WIG Webinar
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"The Role and Value of Pharmacy Services Administrative Organizations (PSAOs)"

Featuring:
Arkansas State Representative Deborah Ferguson, WIG State Director (Moderator)
Matthew DiLoreto, Vice President of State Government Affairs, Healthcare Distribution Alliance (HDA)
Scott Pace, PharmD, JD, Partner, Impact Management Group

Representative Lauren Matsumoto: Welcome, and thank you for joining Women In Government's policy roundtable, "The Role & Value of Pharmacy Services Administrative Organizations." where we'll discuss what PSAOs do and how they impact on access to affordable medications. I'm Hawai'i State Representative Lauren Matsumoto, and I'm also the Vice Chair of the WIG Board of Directors.

As a member of WIG's all-legislator Board of Directors, we guide meaningful policy programs that directly address issues facing state legislatures nationwide.

With me moderating today's session is Women In Government State Director Arkansas State Representative Deborah Ferguson. Thank you so much for joining us today! I know it's been a pretty devastating last few days in your state, so thank you for being here. The floor is now yours.

Representative Deborah Ferguson: Hello everyone, and thank you so much, Representative Matsumoto. Before we get started, I have a few quick housekeeping notes. Introduce yourselves in the Chat Box located in the Zoom Toolbar. Please share your questions or comments there. You may want to select "Speaker View" from the Zoom View Options if you are watching along with today's conversation and not just listening in, and finally, please connect with WIG on all of our social media platforms!

Now, on to today's program: *The Role and Value of Pharmacy Services Administrative Organizations!*

Joining us today we have Matthew DiLoreto, Vice President of State Government Affairs for the Healthcare Distribution Alliance, and Scott Pace, PharmD, JD, Partner at the Impact Management Group. Scott is from Arkansas, and I know him well. Thank you both for being with us today, and I'll turn it over to you all. Matthew, do you want to start?

Matthew DiLoreto: Absolutely happy to. Thanks, everyone, for having us. We appreciate your attendance, and as was indicated, what we're here to talk about today is the role and the value, frankly, of Pharmacy Services Administrative Organizations. Those that have heard of these organizations will have heard them referred to as PSAOs.

Theses service provider companies have been brought into the national conversation, most commonly when discussing PBM reform legislation or other drug pricing control initiatives at the state level.

My name is Matthew DiLoreto, and as was said, I'm the Vice President of State Government Affairs at the Healthcare Distribution Alliance. Prior to that, I was with the National Community Pharmacists Association, and before that, with the Pennsylvania Pharmacists Association, so the majority of my

professional background has concentrated on the pharmaceutical supply chain. I am here with my colleague consultant Scott Pace, and I will allow him to introduce himself. Scott?

Scott Pace: Thanks, Matt, and thank you, Representative Ferguson. My name is Scott Pace. I'm a pharmacist and an attorney and a partner in a government relations firm called Impact Management Group. We do a lot of healthcare consulting and advocacy.

In addition to that, I also own a small independently owned pharmacy in Arkansas, and so when we're talking about these issues, I don't just have the perspective of being a healthcare consultant, but also have the firsthand experience of what it means to actually use these in a practice. I did spend 12 years with the Arkansas Pharmacists Association and also served as their Chief Executive Officer before I left to join my current firm. Thanks, Matt.

Matthew DiLoreto: So, first just very quickly HDA - we're the national trade association representing primary healthcare distributors, pharmaceutical distributors as well. We have about 37 members. So, as part of this, how does that relate to PSAOs? Some of our members offer PSAO services as a value added service for their pharmacy customers.

However, unlike the national conversation and inaccurate narrative that's being conveyed in some states, not all PSAOs are wholesale distributor owned, and not all wholesalers operate PSAO services. There are standalone PSAOs that simply - their company exists to support independent and small chain pharmacies.

Currently, what is driving some of the narratives at the state legislative level is the statement that PSAOs are powerful, influential organizations due to their connection to some of the largest pharmaceutical distributors. That is inaccurate. If you ask any PSAO across the board, "Does their connection to another company such as a wholesaler significantly increase their effectiveness when representing their community pharmacies to insurers or PBMs?", the answer is going to be no. Scott, do you have anything to add to that?

Scott Pace: I'd just make one quick comment about the nature of any sort of interaction contractually that the PSAO has with a health plan or PBM. Keep in mind that federal antitrust laws keep marketplace competitors from being able to jointly get together to summarily reject or strike against a contract. PSAOs bring efficiencies to the table to help with entering into contracts, but they don't have any sort of marketplace leverage because of federal antitrust laws to be able to say no, and have that to be an effective boycott against the contracts. Because of all that, regardless of the size of the parent organization, there just is no leverage that exists for any real, meaningful negotiations, and I think that's a really important distinction.

Matthew DiLoreto: So many of you are probably thinking, "Well, Matt and Scott, you just jumped ahead of the game because I don't even know what a PSAO is," but please keep our comments that we just said in mind. So, what is a PSAO? PSAO are service provider organizations that provide back office

support, the support that's needed to keep any small business independent business running but specifically focus those services on independent pharmacies and small chains.

So, if you're a small pharmacy owner out there in America, you want to be at the counter serving your patients, filling prescriptions, consulting with your patients. You don't have time to deal with what every one of us knows is the complexity of the healthcare marketplace, especially the prescription drug marketplace – getting and reading contracts, evaluating contracts and the like.

So, what PSAOs are, and I'll let Scott talk about this as a pharmacist and pharmacy owner, is a service provider that an independent pharmacy can go to and say, "Can you take on this burden for me so I can concentrate on patient care?" This is all provided at a flat membership fee. There's no secret sauce that's going on in the background.

Scott, I don't want to speak for you as kind of an expert on this, so go ahead.

Scott Pace: I'll just tell you about it real quick from my perspective of buying a pharmacy a little over eight years ago. We had a lot of business decisions to make when we were buying a pharmacy, and we were most concerned with taking care of our patients, buying our inventory, having a good computer system, all the operational things that you're thinking about.

But the most important thing that you really need to be able to deal with healthcare is to have contracts and relationships with those payers. They're your lifeline to your patients, and so it's for us just like we have a bookkeeper to help us with our financials because it's not efficient for us to do our financials while we're running the pharmacy.

It's likewise not efficient for us to get access to these contracts to read them, to execute them, to go back and forth with a PBM while we're trying to run a pharmacy. We spend about $200 a month buying the services of a PSAO who take that function - that back office function - off of our hands.

They interact with the large Pharmacy Benefit Managers on our behalf, they get access to the contracts, they read them, they execute the ones that they think are reasonable to execute, they attempt to negotiate - which is generally a fruitless endeavor but nonetheless it's an attempt to act as an agent on our behalf, and then they execute those contracts if they feel like we should be able to be in those.

And that back office function is hours a day that I would have to take away from direct patient care that I essentially outsource that service piece, and in exchange for that, I pay about $200 a month.

The other thing they do that I think is really helpful, from my perspective is that I'm really interested in making sure that if a PBM says I'm going to get paid $1 that I get paid that dollar on the reconciliation, so they also help when the claim flows back to the pharmacy with payment that there is a payment file - a reconciliation file - that's attached to it that makes sure if the PBM says we're going to get paid $1 that we actually had that corresponding dollar deposit into our account.

And they do that through their central payment services which helps keep account of the dollars and also helps make sure that we get them faster from those Pharmacy Benefit Managers. So for me, it's a back office service that helps me operate a more efficient business. It doesn't give me any better negotiating leverage per se with the PBMs, but it does take one of those operational burdens off my plate as a pharmacy owner.

Matthew DiLoreto: So, who are the PSAOs? A great resource - even though it's dated, and I'll be the first to admit it - is in 2013 the Government Accountability Office, the GAO, did a substantial study on the PSAO marketplace. Although some of the specific data, like the number of PSAOs, for example, has certainly changed since then, if your state is tackling this issue or PSAOs are being pulled into a conversation, it's a great resource to look at. It talks about the services, it talks about kind of the business model.

But in 2013, when that study came out, there were 22 PSAOs, and those were owned by a mix of wholesalers, pharmacy conglomerates, group purchasing organizations, and just stand-alone entities. Today that number we guess is less than 10, so there certainly has been downsize in the PSAO marketplace. There's a small number of them. About a handful of them are wholesaler owned. Others are standalone entities and others are made up of their own independent pharmacies.

80% of independent pharmacies give or take utilize PSAO services. It is not a mandatory service. They do not have to – probably both Scott and I know independents that choose not to utilize the services of PSAOs, so it's not like you have to belong to a PSAO to participate in prescription drug benefit networks, for example. That is not the case. It is simply a supporting service for the administrative and I even say the legal - the contracting - aspect of the business.

One analysis estimates that six of the largest PSAOs in 2021 range between representing about 1,700 to about 6,800 independent pharmacies, so the median there is about 4,250. It seems like a very big number, correct? Anyone says 4,000 of anything, and you think it's a big number.

But what you must keep in mind is the entities the PSAOs that are interacting with, the insurers and the PBMs, are exponentially larger in the marketplace than that 4,250. For example, the top three PBMs control 77% of the prescription market for the United States. The second largest PBM accounts for about 90 million patient lives and 68,000 pharmacies.

So, even though that 4,000 may seem like a big number – hey, you've got 4,000 independent pharmacies under your umbrella - when you compare it to the size of the networks that we are dealing with in today's pharmaceutical pharmacy benefit marketplace, it is not a large number. It is not an impactful number. Scott, anything to add to that?

Scott Pace: Yeah, I would just say that even the largest PSAO, which is over 6,000 pharmacies, still represents less than 5% of the total prescription drug claims that are filled. So just to reemphasize your point about scale, even though they seem big, it is a drop in the bucket when you consider the

prescription volume that runs through the large chains and the number of stores that the large chains have when they contract with the PBMs.

Matthew DiLoreto: So, a little bit more on the services they provide. The one thing I will mention before I even say this is you might all be thinking, "Yeah, Matt and Scott, but what aren't you telling us? We understand the services."

But these entities are not being run off the terms that you hear about in a lot of PBM legislative debates at the state level or drug pricing debates. They aren't taking pieces of the pharmacies dollars. Like Scott said, he pays a flat fee of a couple hundred bucks. He's actually paying less for his PSAO services than I'm paying for my wife and my cell phone plan, I just found out. There's no other revenue sources per se. It is a flat fee membership fee.

Community pharmacies and small pharmacies, like we said, just don't have the infrastructure. You go to your corner drugstore - you know Norman Rockwell picture of a pharmacy on the corner of Main Street America - they do not have the same support system, infrastructure, back office support that, and I'm not casting stones at the chains, but that CVS or Walgreens or Rite-Aid or some of these larger corporations have.

They don't have the administrative staff, and they don't have the logistical staff, so small chains and independence contract with PSAOs to help with that. And, most notably, they contract with PSAOs to assist with their interactions with PBMs.

Scott, we provide a list here, but I think it's very important to say what PSAOs do not do, and what they do because that is kind of the line in the sand that's being discussed out there right now.

Scott Pace: That's great. So, let's talk about what they do for me. First, and we've already kind of touched on these, they help to manage that relationship with the PBMs to make sure that I have access to lives. So, without those contracts, which I could do by myself if I took the time and effort to do that, but it's just more efficient for me to outsource that, but without those, I don't have any business because over 90% of the prescriptions that are filled in retail pharmacies come through PBM contracts. Those are the lifeblood of community pharmacy.

They help to manage those relationships. They help to manage the dialogue that I have with those PBMs. If I get into a dispute with CVS Caremark or Optum Rx or Express Scripts, there has to be a line of communication, and the PSAO serves as my voice to interact with their contacts within the PBM. It's a very valuable tool because most of the time they will only provide like an email address or an 800 number for pharmacies to try to reach out to with problems.

They help with central payment. To help make sure that we get paid faster and accurately, they have a central payment service that is available to us. And then, they also help us analyze and manage some of our performance data. A lot of the health plans now, particularly in the government space, will benchmark us based upon a patient adherence to a certain type of medication – a diabetes medication,

for example - and the PSAOs help us see where we fit in the claim compliance reporting to make sure that we don't get hit with any sort of adverse fees from the PBMs for not meeting performance targets. They help with all of those things, and I think those are all super important functions.

But what they don't do is that they don't tell me how much I'm going to get paid or not paid. Those terms are authored and come from the PBMs. They don't set generic reimbursement rates, those maximum allowable costs that you have heard about probably during your legislative discussions. Those are set at the total discretion of the Pharmacy Benefit Managers.

They don't keep any part of my payments. What I'm contracted to receive is what I receive. They don't create or cause any of the direct or indirect remuneration fees which are part of the Medicare Part D program which have gotten a lot of criticism, rightfully so, over the last number of years.

And I think this is important too. They don't say yes to everything. They don't say yes to every contract. In fact, we'll see that they will say no. Just in the last month or so, you've seen one of the largest PSAOs say no to Express Scripts as it relates to the TRICARE book of business because Express Scripts has gotten very aggressive with our military families and paying you know virtually nothing for their prescription services. That's caused several PSAOs and even large chains to say no to some of those contracts.

They don't say yes to everything at all. To me, those are really important functions. It's why we have them to take some those efficiencies off of our plates, and I'd be remiss if I didn't say that what they do is in their name, right? They are a pharmacy service administrative organization. They help with administrative efficiencies, and they do it for us, but they also bring administrative efficiencies to the PBMs too, because when a pharmacy services administrative organization contracts for 5,000 pharmacies at once, that means the PBM doesn't have to solicit contracts from 5,000 pharmacies individually.

When they do central payment services, it means the PBM doesn't have to send out 5,000 direct deposits or 5,000 checks. The PSAO helps do that through the central payment services. So, there is there is benefit to both parties in the equation to do that. That's where their niche lies, and that's the benefit that it brings to me.

Matthew DiLoreto: So, why are we here today? I think this is probably what many of you are interested in. First off, what got this conversation going and what really sparked HDA to engage on this issue was we were hearing in some states that essentially that an inaccurate - I will just call it that - national campaign indicating the PSAOs are equalizers in the pharmacy insurer PBM relationship was being conveyed, and a number of state legislative proposals included PSAOs in the same bucket as PBMs or insurers or other type of regulation and reform efforts.

If it wasn't for that, we probably wouldn't be here speaking today. PSAOs have been around for a while, and it wasn't until we were brought into the conversation where, in many cases, PSAOs should just not be part of the conversation. They aren't impacting patient access to drugs or the bottom line that patients are paying for medications or anything like that. They are service providers, as we are saying.

Secondly, as part of that narrative, there are organizations that are saying that due to PSAOs' connection to some of the large wholesalers, they have greater negotiation ability. As Scott is conveying right now, there are still challenges. Many of the PSAOs say that they have the same challenges as both the wholesale or non-wholesaler connected PSAOs.

Frankly, the bottom line is in a number of states, there has been state proposed legislation or enacted legislation that entirely blurs the lines between PSAOs and other supply chain entities such as PBMs or insurers. They cannot be put into the same category. They do not function the same. They do not have the same role in the supply chain. If enacted, we feel it's very flawed policy and frankly policies that were engaged on in some states right now due to the challenges that they've created.

The reality of the situation is both government and supply chain studies note that PSAOs, including those operated by wholesalers, are not quote "leveling the playing field," and all face difficulties in achieving what independent pharmacies would feel are fair contract terms.

The PSAOs are administrative focused entities operating on a flat membership fee. They're not impacting, like Scott said, formulary design, out of pocket costs for patients. That's not their role. That's not what they're discussing.

Bottom line is PSAOs should just not be treated as other supply chain entities. They aren't manufacturers. The PSAOs are not wholesalers, and they are not PBMs. They are not insurance. They are here to help independent pharmacies function.

Scott, would you add anything to this?

Scott Pace: I just keep calling them my bookkeeper. Even though they don't help manage my books, they do the exact same function with my PBM relationship as my bookkeeper does in my accounting relationship, right? They just help do a service that I otherwise wouldn't have time for, and that's just how I categorize them.

Why they're in the discussion, as Matt mentioned - I mean I use the phrase human shield. I think that the PBMs are using the PSAOs as human shields in all of the incoming fire that the PBM industry has been taking the last six or eight years on the acts that they have resulted in a lot of legislative actions on.

We're here to make sure that we don't continue to get those bullets fired inappropriately in this industry's direction.

Matthew DiLoreto: We just want to be part of the conversation. If your state is discussing PSAOs, please use Scott and I as a resource. The ask is a simple one - if it's not broke, don't fix it.

You know, I don't see that PSAOs are the crux of any issue that many states are trying to tackle right now. If anything, adding them into the mix just complicates an already very complicated situation.

Then, recognize like we've been saying, the actual role of the companies. I think this is pretty repetitive. We keep repeating the same thing, so please feel free to review it.

For more information, this is our contact information. I know we're probably almost out of time here, but are there any questions?

Representative Deborah Ferguson: I might jump in here. Thank you both a lot. If you have questions, if you could put them in the chat and be sure to say your name and the state you're from, then I will ask them the questions from the chat.

I have a question. Where is the national opposition or misinformation coming from? Is that coming from PBMs? Who is stirring this pot?

Matthew DiLoreto: Well, I would say the answer - yes, most notably the national campaign I refer to - it's not a secret. I don't think I'm crossing any lines. It's right on the PCMA website, and that speaks to how if you're affiliated with a wholesaler, the PSAOs that are affiliated with the national wholesalers, are essentially leveling the playing field and the like.

But we're here to be totally transparent and honest. In some states also some pharmacies have called for greater regulation of PSAOs, and I'll let Scott speak to that, but frankly, to simplify that answer on the pharmacy side, what we have found is usually it's the frustration of the pharmacies that the PSAOs aren't providing greater leverage and influence and what have you over the PBM contracts, which is exactly what we're here saying.

Scott, I'll let you briefly expand on that.

Scott Pace: I mean, that's exactly it. As a pharmacy owner, I get very frustrated that the leverage that they bring to the table as PSAOs doesn't produce better contracts. But again, you have to keep in mind where the leverage lies. They don't have an antitrust exemption to be able to collectively boycott on behalf of all those pharmacies. The PBMs are the marketplace giants that dictate the terms. They initiate the discussions, and frankly, the PBMs even decide if they want to work with a PSAO or not.

You know, one PSAO merger just happened this summer, and one of the large PBMs immediately severed their contracts that they had with the PSAO when the merger happened. So, I mean it's not a negotiation of equals.

That's the best way I know how to say it, and that's where the pharmacies frustration comes in, because they want it to be. Believe me, I want it to be a negotiation of equals too. It's just not the nature of how the leverage is right now.

Representative Deborah Ferguson: And I guess I have another question. Why would the wholesalers participate with a PSAO? What is in it for them? Anything?

Matthew DiLoreto: Oh yeah, no, I'm sorry. Just to clarify, we're not participating with – wholesalers are not participating with a PSAO. PSAO services are services that some of the wholesalers provide to their pharmacy customers. If somebody wants to have the PSAO services provided to their pharmacy, some - not all – of the wholesalers will offer those services to that the pharmacy.

Representative Deborah Ferguson: Yeah, I guess my question is why would they do that? What's their motivation?

Matthew DiLoreto: Just to support the pharmacies. Pharmacies purchase medications and other supplies from wholesalers. I mean there is an interest and there is a value in supporting if your independent pharmacies are doing well and staying competitive and staying in business, frankly. So, it's a service that they provide just to support their customers.

Representative Deborah Ferguson: I don't see any further questions in the chat, so thank you both. This has been very informative for me. I'd like to say I'd never heard of PSAOs until last week, so it's an interesting model.

Representative Deborah Ferguson: This has been the last Women In Government program for the year, and, on behalf of the staff, I hope you stay safe and have a happy holiday.

Matthew DiLoreto: Thank you. Thank you very much.

Scott Pace: Thank you. Happy holidays!

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Resources:

"The Role of Pharmacy Services Administrative Organizations for Independent Retail and Small Chain Pharmacies." Avalere Health. September 20, 2021.
https://www.hda.org/~/media/pdfs/government-affairs/the-role-of-psaos-for-independent-retail-small-chain-pharmacies.ashx

"The Number, Role, and Ownership of Pharmacy Services Administrative Organizations." The Government Accountability Office (GAO). January 2013.
https://www.gao.gov/assets/gao-13-176.pdf
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