

Pharmacy benefit managers (PBMs): Contributing to rising drug costs

PBMs have evolved over recent decades into behemoth corporate middlemen that affect nearly all aspects of the prescription drug marketplace. Yet, the lack of transparency and regulatory oversight make it difficult to guard against secretive practices that contribute to higher costs.

PBM Practices That Increase Drug Costs

Keeping Rebates- PBMs set the formulary, or list of covered drugs, based on rebates from manufacturers. PBMs retain huge shares of rebates. This also pushes drug costs higher, as the Center for Medicine in the Public Interest noted, “most of the increase in drug spending were rebates pocketed by PBMs.”¹

Spread Pricing- PBMs set reimbursement rates for pharmacies dispensing medication and charge plan sponsors a higher amount – and keep the difference without full disclosure.

Conflicts of Interest- PBMs contract with pharmacies to participate in their networks and determine reimbursement for said pharmacies for dispensing medications. However, the major PBMs also own their own pharmacies (often mail order and specialty pharmacies). PBMs use their powerful position to steer patients to PBM-owned pharmacies, even when more expensive.²

PBM Clawbacks- “Clawbacks” by PBMs generally fall into two categories, co-pay clawbacks and direct and indirect remuneration (DIR) fees and occur when the PBM takes money back from a pharmacy on a legitimate clean claim. With co-pay clawbacks the PBM instructs the pharmacy to collect inflated co-payments and then recoups the excess from the pharmacy and is generally kept by the PBM.³ Pharmacy DIR fees affect beneficiaries in Medicare Part D, and ultimately taxpayers that fund the Medicare program.”⁴

Solutions

Help ensure PBM accountability by supporting the following legislation:

- S. 413/H.R. 1038, the “Improving Transparency and Accuracy in Medicare Part D Drug Spending Act.”
- H.R. 1316, the “Prescription Drug Price Transparency Act.”
- S. 1044/H.R. 1939, the “Ensuring Seniors Access to Local Pharmacies Act.”

Conclusion

PBMs have a role to play, but that role should be limited to administrative functions such as claims processing and contracting with pharmacies. As it stands, the lack of transparency and meaningful oversight of PBMs allows them to operate in the shadows to manipulate the marketplace for their own benefit and contribute to rising drug costs.

¹ Robert Goldberg, “Drug Costs Driven by Rebates,” Center for Medicine in the Public Interest, <http://bionj.org/wp-content/uploads/2015/11/drug-costs-driven-by-rebates.pdf>.

² Norman V. Carroll, Ph.D., “A Comparison of the Costs of Dispensing Prescriptions through Retail and Mail Order Pharmacies,” February 2013, http://www.ncpanet.org/pdf/leg/feb13/comparison_costs_dispensing_prescriptions_retail_mail_order.pdf

³ Julie Appleby, “Filling a Prescription? You Might Be Better Off Paying Cash,” CNN, June 23, 2016, at <http://www.cnn.com/2016/06/23/health/prescription-drug-prices-pbm/>.

⁴ “Medicare Part D – Direct and Indirect Remuneration,” Centers for Medicare & Medicaid Services, January 19, 2017, at <https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2017-Fact-Sheet-items/2017-01-19-2.html>.