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.

Sources:
### 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**

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**Putting It All Together: The Drug Industry**

**CSRO**
Coalition of State Rheumatology Organizations

**MANUFACTURER**
- Payment + Admin Fee
- Rebate
- Placement on Formulary

**INSURER**
- Manage Drug Program
- Premium

**PBM**
- Reimbursement + Disp. Fee
- Pharmacy Network
- Share of Rebate

**PHARMACIES**
- Dispense Drug
- Copay

**WHOLESALER**
- Ship Drug
- Payment