



How Does Pharmacy Reimbursement Work?

When a patient gets a prescription from a pharmacy and their health plan covers some or all of the drug's cost, there are a series of complex transactions going on behind the scenes. Drug manufacturers, wholesalers, pharmacies, pharmacy services administrative organizations (PSAOs), pharmacy benefit managers (PBMs), and health plans each play a role. Of these entities, only some actually take possession of the drug at any point. For example, manufacturers make the drug, wholesalers buy it in bulk and distribute it to pharmacies, and pharmacies sell the drug to patients. Others in the chain help facilitate these processes.

How does the drug get to the pharmacy?

Drug manufacturers set the price of their drugs and sell their products to wholesalers for agreed-upon amounts and discounts.¹ Wholesalers then sell and distribute the drugs to pharmacies, including retail, specialty, hospital, long term care, and home delivery (mail) pharmacies. The price a pharmacy pays the wholesaler for a drug may vary based on the quantity of the drug the pharmacy purchases and the ability of the pharmacy to negotiate a lower price from the wholesaler. Often pharmacies will join group purchasing organizations (GPOs) to get favorable pricing from wholesalers.

How does a pharmacy set its price?

Like any business, a pharmacy sets its product's retail price using various factors such as how much they had to pay the wholesaler to buy the product, how much in rebates or discounts they received from the wholesaler or manufacturers, and how much profit they want to build into the price of the product. These factors exist in the pharmaceutical market, and like most businesses, these factors are confidential and proprietary to the business of the pharmacy.

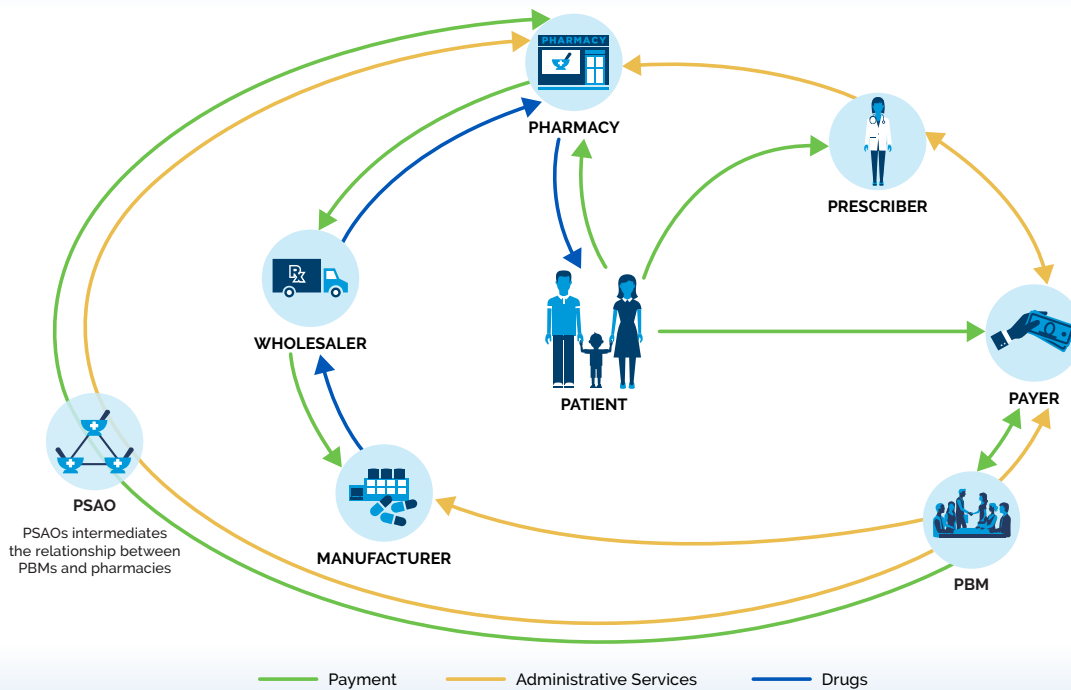
How does a pharmacy get reimbursed for dispensing drugs?

- » **Without Health Insurance:** A patient who is uninsured typically pays the pharmacy's full retail price or may be eligible for a discount program.
- » **With Health Insurance:** For a patient who is insured, their health plan may pay some or all of the cost of the drug. The patient may also pay a portion directly to the pharmacy (their "cost share"). The pharmacy gets paid from the health plan by submitting a claim for payment, in most cases, to a PBM (an administrator for a plan), which has also negotiated reimbursement rates with pharmacies and their representatives. The PBM pays the pharmacy an amount that was set by a contract between the PBM and the pharmacy, or the pharmacy's representative, called a PSAO. Payment includes an ingredient cost and a dispensing fee.

See "Retail Pharmacy Prescription Drug Supply and Payment Chain" graphic on next page.

How Does Pharmacy Reimbursement Work?

Retail Pharmacy Prescription Drug Supply and Payment Chain



What is a PSAO?

A PSAO is an intermediary that represents independent pharmacies in their negotiations with PBMs on reimbursement rates, payments, audit terms, and performance guarantees. Not all pharmacies use PSAOs, but about 83% of independent pharmacies use them.² PSAOs help independent pharmacies obtain favorable contract terms, including, on average, higher reimbursements than chain drugstores.³

How are pharmacy reimbursement rates established?

Contracts between PBMs and pharmacies (or the pharmacy's PSAO) reflect negotiations to set the terms

for the pharmacy's participation in the PBM's pharmacy network, including reimbursements. The pharmacy's contract with the PBM governs how much the pharmacy will be reimbursed for claims under that patient's health insurance.

After a prescription is received, a pharmacy transmits an electronic claim with the patient's benefits to the PBM. Once the claim meets the terms defined by the health plan, the PBM returns the claim to the pharmacy that reflects the contractual agreements for payment and reimbursement. After the pharmacy receives a paid claim, the pharmacy can then fill the prescription.

1 <https://avalere.com/insights/follow-the-pill-understanding-the-prescription-drug-supply-chain>.

2 Health Evaluations. "Pharmacy Services Administrative Organizations (PSAOs) and Their Little-Known Connections to Independent Pharmacies." https://www.pcmnet.org/wp-content/uploads/2021/01/PSAO-Report_Health-Evaluations.pdf.

3 Id.

ABOUT PCMA

PCMA is the national association representing America's pharmacy benefit companies. Pharmacy benefit companies are working every day to secure savings, enable better health outcomes, and support access to quality prescription drug coverage for more than 275 million patients. Learn more at www.pcmnet.org.