

The Invisible Middlemen: The Impact of PBMs on Prescription Drug Costs and Access to Treatment

What is a Pharmacy Benefit Manager (PBM)?

- Company hired by Health Plans to manage drug benefit programs.
- Act as intermediaries between Health Plans, Manufacturers, and Pharmacies.

The PBM Problem

- PBMs use position to negotiate contracts with Manufacturers, Health Plans, and Pharmacies that maximize profits at patients' expense.
- PBM Revenue Sources: spread pricing and rebates.

Spread Pricing

- Spread: Difference between what PBM charges Health Plan for a given drug and what it reimburses Pharmacy for dispensing it.
 - Pharmacies don't know what Health Plans pay PBM for a drug and Health Plans don't know how much PBM reimburses Pharmacies for dispensing it.
 - PBMs use this lack of transparency to keep spread as profit.

The Rebate System

- Rebate: Retroactive discount paid by Manufacturers to PBMs in exchange for preferred placement on PBM formulary.
 - Motivates PBMs to construct formularies based on rebate amounts, not patient care or reducing drug costs.
 - Leads to practices like step therapy, prior authorization, non-medical switching, etc.
- Creates market pressure for list prices (higher the list price, higher the rebate).
 - Coinsurance/copay based of list price, not rebated price, so patients pay inflated amount.
- Rebates are not always passed back to Health Plans, even though many Plan-PBM contracts contain rebate terms.
 - PBM is only contractually obligated to pass on "rebate" as specifically defined in contract.
 - Health Plan does not know amount of rebates PBM actually collects from Manufacturer.
 - PBMs exploit non-transparency to "reclassify" portion of rebate in Manufacturer contract as "fees," which PBM keeps as profit.

Drug Supply Chain



MANUFACTURER

Manufacturer sells drug to wholesaler at WAC (minus bulk discounts, etc.)



WHOLESALER

Wholesaler sells drug to pharmacies at percentage off WAC.



PHARMACIES

Patient with insurance pays copayment and pharmacy fills and dispenses drug.



PATIENTS

Drug Benefit Program



PATIENTS

Patient pays premium and insurer provides prescription drug coverage.



INSURER

Insurer hires PBM to oversee its drug benefit program and reimburses PBM for the cost of drugs actually dispensed plus admin fees.



PBM

Pharmacies join PBM's pharmacy network and PBM reimburses pharmacies for dispensing drug plus a dispensing fee.



PHARMACIES

The Rebate System



MANUFACTURER

Manufacturer pays rebates to PBM in exchange for preferred formulary placement and increased market share for its drug.



PBM

PBM theoretically passes back portion of rebate to insurer as a retroactive discount.



INSURER

Retroactive rebate should theoretically lower drug costs for patients.



PATIENTS

Putting It All Together: The Drug Industry

CSRO

COALITION OF STATE RHEUMATOLOGY ORGANIZATIONS



MANUFACTURER

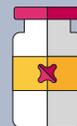
Placement on Formulary (green arrow up), Rebate (orange arrow down)



PBM

Reimbursement + Disp. Fee (blue arrow down), Pharmacy Network (green arrow up)

Pharmacy Network (green arrow up), Reimbursement + Disp. Fee (blue arrow down)



PHARMACIES

Dispense Drug (red arrow left), Copay (blue arrow right)

Drug Flow (red arrow left), Services (green arrow left), Cash Flow (blue arrow left), Rebate (orange arrow left)



WHOLESALER

Payment (blue arrow up), Ship Drug (red arrow down)

Ship Drug (red arrow up), Payment (blue arrow down)

Reimbursement + Admin Fee (blue arrow right)

Manage Drug Program (green arrow left)

Share of Rebate (orange dashed arrow left)

Drug Coverage (green arrow left), Premium (blue arrow right)



PATIENTS



INSURER