority of independent pharmacies in our analysis are 1-3 pharmacies under common ownership. In 2018, only around 2% of all “independent retail pharmacies” were franchise pharmacies, which are defined as an independently owned pharmacy that has signed a franchise agreement with a franchisor wherein the franchisee receives services such as training, marketing, and other support from the franchisor in exchange for a franchise fee to the franchisor. A franchisee often includes the franchisor’s name as part of the store name.