PBMs Create Price Competition Among Manufacturers of "Me-Too" Drugs

PBMs encourage clinically appropriate and cost-effective prescribing by assembling Pharmacy and Therapeutics (P&T) committees to recommend the plan's formulary.

- A formulary is a list of prescription drugs approved for reimbursement by the plan sponsor contracting with a PBM.
- A P&T committee is composed of pharmacists and physicians from various medical specialties. Formulary decisions based on cost factors only after the P&T committee has established and evaluated the safety, efficacy and therapeutic need for a drug.

PBMs extract price concessions from manufacturers of "me-too" drugs by making manufacturers compete for placement on the plan sponsor's formulary.

- The Food and Drug Administration (FDA) grants exclusive marketing rights (exclusivity) to the manufacturer of a patented (brand) drug. Exclusivity protects the drug from competition. However, many patent-protected, brand drugs within the same therapeutic class are "me too" products—drugs with similar therapeutic efficacy and safety.
- The formulary allows the PBM to create price competition between manufacturers of products evaluated as therapeutically equivalent by a P&T committee. Pharmaceutical manufacturers of patented medicines offer payments and rebates for therapeutically equivalent products in exchange for formulary status. PBMs may recommend preferred status on the formulary for those products that offer the most competitive pricing and rebates.

Plan sponsors choose the best arrangement for sharing rebates based on the sponsor's unique needs.

- Plan sponsors receive more than 80% of PBM savings from manufacturer payments and rebates.
- Manufacturer payments and rebates are usually paid by the manufacturer on a quarterly basis but may lag by several quarters. Most manufacturers pay within 90 days of submission by the PBM. The PBM submits rebate claims quarterly so some claims may be paid up to six months after the drug has been dispensed.
- Some plan sponsors may negotiate for their share of the rebate discounts to come out of a PBM's administrative fees, lowering their overall payment up front rather than waiting for a rebate check. Others may negotiate to receive a higher share of the rebate once it is received by the PBM, but offset the delayed payments through higher member copayments.

Plan sponsors expect their PBMs to drive high compliance with the formulary among the plan's members.

- Prescription drug plans financially reward patients for using generic and lower-tier formulary drugs by requiring the patient to pay progressively higher co-payments for drugs on higher tiers. Cost-saving generic drugs on the lowest tier are the least expensive for the PBM's client and member, while preferred brand drugs are usually on the second tier.
- Prior physician authorization is required before a pharmacist is allowed to interchange one brand-name drug for another. PBMs institute therapeutic interchange programs to encourage plan members to use formulary products or preferred formulary products.