



PBMs Create \$145 Billion in Value Annually, a 7:1 ROI for the Health Care System

The Value of Pharmacy Benefit Management, Casey Mulligan

Pharmacy benefit managers (PBMs) provide services in the health care marketplace to patients, health plans, insurers, state, and federal governments, and even drug manufacturers. PBMs play an invaluable role lowering costs in the prescription drug payment and supply chain, and for the first time these services have been estimated using a quantitative economic model.

PBMs Create \$145 Billion in Value Annually

According to *The Value of Pharmacy Benefit Management* the value of PBM services to society is estimated at **\$145 billion annually**. “The value to society includes not only consumer savings net of manufacturer losses, but the values of better drug utilization, an increased pace of drug development, and government savings.” These valuable services lead to government and health payer savings, more ground-breaking prescription drugs, and healthier outcomes for patients.

Employers and Other Payers Would Forego \$58 Billion in Value Each Year without PBMs

Without PBMs performing these valuable services, 40% of the \$145 billion in value would be lost. The paper notes that PBM services are needed by health plan sponsors and that plan sponsors therefore would have to replicate those services if PBMs did not exist or were disbanded. In other words, if employers, labor unions, and other businesses were forced to act as their own pharmacy benefit managers they would collectively **forego an additional \$58 billion** annually.

PBMs Generate Over \$148 Billion in Savings Each Year

As a part of the value created, PBMs generate at least **\$148 billion in savings** for the health care system annually. These savings come from PBM-negotiated rebates and discounts combined with lower expenditures on other health care services from increased drug utilization.

PBMs Create a 7:1 ROI

PBMs must expend resources in order to provide services for their health plan payer clients and patients. The value of these expended PBM resources is estimated at \$22 billion annually. For every \$22 billion of resources used by PBMs, they return \$168 billion to the system, a **7:1 return on investment (ROI)** for the health care system.

The Measured Value of Services Performed by PBMs, \$Billions per Year

<i>PBM Activity</i>	<i>Value of PBM Services \$ billions/year</i>
Manufacturer rebates tied to plan design	51
Promote generics	16
Pharmacy rebates tied to plan design	5
Provision of mail pharmacy	3
Plans' nonpharmacy medical benefits from improved health outcomes through added utilization	40
External effects: lower health care costs reduce tax distortions	47
External effects: accelerated pace of drug innovation	6
Total quantified benefits, \$ billion/year	168
SUBTRACT: Resources used by PBMs	-22
Total quantified value of services, net of PBM resources	145

Services Provided by PBMs

Manufacturer rebates tied to plan design - \$51B/year in value created

- PBMs offer favorable placement in plan benefit designs in exchange for rebates.
- PBMs enhance competition in the drug supply marketplace by acting as group purchasers of prescription drugs – similarly to what Costco and Sam's Club do for their members.
- Manufacturer rebates negotiated by PBMs increase utilization of brand drugs beyond what it would have otherwise been because the drugs are more affordable, which leads to greater access and drug adherence.

Promote generics - \$16B/year in value created

- The work PBMs do to promote generics results in an estimated additional 15 percent of drugs dispensed are generic, bumping generic dispensing to 90 percent of prescriptions, because of PBM services.
- Generic drugs offer significant cost savings to plans, so PBMs give patients incentives to use generic drugs instead of competing brand drug.

Pharmacy rebates tied to plan design - \$5B/year in value created

- PBM services are also a procompetitive force in retail pharmacies, which offer discounts to PBMs
- In exchange for discounts, pharmacies get favorable placement in plan pharmacy networks, increasing visibility and potentially attracting additional customers.

Provision of mail pharmacy - \$3B/year in value created

- Mail pharmacy services provided by PBMs can decrease patient cost sharing, while increasing convenience and drug adherence.
- In addition to the added convenience of home delivery, Services provided by mail pharmacies is often cheaper than those of retail pharmacies.

Plans' nonpharmacy medical benefits from improved health outcomes through added utilization - \$40B/year in value created

- Proper drug utilization can prevent more serious illnesses and the more expensive healthcare associated with worse patient health.
- Health plans and PBMs can add value to insurance benefits by encouraging proper utilization of drugs that help prevent future medical claims.

Lower health care costs reduce tax distortions- \$47B/year in value created

- PBM services reduce drug expenditures, which in turn reduce subsidies from state and federal governments.
- These government and taxpayer subsidies are known as "tax distortion" and the reduced subsidies are thus reduced tax distortions.

Accelerated pace of drug innovation– \$6B/year in value created

- During the early-patent phase, manufacturers of unique new drugs –that add the most value – enjoy enhanced utilization due to PBM services, such as assessing them and including them on a formulary as well as negotiating the best possible price, while paying comparatively less rebate due to less competition from therapeutic substitutes.
- PBMs reduce drug expenditures through negotiations with manufacturers, while at the same time encouraging and rewarding drug innovation through increased utilization of new drugs when the financial rewards for manufacturers are the greatest.

Resources used by PBMs- \$22B/year cost to the health care system

- The resources necessary for PBMs to provide their services including salaries, profits, and other services.

PBM savings – at least \$148B/year

- PBMs generate at least \$148 billion in savings for the health care system annually. These savings come from PBM-negotiated rebates (\$99 billion) and discounts (\$9 billion) combined with lower expenditures on other health care services from increased drug utilization (\$40 billion).

Additional services provided by PBMs but not included in the model

- Prevention of medication errors: PBM drug utilization reviews and checks for unsafe interactions both help reduce premiums while improving patient health.
- Seamless technological interface between PBM-pharmacy-patient: saves patients time and effort at retail pharmacies.
- Fraud prevention: prevention of potential financial and health outcomes harms that come from misuse and improper payments