

Pharmacy Benefit Managers

and Their Role in Drug Spending

What are pharmacy benefit managers?

Pharmacy benefit managers, or PBMs, are companies that manage prescription drug benefits on behalf of health insurers, Medicare Part D drug plans, large employers, and other payers.

By negotiating with drug manufacturers and pharmacies to control drug spending, PBMs have a significant behind-the-scenes impact in determining total drug costs for insurers, shaping patients' access to medications, and determining how much pharmacies are paid.¹ PBMs have faced growing scrutiny about their role in rising prescription drug costs and spending.

What role do PBMs play in how much we spend on prescription drugs?

PBMs operate in the middle of the distribution chain for prescription drugs. That's because they:

- develop and maintain lists, or formularies, of covered medications on behalf of health insurers, which influence which drugs individuals use and determine out-of-pocket costs
- use their purchasing power to negotiate rebates and discounts from drug manufacturers
- contract directly with individual pharmacies to reimburse for drugs dispensed to beneficiaries.²

The federal Centers for Medicare and Medicaid Services found that PBMs' ability to negotiate larger rebates from manufacturers has helped lower drug prices and slow the growth of drug spending over the last three years.

But PBMs may also have an incentive to favor high-priced drugs over drugs that are more cost-effective. Because they often receive rebates that are calculated as a percentage of the manufacturer's list price, PBMs receive a larger rebate for expensive drugs than they do for ones that may provide better value at lower cost. As a result, people who have a high-deductible plan or have copays based on a drug's list price may incur higher out-of-pocket costs.³

What's the controversy over the rebates PBMs receive from drug companies?

Drug manufacturers argue that the growing rebates they pay PBMs are forcing them to raise list prices for their products. According to a recent analysis, manufacturer rebates to PBMs increased from \$39.7 billion in 2012 to \$89.5 billion in 2016, partially offsetting list price increases.⁴ PBMs counter that they have been passing along a larger share of the rebates to insurers.

There is a lot of debate over whether PBMs should be able to keep the rebates they receive from drug manufacturers, which generally aren't publicly disclosed. Some believe PBMs should be compelled to "pass through" all or a larger portion of these savings to health insurers and other payers. If PBMs were required to do this, insurers could use the savings to further reduce people's premiums and cost-sharing payments.

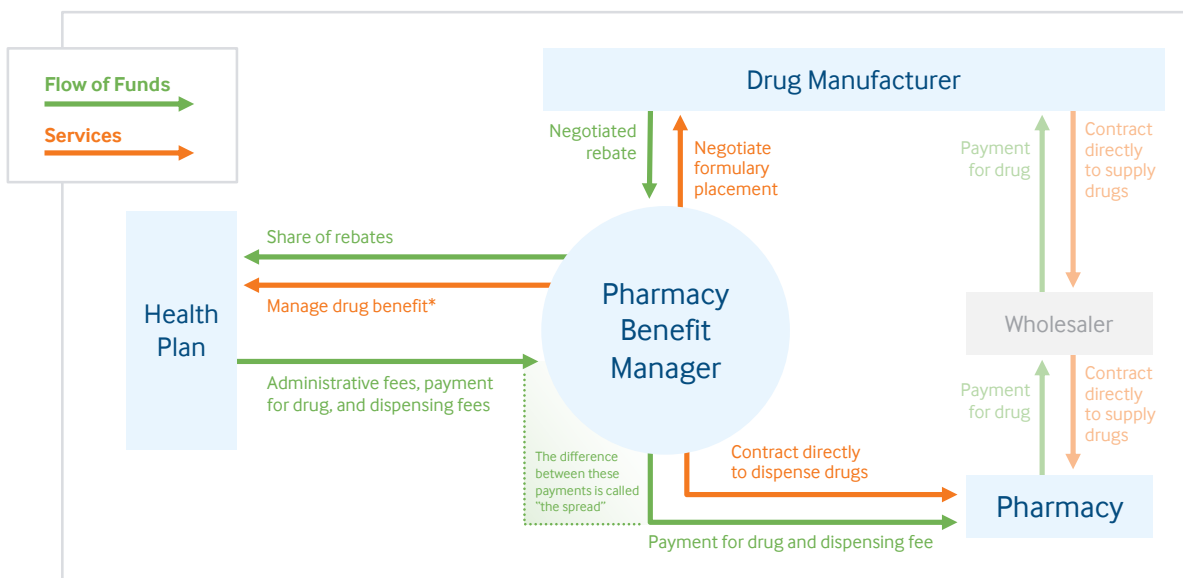
A recent study found that the share of rebates PBMs passed through to insurers and payers increased from 78 percent in 2012 to 91 percent in 2016.⁵ But many small insurers and employers say they do not receive this share of savings.⁶

A separate controversy involves a PBM practice known as "spread pricing," whereby PBMs are reimbursed by health plans and employers a higher price for generic drugs than what the PBMs actually pay pharmacies for these drugs. The PBMs then keep the difference. Again, a lack of transparency allows this to happen: the payment schedules PBMs generate for pharmacies are kept confidential from health plans.



Pharmacy Benefit Managers (continued)

Role of a Pharmacy Benefit Manager in Providing Services and Flow of Funds for Prescription Drugs



* Includes establishing formulary and patient adherence programs and implementing utilization management tools – such as prior authorization, step therapy, and tiering -- to steer patients toward certain drugs on formulary.

Data: Adapted from Congressional Budget Office, "Prescription Drug Pricing in the Private Sector," January 2007.

What reforms have been proposed to regulate PBMs?

Policymakers have considered three principal reforms to regulate PBMs:

- **Require greater transparency around rebates.** Federal and state policymakers likely need more data on the rebates PBMs receive to gain a more complete understanding of pharmaceutical spending and where reforms may be needed.
- **Ban spread pricing.** Policymakers could ban the practice to ensure that payers and employers are not overpaying PBMs for prescription drugs. A more limited proposal would mandate that PBMs update their cost schedules with pharmacies to reflect price increases for generic drugs.⁷
- **Require PBMs to pass through rebates to payers or to patients.** To preserve some of their incentive to negotiate price reductions with drugmakers, PBMs could be required to pass through 90 percent of their rebate savings to payers. Alternatively, PBMs could be required to pass through rebates to patients. The federal government has, in fact, proposed requiring PBMs contracted with Medicare Part D plans to pass through to patients at least one-third of the rebates and price concessions they receive.

Some experts think that PBMs also need to reorient their business model away from securing rebates and more toward improving value in pharmaceutical spending. For example, health plans and PBMs could do more to support physicians in prescribing the most cost-effective medications on their patient's formularies. And PBMs could base formulary decisions and price negotiations on a drug's health benefits as well as its effect on the total cost of patient care.

NOTES

1. *Health Policy Brief Series: Prescription Drug Pricing* (Health Affairs, Sept. 2017).
2. Elizabeth Seeley and Aaron S. Kesselheim, *Pharmaceutical Benefit Managers: Practices, Controversies, and What Lies Ahead* (Commonwealth Fund, March 2019).
3. Seeley and Kesselheim, Pharmacy Benefit Managers.
4. Susan K. Urahn et al., *The Prescription Drug Landscape, Explored* (Pew Charitable Trusts, March 2019).
5. Urahn et al., *The Prescription Drug Landscape, Explored*.
6. Seeley and Kesselheim, Pharmacy Benefit Managers.
7. Seeley and Kesselheim, Pharmacy Benefit Managers.