The PBM Story

WHAT THEY SAY...

WHAT THEY DO...

AND WHAT CAN BE DONE ABOUT IT.
Decades ago, insurance companies expanded their coverage to include prescription drugs. They turned to a new kind of company, a sort of middleman, to process prescription drug claims.

For just a small fee per claim, these processors took care of all those prescription claims, not only for insurers, but also for self-insured employers and even certain state and federal government agencies—“plan sponsors” for short.

Everyone was happy: Plan sponsors had someone else to administer all those prescription claims, the claims processors made money providing the service, and patients had easy access to their medications at their neighborhood pharmacies.

As time passed, the middlemen began to exert more and more control over the consumer’s prescription drug benefits. They developed formularies and told doctors and pharmacists which drugs they were allowed to give consumers and under what circumstances. They had morphed from something good and useful into large corporations intent on pursuing profits at the expense of quality patient care. They began to concentrate their power. Many smaller PBMs were gobbled up by larger ones. Others were purchased by plan sponsors themselves, or even by large drugstore chains. In recent years, the largest PBMs merged with large health insurers. CVS Health (which was already both the single largest pharmacy chain in the country and the second largest PBM) acquired Aetna Inc., the third-largest health insurance company in the country, and Express Scripts (the largest PBM) was acquired by Cigna, another of the so-called “big-five” health insurers. And the third major PBM (OptumRx) was already affiliated with the single largest health insurer in the country (UnitedHealthcare).
After numerous acquisitions and consolidations,

**Just 3 PBMs** NOW CONTROL 80%

—Express Scripts, CVS Caremark, OptumRx—

of prescription drug benefit transactions in the U.S.¹

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¹ [https://www.drugchannels.net/2022/04/the-top-pharmacy-benefit-managers-of.html?m=1](https://www.drugchannels.net/2022/04/the-top-pharmacy-benefit-managers-of.html?m=1)

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Pharmacists, patient groups, and policymakers expressed concern that all that consolidation and vertical integration was reducing competition and limiting patient choices. And they were right....
These days, PBMs market themselves as the guard dogs of cost in the supply chain. That’s their story.

But that’s all it is... a story, a fable. Drug expenditures keep going up. Plan sponsors and patients are paying more. And those middlemen, the PBMs—well, they’ve not only gotten powerful, they’ve also gotten rich. Very, very rich. And they’ve done it at the expense of plan sponsors and consumers.
Here’s how they make money.

The main ways PBMs extract their profits is via rebates, administrative fees, and spread.

A rebate is a discount on a medication a drug manufacturer gives a PBM in return for the PBM agreeing to cover the drug manufacturer’s product. Sometimes that means eliminating a less expensive, comparable medication from the formulary. Usually, only a portion of those rebates are shared with the plan sponsor. The PBM pockets the rest.

In recent years, rebates have exploded in magnitude. Today, over a quarter of the net price paid for medications is attributable to rebates. In other words, a consumer’s prescription may cost over a quarter more than it should due to rebates alone.

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“The problem is that our current system provides incentives for companies to push list prices higher, only to rebate the money later on the back end. Yet the rebates don’t benefit consumers equally and they don’t necessarily help offset the costs paid by those who need a particular drug.”

~ FDA COMMISSIONER–DESIGNATE SCOTT GOTTLIEB IN OCTOBER 2016 TESTIMONY TO THE SENATE COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

Rebates aren’t the only charges PBMs extract. Often, they charge manufacturers and plan sponsors additional fees and payments that the PBM keeps for itself. Without full transparency, drug pricing is so complex that even the savviest of plan sponsors may not know all of the charges buried in their contracts. Those fees work to further drive up drug prices, too.

PBMs also make money on what’s called “the spread.” That’s the practice of reimbursing the pharmacy one amount for a medication, charging the plan sponsor a higher price for the same drug, and pocketing the difference.

Often, plan sponsors don’t know exactly how much more they are being billed for a drug than the pharmacy was reimbursed for it. They don’t know this because of the complexity of pharmacy pricing and the lack of appropriate transparency—which, of course, advantage the PBM.

“I have never met, in this entire experience, a PBM or a payer outside of the Medicaid segment that preferred a price of $50,000 over $75,000 and a rebate back to them.”

~ EXECUTIVE WITH PHARMA MANUFACTURER GILEAD SCIENCES, INC, AS QUOTED IN MARCH 3, 2017
Here are some real numbers.

Today’s largest PBMs say they lower prescription drug benefit costs for plan sponsors. Yet, since 1987, total spending on prescription drugs in the U.S. has increased 1,279 percent, from $26.8B to $369.7B. Overall price inflation in the U.S. only grew 125.9 percent in that same period.

PBMs point out that patients’ out-of-pocket expenses (copays, etc.) as a percentage of total prescription drug spend have been falling for decades. That’s misleading, because total drug spend in dollars has risen precipitously in the same period. And in fact, the amount of money consumers themselves are paying for prescriptions has grown, not fallen. Indeed, actual patient out-of-pocket costs have increased 222 percent since 1987!

Per-patient spending on prescription drugs has continued to rise dramatically—especially since 2014, when costly specialty drugs sky-rocketed and high-deductible insurance plans took off. Oddly, PBMs have been unable to control specialty drug spending, even while the two largest specialty pharmacies are owned by—you guessed it—PBMs. They fill specialty prescriptions at those PBM-owned pharmacies, and often require patients to use those pharmacies. The PBM-owned specialty pharmacy comes out all right in that transaction. But the plan sponsor and the patient? Not so much.

MORE RESULTS OF PBMS’ “COST CONTROL”

- private health insurers have seen a 2,854 percent increase in per-employee prescription drug benefit costs since 1987.\(^5\)
- In the U.S., prescription drugs now account for nearly 10 percent of all national health care expenditures, up from 5.2 percent in 1987.\(^5\)

In 2019, the combined revenues of the largest health insurers, and their PBMs, were forecast to significantly outpace the combined revenues of Amazon, Apple, Facebook, Google, and Netflix (commonly referred to as the FAANG companies). And, for the 4th quarter of 2019, Anthem credited its PBM business for outperforming its revenue projections. 

The largest PBM experienced an increase in net income of 70 percent in just two years, while the Bureau of Economic Analysis shows that after-tax corporate profits by other U.S. businesses remained virtually unchanged. According to one estimate, PBMs fail to pass $120 billion back to consumers, and retain another $30 billion in additional out-of-pocket costs.

~ “YOU CAN BLAME PHARMACY BENEFIT MANAGERS FOR HIGHER DRUG PRICES,” REAL CLEAR HEALTH, MARCH 28, 2017
https://www.realclearhealth.com/articles/2017/03/28/you_can_blame_pharmacy_benefit_managers_for_higher_drug_prices_110516.html

Here’s a better story.

Think of it as a handful of prescriptions for what’s ailing prescription health care costs in the U.S.

**DEMAND TRANSPARENCY...**

Sunlight, as they say, is the best disinfectant. In the short run, plan sponsors—employers, unions, and federal and state governments—deserve better cost control. They must require complete transparency from PBMs when it comes to direct and indirect revenues that the PBMs receive for administering that plan sponsor’s prescription benefit plan.

**CHANGE THE MODEL...**

Another option for plan sponsors is to look at changing the model entirely: paying PBMs a simple flat fee (in total or per prescription) to administer the plan sponsor’s chosen services. Properly structured, that model would eliminate hidden costs for plan sponsors and patients—costs that are at the heart of the continuing increases in prescription benefit spending. Another route some large self-insured employers have taken—Caterpillar, Inc., for instance—is for the company to act as its own prescription coordinator. Caterpillar has cut its annual prescription drug spend by tens of millions of dollars using this approach. Since, other companies have sought to take control of their health care and prescription drug costs. The Health Transformation Alliance, an organization of large employers—including Caterpillar—has emerged to bring greater data and transparency to health spending.

**REGULATORY RX**

Strengthen regulation of PBMs at the federal and state levels by supporting passage of these propatient bills pending in the 117th Congress and model state PBM reform:

- **H.R. 3554/S. 1909,** the “Pharmacy DIR Reform to Reduce Senior Drug Costs Act.”
- Enact legislation to prohibit spread pricing in Medicaid Managed Care programs.
- **H.R. 2608,** the “Ensuring Seniors Access to Local Pharmacies Act.”
- Enact legislation in the states to reform PBMs, such as the model legislation adopted by the National Conference of Insurance Legislators.

Help ensure PBM accountability by supporting these legislative measures!
Pharmacist provision of clinical services may increase the likelihood of quality measure achievement. The pharmacist integration model addressed gaps in care that appeared to positively affect MIPS and PCMH quality measures.

“One of the most evidence-based decisions to improve the health system is to maximize the expertise and scope of pharmacists and minimize expansion barriers of an already existing and successful health care delivery model.”

Among patients who received inpatient intervention plus consultation with community pharmacists, there was an 8:1 return on investment in savings on overall health care costs per dollar spent.

A 2010 systemic review of 298 studies found that pharmacist-provided services positively impacted patient outcomes and reduced health care spending across health care setting and disease states.
When it comes to prescription drug prices, there’s a better story than the one America has been told—and sold—by PBMs over the past quarter century.

By embracing appropriate transparency and new payment and patient care models, we can rewrite the story—so we can all live happier—and healthier—ever after.

“Caterpillar’s move away from benefit managers started when it suspected that as much as a quarter of its $150 million drug spending was wasted. The company devised its own list of drugs to offer its U.S. health-plan members and negotiated deals with pharmacies. It promoted generics and discouraged use of expensive heartburn and cholesterol medicines. The changes have saved the company $5 million to $10 million per year on cholesterol-lowering statins alone…. Drug spending at Caterpillar… has dropped per patient and per prescription since the company started the program.”

— “DRUG COSTS TOO HIGH? FIRE THE MIDDLEMAN,” BLOOMBERG NEWS, MARCH 3, 2017