

MILLIMAN REPORT

Pharmacy Services Administrative Organization (PSAO) Landscape

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BACKGROUND

Pharmacy Services Administrative Organizations (PSAOs)

Pharmacy Services Administrative Organizations (PSAOs) play a key role in the pharmacy industry, particularly for independent and small-chain pharmacies. PSAOs serve as intermediaries between pharmacies and pharmacy benefit payers, including pharmacy benefit managers (PBMs), health plans, and other payers. PSAOs provide a structure for small and mid-sized pharmacy providers to consolidate volume to better negotiate rates and terms with payers for participation in pharmacy networks. PSAOs also provide back-office services to pharmacies to facilitate ease of the administration of participating in third party programs.

PSAOs offer a range of services that support pharmacies in administrative, regulatory, and financial aspects, including:

- **Contract Negotiation:** One of the primary roles of PSAOs is negotiating contracts with PBMs and insurance companies on behalf of their member pharmacies. This includes reimbursement rates for prescription drugs, terms of participation in pharmacy networks, and compliance with regulatory requirements.
- **Regulatory Compliance:** They assist pharmacies in navigating the complex regulatory environment, ensuring compliance with state and federal laws, including those related to pharmacy practice, drug dispensing, and patient privacy.
- **Reimbursement Assistance:** PSAOs help pharmacies manage the reimbursement process, including claims submission, adjudication, and resolution of disputes.
- **Credentialing:** PSAOs assist its member pharmacies obtain and maintain credentials necessary by payers and regulatory agencies for providing services to patients, which is a requirement to participate in networks and reconfirmed on a periodic basis.
- **Technology and Data Management:** Most PSAOs provide technology solutions that help pharmacies manage their operations more efficiently, including pharmacy management systems, data analytics tools, and payment processes.
- **Audit Assistance:** PSAOs support their member pharmacies to navigate third-party audits of claims. Most PSAOs provide pharmacies with evaluative tools and pre-audit process policies to proactively identify discrepant claims.
- **Pharmacy Advocacy:** PSAOs represent the interests of their members before legislators and regulatory bodies to lobby for laws and regulations that benefit independent pharmacies, such as reducing administrative burdens, promoting fair competition, and increasing patient access to pharmacy services.

PSAOs differ from chain pharmacy organizations by distinct ownership between the parent entity and its pharmacy locations. Chain pharmacy locations are owned and operated by their respective parent organizations; PSAO pharmacy locations are not owned nor operated by the PSAO entity. The relationship between a pharmacy and a PSAO organization is strictly contractual. Contracted pharmacy locations are known as members of the PSAO. Member pharmacies of a PSAO are most often independent pharmacy operators or small regional chain pharmacies where an individual or individuals may have more than one ownership stake.

PSAO Landscape

The Pharmaceutical Care Management Association (PCMA) requested we summarize the count of independent retail pharmacies that contract with a PSAO by state. This information is provided in the associated exhibits. Our summary classifies retail pharmacies as either “chain,” “independent,” or “independent that contracts with a PSAO” using the methodology described below.

EXHIBITS

Exhibit I – Count of Independent Pharmacies that Contract with a PSAO by State

Total count of retail independent pharmacies that contract with a PSAO by state as of January 1, 2024. Pharmacy identification and exclusion detailed in the methodology section.

METHODOLOGY

Pharmacy Classification

The National Council for Prescription Drug Program's (NCPDP) provides a subscription service to a *dataQ* Pharmacy File. These files contain service and relationship information self-reported by pharmacies or their PSAO to NCPDP. We used these files as the key data source for this work.

We classified pharmacies as "Chain," "Independent," and "Independent that contracts with a PSAO." Small chains that contract with PSAOs are counted as "Chain" pharmacies for the purposes of this summary. We determined these classifications from the primary parent organization relationship type codes, primary provider type codes, and dispenser class codes published by and provided to Milliman in NCPDP's *dataQ* Pharmacy File.

We categorized pharmacies as a chain if the parent organization relationship type had a value of "01 Chain," and pharmacies as PSAOs if the parent organization relationship type had a value of "05 Third-party Contracting Group." We changed the classification of some pharmacies that had different parent organization type values, but had the same legal business names as chains or PSAOs that we had already classified. All other retail locations were classified as independent with no classification relationships to either a chain or PSAO. Both chains and PSAOs may possess multiple NCPDP Relationship IDs or Parent Organization IDs and names. We consolidated PSAO name variants to a single PSAO name.

We limited the report to community retail pharmacies only by using the NCPDP provider type code "01 Community / Retail pharmacy."

Exclusions

We excluded the following pharmacies from this analysis:

- Parent Organization Relationship Type Codes:
 - 03 Drug Purchasing organization (not associated with payers of claims)
 - 04 Claims management organization (not associated with contracts between payers and providers)
 - Names containing "Long Term Care" or "LTC"
- Provider Type Codes:
 - 04 Long Term Care pharmacy
 - 05 Mail Order pharmacy
 - 06 Home Infusion Therapy Provider
 - 07 Non-Pharmacy Dispensing site
 - 08 Indian Health Service / Tribal / Urban Indian Health (I/T/U) Pharmacy
 - 09 Department of Veterans Affairs (VA) Pharmacy
 - 11 Institutional Pharmacy
 - 12 Managed Care Organization Pharmacy
 - 13 DME
 - 14 Clinic Pharmacy
 - 15 Specialty Pharmacy
 - 16 Nuclear Pharmacy
 - 17 Military / U.S. Coast Guard Pharmacy
 - 18 Compounding Pharmacy
 - 19 Oxygen Equipment
 - 20 Nursing Facility Supplies
 - 21 Customized Equipment
 - 22 Dialysis Equipment
 - 23 Parenteral and Enteral Nutrition
- Dispenser Type Codes:
 - 06 Government Pharmacy
 - 07 Alternate Dispensing Site

Caveats, Limitations, and Qualifications

The results in this report have been prepared for the Pharmaceutical Care Management Association. We developed this information to provide a landscape of PSAOs at the State level. This information may not be appropriate, and should not be used, for other purposes. Milliman does not endorse any public policy or advocacy position on matters discussed in this report.

The information presented in this report is provided for PCMA. PCMA may share this information with outside entities with Milliman's permission. Milliman does not intend to benefit, and assumes no duty or liability to, other parties who receive this work product. Any third party recipient of this work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs. Any releases of this report to a third party should be in its entirety. This report must be read in its entirety and specialized knowledge of the industry is necessary to fully understand the report and its conclusions.

In performing this analysis, we relied on data and other information from the National Council for Prescription Drug Programs (NCPDP), and the Federal Information Processing Standards file obtained United States Census Bureau.¹ We have not audited or verified this data and other information but reviewed it for general reasonableness. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

This report outlines the review and opinions of the authors and not necessarily that of Milliman. Milliman does not provide legal advice, and recommends that Pharmaceutical Care Management Association consult with its legal advisors regarding legal matters.

¹ www2.census.gov/geo/docs/reference/codes2020/national_county2020.txt

Exhibit I

Count of Independent Pharmacies that Contract with a PSAO by State as of January 1, 2024

State	Pharmacy Count	% of Independent Retail Pharmacies*
AK	22	79%
AL	579	94%
AR	411	96%
AZ	172	86%
CA	2,131	92%
CO	173	89%
CT	163	89%
DC	55	100%
DE	39	95%
FL	1,465	86%
GA	813	92%
GU	15	68%
HI	64	85%
IA	274	96%
ID	153	93%
IL	575	86%
IN	216	90%
KS	247	91%
KY	605	96%
LA	541	91%
MA	211	88%
MD	422	95%
ME	71	100%
MI	1,144	91%
MN	252	92%
MO	487	90%
MS	396	91%
MT	133	94%
NC	747	94%
ND	85	75%
NE	197	91%
NH	27	79%
NJ	1,022	94%
NM	73	91%
NV	103	80%
NY	2,924	89%
OH	644	88%
OK	455	94%
OR	146	87%

State	Pharmacy Count	% of Independent Retail Pharmacies*
PA	959	91%
PR	720	82%
RI	26	90%
SC	392	92%
SD	109	95%
TN	598	92%
TX	1,943	85%
UT	232	97%
VA	380	92%
VI	3	20%
VT	35	100%
WA	272	86%
WI	316	84%
WV	254	93%
WY	51	94%
Grand Total	24,542	

* Includes pharmacies classified as "independent" and "independent that contracts with a PSAO"



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