

Pharmacy Benefit Managers (PBMs) 101

Background—What do they do?

Pharmacy benefits managers (PBMs) are middlemen that were originally designed to reduce administrative costs for insurers, validate patient eligibility, administer plan benefits as well as negotiate costs between pharmacies and health plans. Over time, PBMs have taken advantage of their strategic position between the insurer and provider to assert control over most aspects of prescription drug transactions.

Today, PBMs are complex business entities with multiple, extremely profitable, revenue streams. The three largest PBMs manage drug benefits for approximately 95% of Americans with prescription drug coverage and each of these companies has annual revenues exceeding \$15 billion. In spite of these facts, PBMs are virtually unregulated at the state or federal level—even though they manage numerous prescription plans funded by taxpayer dollars.

How do PBMs Generate Such Excessive Profits?

1. PBMs receive payment from pharmaceutical manufacturers for favoring certain drugs (most often brand name) because PBMs create formularies or lists of drugs that will be covered by the health plan
2. PBMs negotiate two types of contracts—one with pharmacies—and one with plan sponsors. The

PBM reimburses pharmacies one rate for dispensing a medication but charges a higher rate to the plan sponsor for the same medication—and pockets the “spread” between the two prices.

3. Most large PBMs also own their own mail order pharmacy. PBMs usually financially penalize those patients that choose to use their community pharmacy rather than the PBM-owned mail order pharmacy.

What are the Inherent Conflicts of Interest in the Current PBM System?

1. Because PBMs typically receive rebates on brand-name drugs, they are not incentivized to encourage the use of a less-expensive generic version. PBMs typically do not pass the rebated savings back to the plan sponsor.
2. PBMs frequently require patients to switch drugs—so that they have to take a drug on which the PBM has negotiated a greater rebate—increasing the profit to the PBM
3. In large part, the plan sponsor has no knowledge about the rebate deals the PBM negotiates with the manufacturers and has no knowledge of the “spread” or the difference between what the PBM pays the pharmacy and what the PBM charges them for the same drug.

What Should be Done to Remedy the Current PBM System?

States need to enact legislation that would:

- Require PBMs to disclose potential conflicts of interest in contracts with plan sponsors
- Prevent PBMs from “steering” patients to their own mail order pharmacy
- Treat retail pharmacies in the PBM network fairly