

Highlights of [GAO-13-176](#), a report to the Ranking Member, Committee on Energy and Commerce, House of Representatives

Why GAO Did This Study

Independent pharmacies dispensed about 17 percent of all prescription drugs in the United States in 2010. To obtain, distribute, and collect payment for drugs dispensed, pharmacies interact with a network of entities, including drug wholesalers and third-party payers. With limited time and resources, independent pharmacies may need assistance in interacting with these entities, particularly with third-party payers that include large private and public health plans. Most use a PSAO to interact on their behalf. PSAOs develop networks of pharmacies by signing contractual agreements with each pharmacy that authorizes them to interact with third-party payers on the pharmacy's behalf by, for example, negotiating contracts. While specific services provided by PSAOs may vary, PSAOs can be identified and distinguished from other entities in the pharmaceutical distribution and payment system by their provision of intermediary or other services to assist pharmacies with third-party payers.

GAO was asked to review the role of PSAOs. In this report, GAO describes: (1) how many PSAOs are in operation and how many pharmacies contract with PSAOs for services; (2) the services PSAOs offer and how they are paid for these services; and (3) entities that own PSAOs and the types of relationships that exists between owners and the pharmacies they represent. GAO analyzed data on PSAOs in operation in 2011 and 2012, reviewed literature on PSAOs and model agreements from 8 PSAOs, and interviewed federal agencies and entities in the pharmaceutical industry.

View [GAO-13-176](#). For more information, contact John Dicken at (202) 512-7114 or dickenj@gao.gov.

January 2013

PRESCRIPTION DRUGS

The Number, Role, and Ownership of Pharmacy Services Administrative Organizations

What GAO Found

At least 22 pharmacy services administrative organizations (PSAO), which varied in the number and location of the pharmacies to which they provided services, were in operation in 2011 or 2012. In total, depending on different data sources, these PSAOs represented or provided other services to between 20,275 and 28,343 pharmacies in 2011 or 2012, most of which were independent pharmacies. While the number of pharmacies with which each PSAO contracted ranged from 24 to 5,000 pharmacies, most PSAOs represented or provided other services to fewer than 1,000 pharmacies. Additionally, some PSAOs contracted with pharmacies primarily located in a particular region rather than contracting with pharmacies located across the United States.

While PSAOs provide a broad range of services to independent pharmacies, and vary in how they offer these services, PSAOs consistently provide contract negotiation, communication, and help-desk services. All of the model agreements between PSAOs and independent pharmacies that GAO reviewed stated that the PSAO will negotiate and enter into contracts with third-party payers on behalf of member pharmacies. PSAOs may also contract with pharmacy benefit managers (PBM), which many third-party payers use to manage their prescription drug benefit. In addition to contracting, PSAOs also communicate information to members regarding contractual and regulatory requirements, and provide general and claims-specific assistance to members by means of a help-desk or a dedicated staff person. They may also provide other services to help member pharmacies interact with third-party payers or their PBMs, such as managing and analyzing payment and drug-dispensing data to identify claims unpaid or incorrectly paid by a third-party payer. PSAO services are intended to achieve administrative efficiencies, including contract and payment efficiencies for both independent pharmacies and third-party payers or their PBMs. Most PSAOs charge a monthly fee for a bundle of services and may charge additional fees for other services provided to its member pharmacies. Virtually all of the fees paid for PSAO services are paid by member pharmacies, with PSAOs receiving no administrative fees from other entities such as third-party payers or their PBMs.

The majority of PSAOs in operation in 2011 or 2012 were owned by drug wholesalers and independent pharmacy cooperatives. Of the 22 PSAOs we identified, 9 PSAOs were owned by wholesalers, 6 were owned by independent pharmacy cooperatives, 4 were owned by group purchasing organizations, and 3 were stand-alone PSAOs owned by other private entities. These owners varied in their requirements for PSAO member pharmacies to also use services from their separate, non-PSAO line of business. Three PSAO owners GAO spoke with required PSAO members to also use their non-PSAO services. For example, one wholesaler-owned PSAO limited its offer of PSAO services to existing customers of its drug distribution line of business. All but one PSAO owner GAO spoke with reported that their PSAO line of business earned little to no profit. However, PSAO owners may operate PSAOs for a number of reasons, including helping pharmacies gain access to third-party payer contracts and to provide benefits to the owner's non-PSAO line of business.