



## PBM-Negotiated Rebates Reduce Costs for Plan Sponsors

Price concessions, in the form of rebates, negotiated by pharmacy benefit managers (PBMs) significantly lower the cost of drugs. According to researchers, PBMs, who are hired by plan sponsors to maximize the value of prescription drug benefits, help patients and payers save \$941 per enrollee per year in prescription drug costs,<sup>i</sup> equaling \$654 billion over the next 10 years.<sup>ii</sup> Plan sponsors use these savings to benefit patients by lowering premiums, deductibles, and cost sharing.

**Drug Manufacturers Set Drug Prices; PBMs Work to Achieve the Lowest Net Cost for Drugs:** It is always the drug manufacturer who decides what the price of a given drug will be. PBMs do not set drug prices—rather, PBMs evolved as a means to lower the cost of drug benefits by negotiating price concessions with manufacturers and pharmacies on behalf of plan sponsors, such as large employers, government programs, and insurers. In addition, PBMs lower costs by encouraging use of generics, offering specialty pharmacy services, and helping patients with drug adherence. PBMs would not serve 266 million<sup>iii</sup> enrollees through all kinds of health plans if they did not bring down costs.

**Rebates Drive Competition among Brand Drug Manufacturers:** PBMs and health plan sponsors create formularies to give patients an incentive to take the most clinically appropriate and cost-effective medication. The formulary drugs are recommended by independent scientific experts who consider the latest clinical evidence. Ultimately, the PBM client determines which drugs will be in its formulary and how they are covered. When therapies are judged equivalent, PBMs can negotiate rebates from manufacturers for favorable positions on formularies.

**Plan Sponsors Decide the Portion of Rebates They Receive: PBMs are transparent to clients with respect to rebates, in accordance with contractual requirements.** Nearly half of employer plan sponsors negotiating to receive manufacturer rebates elect to receive 100% of the rebate amounts<sup>iv</sup> and pay administrative fees to the PBM. Other payers negotiate for their PBMs to receive a portion of the rebates. On average, PBMs pass back 90% of negotiated rebates from drug manufacturers, which payers use to lower enrollees' and their own health spending.<sup>v</sup>

**Revealing or Interfering in Confidential Negotiations Undermines Competition, Raising Costs for Consumers and Plan Sponsors:** The Federal Trade Commission (FTC) has established that confidential negotiations result in more competition and lower costs for patients and plan sponsors:

- The Federal Trade Commission has stated that, "[i]f pharmaceutical manufacturers learn the exact amount of rebates offered by their competitors ... then tacit collusion among manufacturers is more feasible ... Whenever competitors know the actual prices charged by other firms, tacit collusion — and thus higher prices — may be more likely."<sup>vi</sup>
- The FTC has also warned several states that legislation requiring PBM disclosure of negotiated terms could increase costs and “undermine the ability of some consumers to obtain the pharmaceuticals and health insurance they need at a price they can afford.”<sup>vii</sup>
- The FTC also noted that proposed legislation that would have forced disclosure of drug pricing information would, “likely undermine the PBMs’ ability to negotiate lower drug prices, in turn raising costs for patients and plan sponsors.”<sup>viii</sup>

<sup>i</sup> Visante, Inc. “The Return on Investment (ROI) on PBM Services.” Prepared by Visante on behalf of PCMA, November 2016. <https://www.pcmagnet.org/wp-content/uploads/2016/11/ROI-on-PBM-Services-FINAL.pdf>

<sup>ii</sup> Visante Inc., “Pharmacy Benefit Managers (PBMs): Generating Savings for Plan Sponsors and Consumers,” Prepared for PCMA, February 2016. <https://www.pcmagnet.org/wp-content/uploads/2016/08/visante-pbm-savings-feb-2016.pdf>

<sup>iii</sup> PR Newswire, “PBMs Provide Policy Solutions to Increase Competition, Reduce Rx Costs,” Feb 04, 2016.

<sup>iv</sup> Pharmacy Benefit Management Institute, “PBMI Research Report: Trends in Drug Benefit Design,” 2016.

<sup>v</sup> Written Testimony of Joanna Shepherd, Ph.D., Emory University for the ERISA Advisory Council Hearing on PBM Compensation and Fee Disclosure, June 19, 2014, Citing J. P. Morgan, “Pharmacy Benefit Management, Takeaways from Our Proprietary PBM Survey,” May 21, 2014.

<sup>vi</sup> U.S. Federal Trade Commission and the U.S. Department of Justice, Improving Health Care: A Dose of Competition (July 2004)

<sup>vii</sup> Letter from FTC to Rep. Patrick T. McHenry, U.S. Congress, (July 15, 2005); Letter from FTC to Assemblyman Greg Aghazarian, California State Assembly, (September 3, 2004).

<sup>viii</sup> FTC Letter to CA Asm. William Brough Regarding CA AB315 (March 31, 2017)