

New Research By Lawton Robert Burns Investigates the Role of PBMs in the Healthcare Value Chain

A new book from the University of Pennsylvania Wharton School professor Lawton Robert Burns examines pharmacy benefit companies and describes their critical role in the prescription drug supply chain. Burns concludes that PBMs are intermediaries using tools to control healthcare costs while maintaining quality.

“PBMs promote competition in healthcare and help to reduce prices.”

Burns explains three important ways pharmacy benefit companies lower costs and improve quality:



Contracting Tools

- ✓ PBM contracting tools, including drug formulary development, negotiated discounts and rebates from drug companies, pharmacy network development, and risk mitigation “spread” pricing have long been used to reduce drug costs.
- ✓ In the face of continually rising list prices, PBMs developed these tools to help keep drug costs down.
- ✓ Terms of PBM contracts are not publicly disclosed to encourage manufacturers to lower their prices and prevent collusion, similar to buyer-seller contracts in other industries.



Bargaining Power

- ✓ Health plans, employers, and other payers choose to work with PBMs because the scale and efficiency of PBMs allows them to negotiate lower drug costs from drug companies.
- ✓ PBMs leverage bargaining power combined with other contracting tools to deliver lower unit prices for patients and payers.
- ✓ PBMs have been able to keep the annual net sales price growth for drugs in the low single digits for patients and payers.



Formulary Development

- ✓ PBMs have pharmacy and therapeutics (P&T) committees that review all drugs including drugs that are therapeutically equivalent. This allows PBMs to leverage competition among drug manufacturers who make competing drugs to give price concessions in exchange for formulary placement.
- ✓ PBMs develop and payers customize drug formularies and formulary tiers that allow patients to access the drugs they need based on the P&T committees' decisions to ensure quality.

According to Burns, PBMs do not store, sell, or price products. They are not health care providers. PBMs are intermediaries with a critical and unique role in the drug supply chain. They serve the public's welfare, controlling the rise in health care costs using important tools, such as contracting tools, bargaining power, formulary development.

“PBMs get drug makers to compete on price and get pharmacies to reduce their fees. PBMs also compete with one another in terms of claim processing fees and a host of client services to get contracts with insurers and employers. They are, thus, pro-competitive.”

Source: Lawton Robert Burns, *“The Healthcare Value Chain: Demystifying the Role of GPOs and PBMs”* and *“What history tells us about your prescription costs and the new ‘bad boys’ of health care”*

ABOUT PCMA

PCMA is the national association representing America's pharmacy benefit companies. Pharmacy benefit companies are working every day to secure savings, enable better health outcomes, and support access to quality prescription drug coverage for more than 275 million patients. Learn more at www.pcmamet.org.

