

# KEY DIFFERENCES: Traditional Healthcare Group Purchasing Organizations (GPOs) & Pharmacy Benefit Manager (PBM) Rebate Aggregators



As Washington continues to consider ways to lower healthcare costs, it is critical that policymakers understand the key differences between traditional healthcare group purchasing organizations (GPOs) that serve healthcare providers, and rebate aggregators owned by pharmacy benefit managers (PBMs) that have begun to also call themselves PBM "GPOs."

**Healthcare GPOs serve hospitals and other healthcare providers** by negotiating contracts with medical device companies and drug manufacturers (among other suppliers, such as labor, food, landscaping) to deliver high-quality products, reduce provider burden, and maximize efficiencies to both providers and suppliers at the best possible value.

**So-called PBM GPOs/rebate aggregators are created, owned by, and serve PBMs.** Each of the "Big Three" PBMs – **Express Scripts (Ascent Health Services)**, **CVS Caremark (Zinc)**, and **OptumRx (Emisar Pharma Services)** – owns and operates its own rebate aggregator. These entities operate outside the transparency and reporting requirements applicable to traditional GPOs.

## Key Differences at a Glance<sup>1</sup>

	Traditional Healthcare GPOs	PBM Rebate Aggregators
<b>ORGANIZATIONS SERVED</b>	<p><b>Healthcare GPOs serve healthcare providers</b> (hospitals, surgery centers, nursing homes, clinics, and other non-acute care facilities).</p> <p>Providers often have an ownership interest in GPOs.</p>	<p><b>PBM "GPOs"/Rebate Aggregators serve health plans (including retail pharmacy).</b></p> <p>PBMs own and operate rebate aggregators including:</p> <ul style="list-style-type: none"> <li>• Ascent Health Services (Express Scripts)</li> <li>• Zinc (CVS Caremark)</li> <li>• Emisar Pharma Services (OptumRx)</li> </ul>
<b>SERVICES PROVIDED</b>	<p>Negotiate contracts for goods and services for <b>healthcare providers</b>.</p> <p>Secure volume discounts from drug manufacturers based on aggregating the purchases of many providers.</p> <p>Work with manufacturers on secondary lines in case of supply disruption, and provide analytics, clinical, supply chain and other services to healthcare provider members.</p>	<p>Provide formulary management and formulary rebate administrative services for <b>pharmacy benefit managers</b>.</p> <p>Negotiate rebates from drug manufacturers.</p> <p>May contract directly with health plans and pharmaceutical companies in place of PBMs.</p>
<b>NEGOTIATED ITEMS AND SERVICES</b>	<p>Negotiate supply contracts based on net price. This includes securing supplier <b>point-of-sale price reductions</b>. If a supplier provides a discount in the form of a rebate, GPOs pass those directly onto the provider.</p>	<p><b>Rebates</b> and administrative fees associated with a patient's health plan, which may be retained and not passed on to the patient.</p>
<b>REGULATION OF FEES</b>	<p>Fee structures <b>must comply</b> with the GPO Safe Harbor and Discount Safe Harbor of the Federal Anti-Kickback Statute.</p> <p>GPO fees are calculated on net contract price. The average administrative fee for a GPO contract ranges from 1.75 to 2%.</p>	<p>Fees fall outside most federal regulation, except for those required to be reported as Direct and Indirect Remuneration (DIR) under Medicare Part D.</p> <p><b>Limited information</b> is available about how fees paid to PBM rebate aggregators are calculated, particularly outside of Medicare.</p>
<b>TRANSPARENCY/REQUIRED DISCLOSURES</b>	<p>GPOs are also <b>required by law</b> to disclose all fees to their healthcare provider members up front, provide annual written reports to each customer that details the specific fee earned for each contract, and make that information available to the government upon request.</p>	<p>PBMs are generally <b>not required</b> to disclose additional fees and revenue received from aggregators as part of their contracts.</p>
<b>HEADQUARTERS</b>	<p>All HSCA healthcare provider member GPOs are <b>based in the U.S.</b></p>	<p>Some of the largest PBM rebate aggregators are <b>not based in the U.S.</b>, and are therefore not subject to federal government oversight and regulation, and have fewer tax implications:</p> <ul style="list-style-type: none"> <li>• Express Scripts/Ascent Health Services (Switzerland)</li> <li>• OptumRx/Emisar Pharma Services (Ireland)</li> </ul>
<b>FLEXIBILITY</b>	<p>GPO use is completely <b>voluntary</b>; healthcare provider members can, and often do, purchase outside of a GPO contract.</p>	<p>PBMs make it <b>difficult</b> for health plans or pharmaceutical manufacturers to contract outside of their rebate aggregators.</p>
<b>IMPACT ON MEDICARE PART D</b>	<p>GPOs <b>do not</b> participate in the Medicare Part D prescription drug program.</p>	<p>Medicare Part D plan sponsors <b>use</b> PBMs and their rebate aggregators to administer drug benefits.</p>
<b>IMPACT ON HOW MUCH PATIENTS PAY</b>	<p>GPO healthcare provider members include hospitals, nursing homes, physician practices and other healthcare providers. GPOs <b>do not</b> make healthcare provider member pricing decisions.</p>	<p>Rebate structures <b>negotiated by PBMs</b> affect health insurance coverage and the price consumers pay for their medications.</p>

1. The following distinctions apply to the traditional healthcare GPO model used by member GPOs of the Healthcare Supply Chain Association (HSCA). Virtually all of America's 7,000+ hospitals and 68,000+ non-acute care facilities utilize traditional GPOs.