

Pharmacy Benefit Manager (PBM) Basics: Innovative Tools and Techniques

Using innovative tools and techniques, PBMs have helped their clients — health plans, self-insured employers, union-sponsored plans, and public purchasers, including Medicare Part D, Medicaid, and the Federal Employees Health Benefits Program — extend prescription drug benefits to the vast majority of American workers and retirees. Today, more than 210 million Americans nationwide receive drug benefits administered by PBMs.

Scope of PBMs

PBMs aggregate the buying clout of millions of enrollees through their client health plans, enabling plan sponsors and individuals to obtain lower prices for their prescription drugs through price discounts from retail pharmacies, rebates from pharmaceutical manufacturers, and the efficiencies of mail-service pharmacies. PBMs also use clinical tools aimed at reducing inappropriate prescribing by physicians, reducing medication errors, and improving consumer compliance and health outcomes.

Competition Among PBMs

Currently, there are approximately 60 PBMs managing the majority of prescription drug expenditures in the United States. PBMs operate in an extremely demanding marketplace where competition has been described as “vigorous” by the Federal Trade Commission (FTC).¹ While many PBMs are independently owned and operated, some are subsidiaries of managed care plans, major chain drug stores or other retail outlets. PBMs compete to win business by offering their clients a range of sophisticated administrative and clinically based services, enabling them to manage drug spending by enhancing price competition and increasing the cost-effectiveness of medications.

PBM Strategies and Tools

All PBMs offer a core set of services to manage the cost and utilization of prescription drugs and improve the value of plan sponsors' drug benefits. Some offer additional tools, such as disease management, that can target specific clinical problems for intervention. It is up to the client of the PBM, however, to determine the extent to which these tools will be employed. Such tools include:

- **Pharmacy networks** — PBMs build networks of retail pharmacies to provide consumers convenient access to prescriptions at discounted rates. PBMs monitor prescription safety across all of the network pharmacies, alerting pharmacists to potential drug interactions even if a consumer uses multiple pharmacies.
- **Mail service pharmacies** — PBMs provide highly efficient mail-service pharmacies that supply home-delivered prescriptions with great accuracy and safety and at a substantial savings. In a 2005 report, the FTC determined that PBM-owned mail-order pharmacies (1) offer lower prices on prescription drugs than retail pharmacies and non-PBM owned mail pharmacies; (2) are very effective at capitalizing on opportunities to dispense generic medications; and (3) have incentives closely aligned with their customers: the third-party payers who fund prescription drug care.²
- **Formularies** — PBMs use panels of independent physicians, pharmacists, and other clinical experts to develop lists of drugs approved for reimbursement in order to encourage clinically appropriate and cost-effective prescribing; PBM clients always have the final say over what drugs are included on the formulary that they offer to their employees or members.
- **Plan design** — PBMs advise their clients on ways to structure drug benefits to encourage the use of lower cost drug alternatives — such as generics — when appropriate. The PBMs' role is advisory only; the client retains all responsibility for establishing the plan design.
- **Manufacturer discounts** — PBMs pool purchasing power to negotiate substantial discounts from pharmaceutical manufacturers in order to lower benefit costs for clients and consumers.
- **Clinical management** — PBMs use a variety of tools such as drug utilization review and disease management to encourage the best clinical outcomes for patients.

¹ US Federal Trade Commission & US Department of Justice Antitrust Division, “Improving Health Care: A Dose of Competition,” July 2004

² Federal Trade Commission, “Pharmacy Benefit Managers: Ownership of Mail-Order Pharmacies,” August 2005, available at <http://ftc.gov/reports/index.htm#2005>