Pharmacy Benefit Managers (PBMs), Explained

Fact: PBMs hold down drug costs.

PBMs work on behalf of their clients to bring down the cost of drugs by aggressively negotiating with drug manufacturers and pharmacies. Payers have faced significant headwinds as the price of newly launched drugs increased by 20% per year between 2008 and 2021.[1] However, **for prescription drugs dispensed through retail pharmacies where PBM tools are used, net spending on prescription drugs increased by 5% between 2017 and 2022.[2] When PBM tools are not widely used in non-retail settings, like hospitals and clinics, drug spending grew by 7.1%.[3]**

Fact: Only drug manufacturers set and raise drug prices.

Drug manufacturers set drug list prices. While PBMs negotiate with drugmakers to bring down the net cost of prescription drugs, manufacturers are ultimately responsible for the prices of their products. Representative Jamie Raskin (D-MD) explained that big drug companies alone are responsible for setting high prescription drug prices, ***"Drug companies are ultimately responsible for setting high prices and in fact have poured millions of dollars into TV and social media ads as well as lobbying to deflect attention away from their own role in setting high drug prices by shining the spotlight on PBMs."[4]*** PBMs drive prices down by forcing manufacturers to compete with one another for formulary placement, but this happens only when there are competing drugs in the marketplace. Rebates are a key tool in getting to the lowest net price. There is no correlation between the prices drug manufacturers set and rebate levels. New data of the top-250 Medicare Part D brand-name drugs found **no correlation between increases in the price of drugs set by manufacturers and negotiated rebates.**[5]

Fact: PBMs play an important role in the drug payment and supply chain.

Drug companies blame PBMs, employers, unions, and government programs for their high prices, but the fact is they keep 65% of all prescription drug spending, while **PBMs retain 6% of prescription drug spend**.[6] For every $1 spent on PBM services, PBMs reduce costs by $10.[7] **On average, PBMs save payers and patients an average of $1,040 per person per year**[8] and **40-50% on their annual prescription drug and related medical costs compared to what they would have spent without PBMs.**[9]

Fact: The independent retail pharmacy market is stable.

According to National Council for Prescription Drug Programs' (NCPDP) data, over the last ten years, the number of independent retail pharmacies nationwide increased by 1,638 stores or 7.5%.[10] Over the last five years, the number of independent pharmacies has increased 0.5%, indicating a stable marketplace.[11] The National Community Pharmacy Association (NCPA), the lobbying group for independent pharmacists, in their annual 2022 Digest Report, reported that the number of independent pharmacies increased by 0.4% in the last year, stating that the "independent pharmacy category was essentially flat."[12]

Additionally, independent pharmacies' financials have also been stable. According to *Drug Channels*, **in 2020 independent pharmacies' gross margins as a percentage of sales were 21.9%, which is comparable to the previous four-year range (21.8% to 22%)**.[13] On par with independent pharmacies, drug manufacturers' average profit as a percentage of revenues was 23.4% in 2016. By comparison, PBMs had net profit margins of 2.3% in 2015.[14] NCPA has said, "Independent community pharmacists have proven throughout the years that they are resilient and will modify and reinvent their practices to adapt to economic challenges."[15] We agree—legislatures do not need to create an unlevel playing field in the market favoring independent pharmacists, especially as prescription drug costs are increasing.

Fact: PBMs are regulated at the state and federal levels.

Federal and state regulators have broad oversight over PBM activities. Some states regulate PBMs through PBM registration or licensure, as third-party administrators, preferred provider organizations, and/or utilization review organizations. State boards of pharmacy regulate PBM-affiliated mail-order and specialty pharmacies and oversee generic substitution and biosimilar laws. State and federal governments also regulate PBMs indirectly through compliance requirements for insurers and employer-sponsored ERISA plans.

Fact: PBMs are transparent.

At the direction of plan sponsors, PBM contracts include disclosures and compensation models to ensure transparency. PBM contracts give clients the right to audit, which help ensure the integrity of the PBM contract and verify that the PBM is complying with contract terms. Auditors are able to follow claims through the system so that pricing and crediting of rebates can be confirmed. Clients determine how to use drug rebate dollars, and on average, **PBMs pass through 91% of drug manufacturer rebates back to clients** in the commercial market[16] and 99.6% of rebates in Medicare Part D.[17]

Fact: PBMs keep certain information confidential to protect payers and patients.

The Federal Trade Commission (FTC) has stated that the public disclosure of pricing-related data could increase drug prices. If confidentiality protections are inadequate and "pharmaceutical manufacturers learn the exact amount of the 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.**"[18] Publishing aggregate rebates raises the possibility that a sophisticated competitor can calculate price concessions for individualized drugs or plans even from aggregated data, which would raise the prices of drugs by distorting market dynamics.[19]

Public release of confidential information may also shift drug manufacturers' contracting strategies, which may include changes to rebate amounts. The Office of the Actuary (OACT) found that drug companies might reduce rebates by 15% because of public disclosure.[20] **As a result, the impact to Part D of reducing rebate levels by 15% would increase the federal government's spending by $132 billion, or 10% over 10 years.[21]**

Fact: The PBM market is competitive.

As of 2023, **there are 73 companies providing PBM services operating in the United States**, and this number has grown by nearly 18% since 2019.[22] PBMs design products and services that reach clients of varying sizes, with different patient populations, and geographic reaches. The FTC has previously found "a competitive market for PBM services characterized by numerous, vigorous competitors who are expanding and winning business from traditional market leaders."[23]

Fact: PBMs' ownership of mail-order and/or retail pharmacies has been approved by regulators.

The FTC examined PBM-owned pharmacies comprehensively and determined that there are not conflicts of interests between PBMs and their affiliated pharmacies.[24] PBMs disclose their ownership interests, if any, in mail-order, specialty, and retail pharmacies to their clients. These disclosures effectively manage potential conflicts of interest. Furthermore, clients have the final say on plan designs and pharmacy networks PBMs propose, which must also meet access standards set by plan sponsors and applicable state and federal laws.

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[5] PCMA. Data Shows that Manufacturer Drug Price Increases Are Unrelated to PBM Negotiated Rebates. (2022).
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[23] Federal Trade Commission, "Statement of the Federal Trade Commission Concerning the Proposed Acquisition of Medco Health Solutions by Express Scripts, Inc." FTC File No. 111-0210. (April 2, 2012).
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