

Pharmacy Services Administrative Organizations (PSAO)

Myths vs. Facts



BACKGROUND

In January 2021, the Pharmaceutical Care Management Association (PCMA) released a report entitled, [“Pharmacy Services Administrative Organizations \(PSAOs\) and their Little-Known Connection to Independent Pharmacies.”](#) The report summarizes the Pharmacy Benefit Manager (PBM) industry’s perspective of Pharmacy Services Administrative Organizations (PSAOs) and calls for greater regulation of PSAO services.

The report accurately describes PSAO services as representing community pharmacy members’ interests during negotiations with PBMs. However, the accuracy stops there. The document’s overall positioning and the data presented grossly overstates the degree of influence that PSAO services add to negotiations between a pharmacy provider and a PBM. Importantly, the report overlooks a core distinction in today’s pharmacy marketplace dynamic: U.S. pharmacies must contract with a PBM to provide services to insured patients. PSAO services, on the other hand, are voluntary for independent pharmacies and help these small businesses navigate the administrative complexities and “take-it-or-leave-it” decision-making presented by PBMs.

A recent unanimous [decision by the United States Supreme Court](#) answered a yearslong question of whether states can and should regulate the PBM industry. It gave states the authority to regulate the practices of PBMs in the marketplace, offering state regulators more insight into the role and impact PBMs have on the supply chain. Unfortunately, the PBM industry is now attempting to divert lawmakers’ attention to administratively focused PSAO services in an effort to deflect attention from their industry.



PSAO services require increased regulation and oversight.

The efforts of PBMs to pivot toward regulating PSAO service providers stems from the flawed premise that PSAOs make their profits through questionable means and/or wield the same influence as PBMs. But the fees for administrative services rendered by PSAOs do not affect medication costs for a provider, plan, or patient. Thus, it is inaccurate to equate these service providers to PBMs and claim that they have notable influence in the healthcare space. Moreover, the regulation of PSAO services will not yield any insights into the cost of prescription medication and why patients pay the share that they do.

An independent community pharmacy may choose to use PSAO services for a nominal, transparent fee if owners see an added benefit to using them. Due to the unequal contractual relationships that PBMs hold over pharmacies, independent pharmacy owners may choose to utilize PSAO services to fulfill their administrative obligations, better manage their daily business operations and focus on patient care. Most notably, PSAO services can amplify the voice of independent pharmacy owners during network negotiations with PBMs, as the PSAO service provider will work on behalf of its member pharmacies with the PBM.



PSAOs are “extremely influential middlemen” standing between most independent pharmacies and the business world, including payers and PBMs.

Most patients in the U.S. cannot afford any reasonable level of care, including prescription medications, without health insurance. At the same time, every U.S. pharmacy must agree to contract terms with PBMs to serve insured patients. This reality forces pharmacies into partnerships with PBMs to serve patient beneficiaries of insurance networks and receive reimbursements for dispensing medication to those patients.

Prescription drug insurance coverage has become essential for any patient’s ability to access needed medications. In fact, most Americans across all income brackets have reported that their health insurance incorporates some form of prescription drug coverage.¹ In 2019, only 5 percent of prescription drugs were paid for at the pharmacy counter with cash.² Because of this marketplace dynamic, PBMs, who create and control pharmacy network plans, have immense marketplace influence on both plan sponsors and providers.

The current network negotiation system affords almost no flexibility or bargaining power to small, independently owned pharmacies that cannot compete with the marketplace leverage of larger chain drug stores. Accordingly, PSAOs amplify the voices of independent pharmacies with third-party payers and PBMs and create administrative efficiencies, allowing these small businesses to better use limited resources.

Without PSAO services, independent pharmacies would have virtually no negotiation power against PBMs. According to the National Community Pharmacists Association (NCPA), 58 percent of these small business owners say they may go out of business due to the unregulated practices of the PBM industry.³



PSAOs have influence on drug costs and patients out-of-pocket payments for medications.

PSAOs are voluntary administrative service provider organizations — or a value-added service made available to pharmacies — and are primarily responsible for contracting with a group of independent pharmacies and representing their interests to gain access to PBM-established pharmacy provider networks. PSAOs also assist with administrative operations. They do not influence drug costs or what a patient pays for their medication, nor do they create plan and formulary designs or provider reimbursements.

Services Provided By PSAOs:

Managing insurer and PBM relationships, including fielding questions about claims, contracting, reimbursement, and payer/PBM audits

Ensuring pharmacy clients understand their rights and responsibilities regarding responding to or appealing audit findings

Assisting with regulation compliance and credentialing

Aggregating claims to a single payment from a third-party payer on behalf of a PSAO’s member pharmacies; individual payments are then disbursed to a PSAO’s members

Managing and analyzing pharmacies’ payment and drug dispensing data to identify claims that have not been paid or were paid incorrectly

1. Juliette Cubanski, Matthew Rae, Katherine Young, and Anthony Damico, “How Does Prescription Drug Spending and Use Compare Across Large Employer Plans, Medicare Part D, and Medicaid?” Kaiser Family Foundation, May 20, 2019, <https://www.kff.org/medicare/issue-brief/how-does-prescription-drug-spending-and-use-compare-across-large-employer-plans-medicare-part-d-and-medicaid/>.

2. Kaiser Family Foundation, “State Health Facts: Number of Retail Prescription Drugs Filled at Pharmacies by Payer (Timeframe: 2019),” <https://www.kff.org/health-costs/state-indicator/total-retail-rx-drugs/?dataView=1¤tTimeframe=0&sortModel=%7B%22colld%22:%22Location%22,%22sort%22:%22asc%22%7D>.

3. National Community Pharmacists Association, “Local Pharmacies Pushed to Bring by Pharmacy Benefit ‘Monopolies’ (PBMs), National Survey Shows,” October 15, 2019, <https://ncpa.org/newsroom/news-releases/2019/10/16/local-pharmacies-pushed-to-brink-by-pharmacy-benefit-monopolies>.

PSAOs Do Not:

- Dictate reimbursement rates
- Set Maximum Allowable Cost (MAC) rates
- Determine formulary listings or patient coverage
- Retain any portion of pharmacy reimbursement
- Create Direct and Indirect Remuneration (DIR)* fees — or retain any portion of DIR or dispensing fees
- Accept all contract terms
- Create networks or plan structures

**In fact, PSAOs provide tools to help improve patient outcomes, which can in turn reduce DIR fees for pharmacies.*

PSAO services do not involve the acquisition, distribution or pricing of medications; they represent a value-added service that benefits the pharmacy administratively and logistically.



PSAOs play a major role in a complex pharmaceutical supply and payment chain.

PSAO services do not result in a notable market-share influence. In comparison, just three PBMs currently control approximately 76 percent of the prescription benefit marketplace, representing 238 million individuals or more than 70 percent of the U.S. population.⁴ Such extensive market share has afforded PBMs the ability to exert immense influence among their current and prospective pharmacy customers without any commensurate government oversight. Contract negotiations with PBMs are essentially “take it or leave it,” as has been reported continuously by national pharmacy organizations.

PSAO services provide notable benefits for pharmacy owners. However, the reality of the marketplace continues to skew the outcome of pharmacy/PBM negotiations, largely favoring the PBM. The U.S. Government Accountability Office (GAO) conducted a 2013 study on the role and ownership of PSAOs, which stated, “**over half of the PSAOs ... reported having little success in modifying certain contract terms as a result of negotiations. This may be due to PBMs’ use of standard contract terms and the dominant market share of the largest PBMs. Many PBM contracts contain standard terms and conditions that are largely non-negotiable.**”⁵

PBM	Patient Lives Served	Market Cap
Cigna/Express Scripts	100,000,000	\$73 Billion
CVS/Caremark	75,000,000	\$91 Billion
United Healthcare	45,000,000	\$312 Billion

Conversely, independent pharmacies comprise only 35 percent⁶ of all retail pharmacies in the country. Many owners of these smaller pharmacies voluntarily participate in PSAOs to amplify their voice.

4. Fein, Adam, “CVS, Express Scripts, and the Evolution of the PBM Business Model,” Drug Channels, May 29, 2019, <https://www.drugchannels.net/2019/05/cvs-express-scripts-and-evolution-of.html>.

5. Government Accountability Office. *Prescription Drugs: The Number, Role, and Ownership of Pharmacy Services Administrative Organizations*. GAO-13-176. Washington, D.C., 2013.

6. National Community Pharmacists Association (NCPA), NCPA Digest, (Alexandria: NCPA, 2019), <https://ncpa.org/preview-ncpa-digest-sponsored-cardinal-health>



Policymakers should consider applying reporting requirements to PSAsOs like they do for other healthcare ecosystem stakeholders.

Proposals to aggressively regulate PSAO services are nothing more than a deflection tactic employed by other supply chain entities that have been targeted for long overdue government reform. Regulating PSAO services will not result in any greater access to medication pricing data or cost controls.

PSAOs are a voluntary service most commonly at a flat monthly fee. PSAOs do not charge plans or plan sponsors, and they do not have any role in prescription drug pricing or provider reimbursements. Hiring a PSAO is a choice independent pharmacy owner's have based on their administrative needs.

PBMs are the real powerful "middlemen" of the prescription drug industry and [have been identified as taking advantage of the system](#), controlling virtually every aspect of the prescription drug supply chain, including:

- Benefit design;
- Patient out-of-pocket costs;
- Formulary design;
- Provider reimbursement;
- Where a patient can obtain their medication;
- How much a drug costs the plan and patient, respectively; and, until recently,
- Prevented a pharmacy from disclosing if a lower cost drug option was available to a patient.

PBMs also own and operate massive mail-order pharmacy operations, which directly compete with independent community pharmacies. Due to their necessary contracting relationship, these operations present a clear conflict of interest. **The same independent pharmacies that are required to negotiate network participation within a network designed and controlled by a PBM, or risk going out of business, are competing with PBM-owned pharmacies.**

[PBMs make enormous profits](#). In stark contrast, PSAsOs only charge a nominal flat monthly fee (typically around \$200) for their services and do not retain pharmacy reimbursement.⁷

7. Susan Jaffe, "No More Secrets: Congress Bans Pharmacist 'Gag Orders' On Drug Prices," *Kaiser Health News*, October 10, 2018.



Due to their relationships with large wholesalers, PSAOs have increased market influence.

Recognizing they were at a disadvantage negotiating against a PBM, some wholesale distributors developed PSAO services as part of their value-added services. Their pharmacy customers may choose to pay a monthly fee to join a wholesaler’s PSAO. This fee is usually around \$100–\$200 a month. A pharmacy’s participation with a PSAO is separate from their wholesale contracts and offers the independent pharmacy a list of available administrative support services (as previously described in this report). When a distributor offers PSAO services, that PSAO is also a separate legal entity that operates independently with necessary safeguards/guardrails in place. The PCMA report attempts to play off the size of certain drug wholesalers that offer PSAO services. Not all PSAOs are connected to wholesale distributors, and not all wholesale distributors offer PSAO services.

Notably, the PSAO owned by one of the largest wholesalers represents approximately 7,000 stores. This is an inconsequential figure compared to the near-monopolistic market share held by any one of the three largest PBMs.

The following is a summary of the largest wholesalers and their associated PSAO-serviced pharmacies.

PSAOs Currently Operating in the U.S.	
Largest Wholesaler-Owned PSAOs	Estimated Number of Stores
McKesson Health Mart Atlas	7,000
AmerisourceBergen Elevate	5,000
Cardinal Health LeaderNet	5,400
Other PSAOs	
<ul style="list-style-type: none"> • Arete • PBA Health/PPOK 	<ul style="list-style-type: none"> • EPIC Pharmacies • Pharmacy First

WHAT YOU NEED TO KNOW

- PSAOs are administrative service providers.
- PSAOs do not determine the cost of medications or engage in “spread pricing.”
- PSAOs assist small business independent pharmacies during negotiations with corporate PBMs.
- PSAOs charge a nominal flat rate, typically amonthly fee structure, for their services.
- PSAOs do not determine network participation, provider reimbursement, influence a patient’s formulary design or out-of-pocket costs.
- Due to market power, PBM negotiations remain heavily skewed in PBMs favor.
- PSAOs provide independent community pharmacists the value-added services to help them make a difference in the health of their customers and neighbors.

CONCLUSION

PCMA's report on PSAOs is a disingenuous attempt to draw attention away from the deceitful business practices of PBMs, whose profits are directly tied to the cost of prescription medications.

The decision of the majority of independent pharmacies to voluntarily hire PSAOs speaks to their role in fighting on behalf of small business owners forced into an unequal contract battle with PBMs. Even so, independent pharmacies get squeezed into unfair contracts by PBMs whether or not they use PSAO services.

PSAOs represent roughly 17,000 community pharmacies whereas PBMs provide prescription drug coverage for more than 200 million Americans prescription drug coverage. Readers can do the math regarding where the influence and contracting power lies.