

PBM Reality Check

The National Legislative Association for Prescription Drug Prices (NLA) has made a number of negative assertions about the value of pharmacy benefit managers (PBMs). It's time for a reality check.

NLA Says: PBMs don't have a good track record holding down drug costs.

Reality Check: PBMs lower the costs of prescription drug care for nearly 200 million Americans and save health plan sponsors billions of dollars per year. Numerous government studies have documented that PBMs hold down drug costs. A 2003 study by the General Accounting office found that PBMs reduce the cost prescription drugs by up to 53 percent compared to cash prices charged by retail pharmacies. In estimating the cost of Medicare legislation, the Congressional Budget Office reported that PBMs reduce unmanaged prescription drug costs by 20% to 30%. As a result of this proven record, PBM clients include the vast majority health plans, Fortune 500 companies, and privately-administered government programs.

NLA Says: Increasing expenditures on prescription drugs is evidence that PBMs don't work.

Reality Check: Increasing expenditures on prescription drugs is evidence that Americans are taking more and more prescription medications. Many drugs are now available that did not exist just a few years ago—to treat a wide range of diseases, including cancer, HIV/AIDS, and Rheumatoid Arthritis, for example. And as percent of Americans over 65 continues to increase, the consumption of new and existing prescription drugs will continue to rise dramatically.

NLA Says: PBMs have large profit margins.

Reality Check: According to public filings with the Securities and Exchange Commission, profit margins for the three largest PBMs in 2002 ranged from 2.7% to 3.7% (EBITDA or earnings before interest, taxes, depreciation, and amortization).

NLA Says: Non-profit PBMs would do a better job at holding down costs.

Reality Check: Non-profit PBMs are an entirely untested concept. There is no evidence to suggest that a non-profit PBM would have greater incentives to lower costs or that such an entity could even raise the necessary capital to build an infrastructure capable of processing millions of prescription claims, conducting electronic safety reviews on those prescriptions, building networks linking tens of thousands of pharmacies, or providing millions of mail service prescriptions.

NLA Says: For-profit PBMs are unregulated, unaccountable entities.

Reality: PBM activities are extensively regulated, directly and indirectly at both the state and federal levels. PBMs are held accountable for their performance and consumer protections—including grievance and appeals processes—through their contractual obligations with their clients.

NLA Says: PBMs are aligned with pharmaceutical manufacturers and keep manufacturer rebates for themselves.

Reality Check: PBMs work for their health plan clients who hire them to provide high quality prescription drug benefits while holding down drug costs. PBMs negotiate with manufacturers to obtain discounts and rebates on prescription drugs. PBMs pass-back manufacturer rebates to clients based on the negotiated terms of their contract. In today's competitive market, the overwhelming majority of rebate funds are distributed to clients.

NLA Says: PBMs favor higher-priced drugs to increase manufacturer rebates.

Reality Check: PBMs are valued by their clients in large part by their ability to reduce drug costs. Consequently, PBMs are highly motivated to promote the most cost-effective products alternatives, including generics. Only the physician has the authority to change a prescription. PBMs work through a range of channels including retail pharmacy and physician education programs to promote the most cost effective products as alternatives to more expensive prescription drugs.

NLA Says: Legislation is necessary make PBM business arrangements “transparent.”

Reality Check: PBMs operate under the terms of confidential contracts with their clients. Economists recognize that disclosure of confidential contract terms and strategies to sellers, competitors or the public impairs the operation of markets, like the PBM market. By forcing confidential contract terms to be publicly disclosed, “transparency” would actually harm consumers by stifling PBMs ability negotiate aggressive discounts with manufacturers and hold down drug costs. The Congressional Budget Office recently estimated that PBM “transparency” would add nearly \$40 billion to the ten-year cost of a Medicare prescription drug benefit.

NLA Says: Fiduciary status is necessary to make PBMs accountable to their customers.

Reality Check: "Fiduciary" status would destroy the type of business relationships that have allowed PBMs to innovate and compete to hold down drug prices.

NLA Says: PBMs contracts prevent clients from conducting the type of audits required to determine whether the contract is beneficial.

Reality Check: PBM contracts contain the right to review the PBMs’ performance based upon mutually agreed terms. In today’s competitive market, clients often demand and receive performance guarantees as well as the right to monitor and measure performance on targeted functions. Audits and contract compliance programs are often included in client contracts with PBMs.

NLA Says: PBMs have harmed independent pharmacies.

Reality Check: PBM networks include 95 percent of the nation’s pharmacies. PBM networks allow consumers to fill their prescriptions at a wide variety of pharmacies, including independent pharmacies. Independent pharmacies within PBM networks benefit from increased consumer traffic through their stores. According to data published by the National Community Pharmacists Association, prescription drug sales through community pharmacies have increased rapidly in recent years, climbing 22% in 2001 for example. Independent pharmacies’ largest threat is the chain pharmacy industry, not PBMs.

NLA Says: PBMs force consumers into mail-service pharmacies to enhance their profit.

Reality Check: At the direction of the PBM client, a mail service option is often included as part of the prescription drug benefit. Typically, consumers have the option of filling their prescriptions at retail pharmacies or through mail service. There is overwhelming evidence that PBMs save consumers money through mail order. The January 2003 GAO study found that, on average, ordering drugs through PBMs’ mail service facilities saves 27% on brand name drugs and 53% for generics over the cash price of the same drugs at retail pharmacies.