At a Glance: Key Differences Between Healthcare Group Purchasing Organizations (GPOs) & Pharmacy Benefit Managers (PBMs)

Healthcare group purchasing organizations (GPOs) and pharmacy benefit managers (PBMs) play different roles in the healthcare supply chain. GPOs serve hospitals and other healthcare providers by negotiating contracts with suppliers, including medical device companies and drug manufacturers. Provider use of GPOs is voluntary and GPOs are often owned by their member providers. PBMs serve third-party payers, including commercial insurance companies, government payers, and employer organizations in the retail/outpatient prescription arena, by negotiating supply and reimbursement arrangements for pharmaceuticals. GPOs do not take title to product, and neither GPOs nor PBMs function as distributors or wholesalers. The following is a more detailed comparison of GPOs and PBMs, including markets served, products and services provided, operating guidelines, information disclosures, transparency, and fees/rebates. (Note: The following distinctions apply to the traditional healthcare GPO model used by all 16 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.)

	GPOs:	**PBMs:**
Markets Served	GPOs serve healthcare providers by working across the entire healthcare supply chain to aggregate the collective purchases of hospitals and systems, nursing homes, long-term care pharmacies, clinics, assisted-living centers, infusion pharmacies, home healthcare providers, and surgery centers to negotiate discounts for member providers. In doing so, GPOs reduce the costs of products and services their members purchase. Provider use of GPO contracts is voluntary.	PBMs administer prescription drug plans on behalf of health insurance plans, employer groups and others. PBMs perform administrative functions including the management of drug formularies, claims processing, appeals and grievances, etc. PBMs also negotiate drug prices and rebates with manufacturers.
Products	GPOs help source and negotiate contracts for virtually all products and services that a healthcare provider uses, with the exception of labor/staffing. Contracts include medical and surgical supplies, pharmaceuticals, large capital purchases, smaller equipment purchases, food, information technology (IT) products and services, and other goods and services. In the pharmaceutical area, GPOs operate primarily to negotiate contracts for generic drugs (and now biosimilar drugs) for inpatient use, but GPOs also sometimes arrange contracts for other drugs, including brand name drugs and biologics. It is estimated that 60% of the products used by a typical hospital are available on a GPO contract. Provider use of GPO contracts is voluntary. All hospitals, nursing homes, clinics, surgery centers, etc., are free to purchase off-contract and often do.	PBMs negotiate to reduce third-party payer costs for drugs. PBMs negotiate contracts with both manufacturers and retailers. With regard to drug manufacturers, PBMs negotiate discounts and rebates from manufacturers. PBMs develop formularies (i.e., the drugs that are covered by the third-party payer), insurance reimbursement terms for particular drugs, and payments for dispensing services for chain and independent retail pharmacies and specialty pharmacies.

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Operating Guidelines	Safe Harbor: There is both a statutory exception and a regulatory safe harbor under the anti-kickback statute (AKS) for vendor payments to GPOs (42 CFR 1001.952(j)) that specifies transparency requirements. GPOs operate within the scope of the federal GPO Safe Harbor, which requires that: 1. Each provider that uses GPO services has a written contract with the GPO; 2. GPOs disclose their administrative fee arrangements to providers that use GPO services; 3. GPOs report annually to each member the specific administrative fee earned for each contract; and, 4. GPOs provide the above information to the Secretary of the U.S. Department of Health and Human Services (HHS) upon request.	There is no statutory safe harbor designed specifically to cover manufacturer payments to PBMs [although in certain circumstances a PBM may structure an arrangement within a safe harbor (e.g., discount safe harbor contained in 42 CFR 1001.952 (h))].
Transparency	Every HSCA member GPO also participates in the Healthcare Group Purchasing Initiative (HGPII). Participants maintain a Code of Conduct and voluntarily participate in the HGPII Ethics and Transparency Initiative. GPO business practices are publicly reported on the HPGII website. Pursuant to the GPO Safe Harbor (*see above*), GPOs also disclose their administrative fee arrangements to providers that use GPOs and they provide annual reports to each member detailing the specific administrative fee earned for each contract. GPOs also provide the aforementioned information to the Secretary of HHS upon request.	PBMs providing services to Part D plans are required to report and pass on to the plan sponsor the aggregate amount of rebates and discounts received, but there is no public reporting of the specific amount of individual rebates, fees, and other reimbursements.
Fees	GPOs operate under a vendor-based administrative fee model (*see Operating Guidelines above)*. GPOs use the contract price as the basis for the administrative fee calculation. According to the U.S. Government Accountability Office (GAO), the average administrative fee for a GPO contract is 1.75% to 2%.	PBM administrative fees are determined on an individual basis based on contracts with manufacturers.
Rebates	GPOs do not keep rebates. GPOs prefer a net price discount, which is the price GPO customers pay. However, if a supplier provides a rebate, it is passed back to the appropriate customers or providers as a direct cost reduction.	PBM rebates are determined on an individual basis based on contracts with manufacturers.