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PBM 101:

A Reference Guide to
Understanding the Role
and Value of PBMs

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What to know about pharmacy benefit managers (PBMs)

What is a pharmacy benefit?

A pharmacy benefit is the part of your health insurance that covers prescription drugs. Under most health care coverage today, drug benefits are subcontracted and administered by an entity known as a PBM. Typically, you can find out about your pharmacy benefit—your prescription drug coverage—by looking for the “Rx” information on your insurance card.

Health Insurance Company			
Subscriber Name:	Group No:	123456789	7890
JANE DOE	RxBin/Group:	123456	7890
Subscriber ID:	Date Issued:	00/00/00	7890
ABC123456789			
	Primary	\$00	7890
	Specialist	\$00	7890
	Urgent Care	\$00	
	ER	\$000	ice
	Prescription Drug	\$0/00/00/00	
	Preventative Care	No Copay	

→ ABC Company Pharmacy Benefits Administrator

What are PBMs?

PBMs are companies with a unique expertise navigating the specialized field of prescription drug benefits and delivery. Health plan sponsors, including public and private employers, unions, retirees, and government programs, hire PBMs to help them provide prescription drug coverage to **more than 275 million people** in the US.

[Click here to learn more](#)



PBMs help the entire health care system by driving down drug costs, **saving payers and patients an average of \$1,040 per person per year,¹** and providing \$145 billion in overall value to the health care system.²

What are pharmacy benefit companies' core functions?

PBMs do four main things:

1

Administer insurance claims for prescription drugs in real time when the drug is dispensed.

2

Negotiate savings for brand drugs from drug manufacturers.

3

Negotiate with pharmacies to reduce pharmacy costs, especially for prescription drugs.

4

Provide tools and programs to support patients and clinicians.

How do PBMs support patients?

PBMs add clinical value and advance better health outcomes by:

- » **Supporting patient safety** by preventing potentially harmful drug interactions and reducing medication errors.
- » **Helping patients understand** how and when to take their medication.
- » **Improving care coordination** through offerings such as home delivery, saving patients time and money while increasing access and care coordination.

PBMs help patients afford their medications. Pharmacy benefit companies administer over 3.6 billion scripts annually.³ Without the savings they negotiate, patients and payers could pay much more for prescription drugs.

- » Pharmacy benefit companies offer programs to help patients who face high cost sharing, including those in their deductible phase.

Pharmacy benefit companies partner with pharmacists to benefit patients.

- » PBMs establish broad networks of affordable and high-quality pharmacies that patients can rely on to get their medications.
- » PBMs facilitate patient access by helping plan sponsors to select the right mix of brick-and-mortar, mail order, and specialty pharmacies for their networks.
 - As of 2023, there are 23,353 independent pharmacies and 37,211 chain pharmacies for a total of 60,564.
- » PBMs drive competition and quality among retail pharmacies.
- » PBMs engage with Pharmacy Services Administrative Organizations (PSAOs), which represent independent pharmacies.
 - Over 80% of independent pharmacies rely on PSAOs, which are large organizations that represent independent pharmacies in contract negotiations with PBMs and manage certain administrative functions on their behalf.⁴

[Click here to learn more about PSAOs](#)



- PBM pharmacy networks meet robust requirements for geographic access and digital connectivity.
- PBM relationships with specialty pharmacies demonstrate how care integration supports comprehensive patient care.

How do PBMs support plan sponsors?

Plan sponsors are entities—employers, government programs like Medicare and Medicaid, labor unions, health insurers, state employee, and retiree plans, etc.—**that provide health care coverage.**

- » **Health plan sponsors make active choices about how they design their drug benefits and participant cost sharing.** PBMs offer a wide range of services and choices to help health plan sponsors offer prescription drug coverage. The health plan sponsor decides how to structure its drug coverage. Plan sponsors' differing populations and resources require flexibility in plan design and payment options to meet each sponsor's unique needs.

PBMs help employers and other plan sponsors offer high-quality drug coverage to meet the needs of all kinds of people and organizations by:

- » **Negotiating with drug companies and pharmacies to lower drug costs.** PBMs negotiate with brand drug companies for rebates and pharmacies for discounts. PBMs also encourage the use of generic drugs and push pharmacies for high-quality performance, including using pharmacy audits to minimize fraud, waste, and abuse. PBMs also negotiate value-based purchasing programs that can reduce costs.
- » **Providing business and operations expertise.** PBMs provide plan sponsors—including employers and small businesses—a variety of coverage choices and flexibility in benefit design and payment structure that help provide affordable, quality prescription drug coverage to plan participants.
- » **Providing coverage recommendations.** PBMs help plan sponsors navigate their coverage options to identify and select a plan that best serves the needs of their plan participants. Independent pharmacy and therapeutics (P&T) committees made up of clinical experts review and evaluate clinical evidence to help with formulary recommendations, which PBMs share with plan sponsors. PBMs then work with plan sponsors to evaluate whether modifications or add-ons, which can alter or enhance the plan offerings, are appropriate.



How do plan sponsors choose a PBM?

Plan sponsors solicit PBM bids. Private industry plan sponsors typically shop for PBMs using benefits consultants and requests for proposals (RFPs). PBMs must compete for their business and tailor their offerings to meet the plan sponsors' needs. In the public space, federal and state programs issue RFPs, and PBMs compete in much the same way.

Adhering to contractual requirements. PBM contracts are comprehensive and include everything the PBM is required to do to fulfill its obligations to the plan sponsor. The contract includes agreed-upon reporting as requested by the sponsor and auditing rights so the sponsor can double check that it is getting what it was promised. Like all private contract participants, plan sponsors can rely on the judicial system to seek remedies for any disputes.

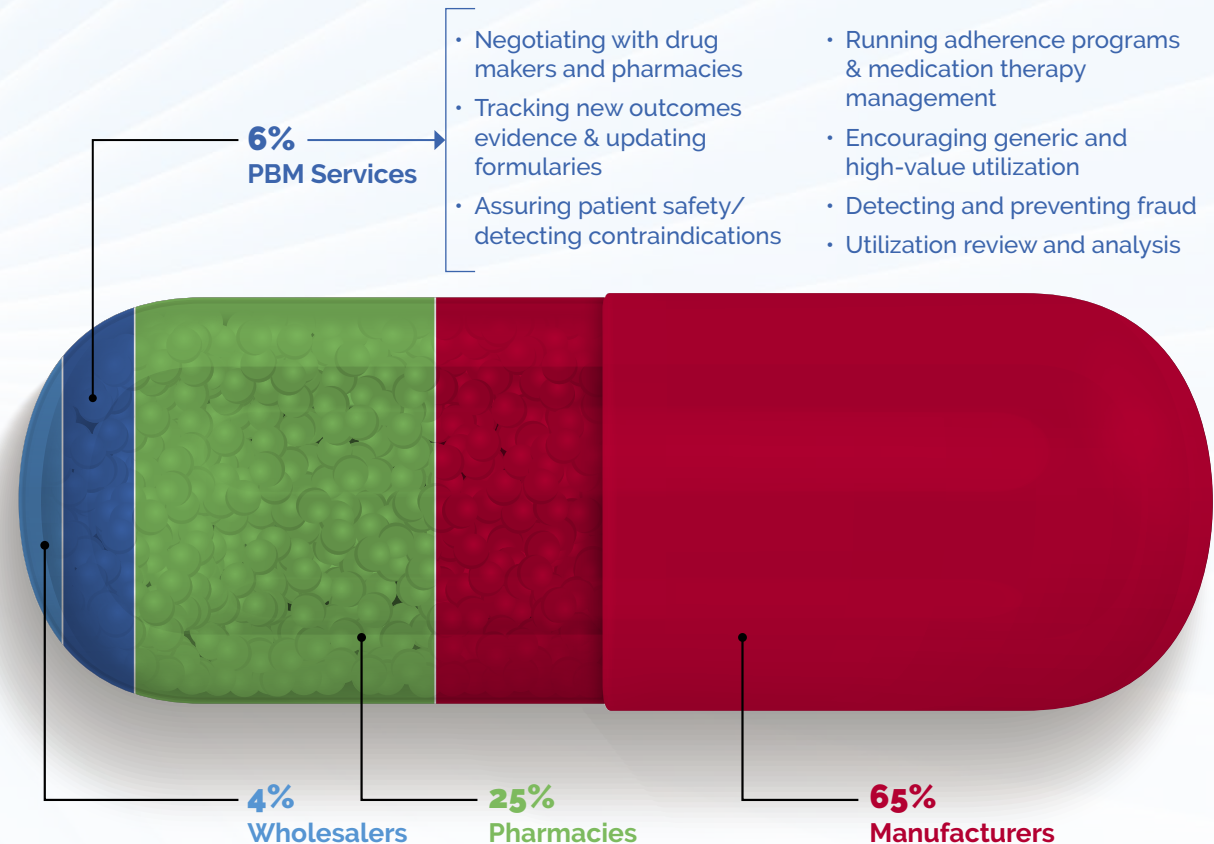
How are PBMs paid for their services?

Employers and other health plan sponsors decide how they pay for pharmacy benefit company services.

- » **Spread:** Pharmacies charge different amounts for drugs. For example, prices for a drug can vary based on whether a pharmacy is in or out of a consumer's network or whether the pharmacy purchases more or less expensive versions of a multisource drug. To manage these fluctuating costs, an employer or health plan may ask its PBM to carry the risk that patients choose costlier pharmacies to fill their prescriptions, allowing the plan sponsor to pay a set reimbursement for each drug regardless of the pharmacy chosen. If what the pharmacy charges the PBM is more than the reimbursement rate agreed between the plan sponsor and the PBM, the PBM takes a loss. If the pharmacy charges less, the PBM earns a margin (i.e., the spread). Smaller employers often choose "spread contracts"⁵ because of the pricing predictability and savings they derive.
- » **Rebate retention:** Employers and health plan sponsors may also choose to pay PBMs by asking them to retain a portion of drug company rebates, aligning incentives toward cost savings. This is a less common payment model among large employers. Data shows most rebates are passed through the PBM to the employer or health plan sponsor (99.6% in Medicare and 91% in commercial health plans).
- » **Administrative fee:** Plan sponsors may choose to pay the PBM a fee to administer claims and pay the PBM whatever the pharmacy charges (based on the contract between the pharmacy and PBM). Many large employers prefer this compensation model over a spread model because they have the scale to absorb the variability. Plan sponsors may also choose to pay administrative fees for rebate administration in lieu of allowing the PBM to keep a small portion of the rebates to pay for those services.

Share of drug dollar retained by drug supply chain participants

90% of the Rx dollar is retained by drug manufacturers and pharmacies



Source: Visante estimates, based on data published by IQVIA, Pembroke, Altarum, USC Schaefer, and Health Affairs. Figure displays estimated total net expenditures (after rebates), both brands and generics. Includes only traditional PBM services, and excludes prescriptions filled by PBM-owned mail/specialty pharmacies, which cost less than retail but provide added margins to PBMs who own mail/specialty pharmacies.



Who keeps track of what PBMs are doing?

PBM customers. The PBM-plan sponsor contract provides clear and understandable financial information about rebates, fees, and payments. Additionally, PBMs submit to regular audits by the health plan. PBMs detail how much plans will pay for each prescription filled by an enrollee in their plan and provide aggregate data on drug utilization by plan enrollees. PBMs provide patients and prescribers with real-time benefit tools (RTBTs), which provide real-time information about what drugs are on the patient's formulary and exactly what cost sharing to expect for a given drug at the pharmacy. PBMs also provide patients with information on in-network pharmacies, premiums, general cost-sharing, and benefits for their prescription drug coverage.

Federal government regulators. PBMs are subject to detailed drug reporting requirements by the U.S. Departments of Health and Human Services (HHS), Labor (DOL), the Treasury, and the Office of Personnel Management (OPM). Additionally, PBMs' operational specifics are available to plan enrollees through other provisions of the Patient Protection and Affordable Care Act (ACA) and Social Security Act including the Summary of Benefits and Coverage, Medicare Plan Finder, and RTBTs that provide current information on prescription drug benefits.


State regulators and other state-based entities. PBM practices are overseen by state Medicaid agencies and state-based consumer protection agencies. Health plan sponsors and PBMs are directly regulated by state departments of insurance or other state agencies.

Private accreditation organizations. URAC and National Committee for Quality Assurance (NCQA) certify PBMs.

Are all PBMs alike?

PBMs vary in size, geographic footprint, service offerings, and focus. The PBM market is dynamic and diverse with more than 70 full service PBMs, which reflects the wide range of needs of the business partners that rely on PBM expertise to make robust prescription drug coverage available and accessible to people. While PBM business models vary, in general, PBMs do the following:

- » Secure savings for employers and other plan sponsors, patients, and taxpayers.
- » Enable better health outcomes for patients.
- » Provide health plan sponsors a wide range of choices for quality prescription drug coverage.

A woman with curly hair, wearing a white lab coat over a grey sweater, is seated and talking to an older woman with blonde hair, wearing a blue lab coat. The woman in white is holding a small white object, possibly a pill blister pack. The background is a bright, clinical setting with a bulletin board.

What does PBM expertise do for the US health care system?

Pharmacy benefit companies help secure lower health care costs for their customers and patients.

PBMs help save payers and patients 40-50% of their annual drug and related medical costs compared to what they would have spent without PBMs.⁶ Indeed, recent research shows that PBM services produce \$145 billion in overall value annually.⁷

Pharmacy benefit companies drive down costs for prescription drugs by pushing drug companies to compete to offer better prices for patients and families.

- » History has shown that big drug companies repeatedly and arbitrarily increase prices on existing medications, and there is no correlation between the price of a drug and how effective it is in treating a medical condition. Ultimately, high list prices are the root cause of high drug costs.
- » Pharmacy benefit companies negotiate with drug companies—empowering the private market to drive down drug costs.
- » Without PBMs, there would be no limit on the prices drug companies could charge.

Pharmacy benefit companies provide value and achieve savings in part by:

- » **Designing formularies.** Formularies are lists for drugs covered by a health plan, and they play a large role in driving manufacturer price concessions.
- » **Sharing savings with patients.** Differential patient cost sharing helps direct patients to lower-cost alternatives.
- » **Promoting generic drugs.** The PBM formulary construct incentivizes use of equally effective generics, and PBM contracts with pharmacies encourage generic substitution as well.
- » **Promoting biosimilars.** PBMs encourage the coverage and use of the lowest-net-cost drug. We recognize the value of safe and equally effective biosimilars, and when competitively priced, coverage is often recommended to plan sponsors. Additionally, PBMs strongly support policies that can increase biosimilar production to enhance competition in the market.



Pharmacy benefit companies improve drug adherence:

- » Research indicates that non-adherence is largely attributable to financial barriers—specifically, that the drug price is too high. In fact, the term “financial toxicity” was coined to reflect the adverse financial strain of medication non-adherence.⁸
- » By improving patient affordability, reviewing claims for indicators of non-adherence, providing clinical and other patient support programs, and providing targeted services focused on adherence for the elderly, disabled, home bound, non-English speaking, and other groups in need of additional support, PBMs improve drug adherence.

Pharmacy benefit companies provide additional value by:

- » Enhancing the competition in the pharmacy market in terms of cost and quality.
- » Preventing fraud, waste, and abuse through pharmacy audits.⁹
- » Increasing efficiency with shorter claims processing times and reducing the need for paper claims.
- » Providing a plethora of real-time reimbursement and coverage information for patients and their prescribers.

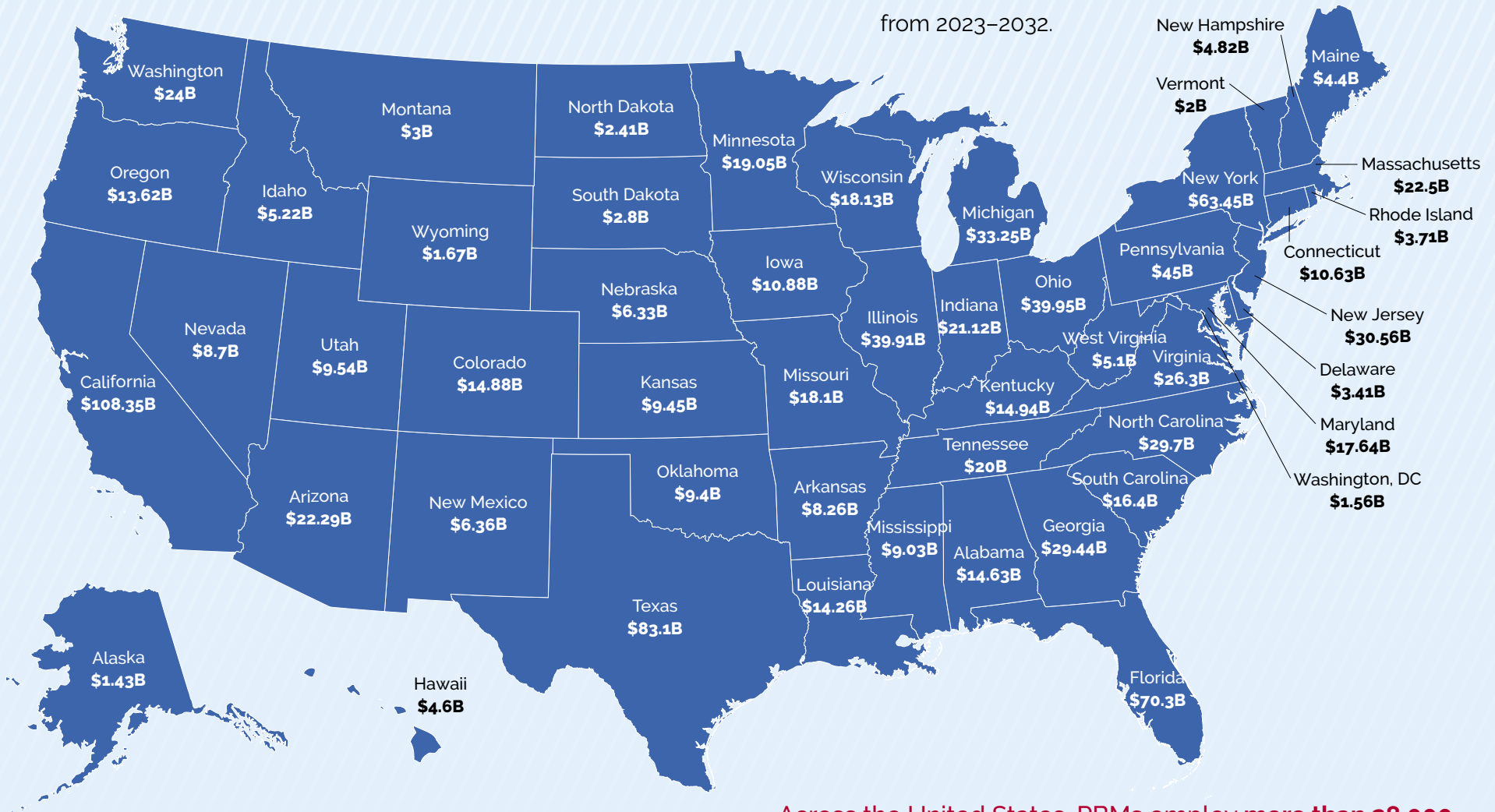
What do PBMs do for your state?

This map indicates savings by state across all insurance markets over ten years (2023–2032)

The use of PBM tools will save payers and patients nationally more than

\$1 trillion

from 2023–2032.



Across the United States, PBMs employ more than 28,000 clinicians, including more than 9,500 pharmacists.

Source: Visante. "PBMs: Generating Savings for Plan Sponsors." January 2023.



PBM clinical expertise at work: How pharmacy benefit companies enable better health outcomes

The Centers for Disease Control and Prevention (CDC) has extensive data showing that (a) adherence to prescribed medication is associated with improved clinical outcomes for chronic disease management and reduced mortality from chronic conditions, and (b) conversely, nonadherence is associated with higher rates of hospital admissions, poor health outcomes, increased morbidity and mortality, and increased health care costs.¹⁰ To help address this long-standing and well-documented concern that patients do not take prescribed medications, especially over time for chronic conditions, PBMs use their expertise to promote better health outcomes through medication adherence programs. These efforts, which are aimed at getting patients to take their prescribed drugs, involve both clinical and operational components.

Clinical components. PBMs provide or arrange for direct and indirect clinical services to improve adherence.

- » Reviewing drugs to identify over or under-utilization or non-adherence.
- » Flagging safety issues, including harmful drugs and drug combinations.
- » Partnering with a wide range of expert clinicians, including specialty and community pharmacists, on identifying barriers to adherence and implementing the best strategies to meet a patient's needs.

Operational components. PBMs use state of the art technology and smart benefit options to foster better health outcomes.

- » Providing counseling and coaching services that help patients stay on course with their treatment and anticipate side effects.
- » Providing 24/7 patient access to customer service representatives and pharmacists as well as other clinicians.
- » Sending reminders through text messages or phone alerts.
- » Making dosages understandable and manageable by packaging drugs with dates and times.
- » Making prescription access easy through home delivery, 90-day fills, and automatic refills.
- » Providing targeted services focused on adherence for the elderly, disabled, home bound, non-English speaking, and other groups in need of additional support.

PBM clinical programs support patients

Click here to learn more about how PBMs make a difference in medication adherence for diabetics taking insulin



PBMs SUPPORT PATIENTS WITH DIABETES

Diabetes is the seventh leading cause of death in the U.S., affecting 37.3 million Americans, or 1 in 10 people.¹ People living with diabetes are at an increased risk for many serious health problems. In addition to the negative health impacts, diabetes is also an expensive condition—in 2017, it cost the average person living with diabetes \$9,661 for medical diabetes care.² Unfortunately, there is no cure for diabetes. There are, however, prescription drugs that can be used to manage it. Pharmacy benefit managers (PBMs) work to help patients stay on their medication schedule (adherence) and alleviate high drug costs issues that may arise with diabetes.

THERE ARE MANY DRUGS AVAILABLE THAT HELP PATIENTS WITH DIABETES MANAGE THEIR CONDITION. THIS INCLUDES:

- Insulin:** used to regulate blood sugar levels and vital for people living with type 1 diabetes.
- Metformin (the most commonly prescribed oral hypoglycemic agent):** used to treat high blood sugar levels for people with type 2 diabetes.
- Other antidiabetic drugs:** used to help regulate the body's glucose and insulin levels.

PBMs negotiate with drug manufacturers to lower costs for these drugs and recommend to plan sponsors and insurers programs to lower or eliminate patient cost sharing for them. PBMs also directly engage patients with diabetes through programs that promote adherence and healthy lifestyles. These types of programs improve prescription drug adherence in diabetes patients, preventing 450,000 emergency department visits related to high and low blood sugar levels annually.³

ADHERENCE PROGRAMS

- Remote monitoring adherence programs: PBMs monitor and measure a patient's glucose levels through "smart glucometers" and conduct outreach if patients need medication support.⁴
- Wearable digital devices: PBMs offer continuous glucose monitors (CGMs), which are small sensors placed under or on the skin for continual monitoring of blood glucose levels. These sensors send every few minutes and send data wirelessly to the patient's PBM.⁵

PATIENT SUPPORT PROGRAMS

- Direct management programs: PBMs work with certified diabetes care and education specialists to deliver individualized education and case management to patients.⁶
- Clinical engagement programs: PBM experts assist patients with lifestyle changes, including nutrition and exercise.⁶
- Zero or low cost sharing: PBMs offer programs to cap or eliminate monthly insulin costs for patients, enhancing accessibility and affordability.⁷

For patients participating in a diabetes adherence program, their A1C levels were reduced by an average 1.5 points.⁸

PCMA | Pharmacy Benefit Manager Association | www.pcmanet.org

Impact of PBM role in medication adherence

PBMs help patients stick to their drug regimens, preventing more than ...

440,000
heart failures

60,000
cases of kidney disease

300,000
strokes

150,000
amputations

PBMs HELP PATIENTS WITH ASTHMA BREATHE EASIER

Asthma is a long-term respiratory disease that causes inflammation and swelling in the airways. Twenty-five million Americans, 1 in every 13 people, live with asthma, a number that has been steadily increasing since the 1980s. The burden of asthma falls disproportionately on racial and ethnic minorities. Asthma is the leading chronic disease in children, and black children are nearly three times more likely to have asthma than white children.

Asthma costs the U.S. over \$50 billion a year in medical costs. The average person with asthma pays over \$2,000 more for medical costs annually than those who do not have asthma. Pharmacy benefit managers (PBMs) help to reduce that cost by working to lower the price of drugs, including asthma drugs, and ensuring patients have appropriate access.

Although there is no cure for asthma, there are different prescription drugs used to control it. The four major types of asthma medications and treatments are:

- 1 Long-term asthma control medications:** These are taken regularly to control chronic symptoms and prevent asthma attacks.
- 2 Quick-relief medications:** These are taken as needed for rapid relief of symptoms like an asthma attack.
- 3 Allergy-induced asthma medications:** These are taken regularly to reduce sensitivity to allergy-causing substances.
- 4 Biologics:** These are taken with control medications to stop underlying biological responses that cause inflammation in the lungs.

PBMs want patients to stay healthy and avoid emergencies, so PBMs offer programs to help people living with asthma access their medications and lead healthier lives.

- Zero or Low Cost Sharing:** Many PBMs include asthma medications on lists of drugs for preventative treatment for which patients pay either no cost sharing or bypass their deductible and pay only their cost sharing.¹
- Medication Review with Claims Data:** Using claims data, PBMs monitor whether patients are on the appropriate asthma medications, reach out to patients and provide educational materials or counseling if needed.²
- Promoting Adherence Using Digital Therapies:** Some PBMs track asthma patients' adherence by sending at-risk patients a device to attach to the top of their inhalers. That device is then linked to the patients' phones, which allow usage and dosage information to be sent to their PBMs.³

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Click here to learn more about how PBMs make a difference in medication adherence for asthmatic patients





Beyond adherence: Other clinical and quality initiatives where pharmacy benefit companies use their expertise to empower patients

Pharmacy benefit companies are an integral part of a patient's coordinated care management.

- » PBM relationships with other stakeholders (including plan sponsors, pharmacists, and prescribers) give them the ability to engage with the patient (directly or indirectly) and influence better patient outcomes.
- » PBMs directly engage with patients through programs like medication therapy management and assessment.
- » PBMs coordinate drug regimens with other health care services the patient is receiving, including from specialists.
- » **Case study.** Availability of care coordination can be illustrated by looking at PBMs' efforts with pre-diabetic patients and the related efforts to manage co-morbidities for both diabetics and pre-diabetics (e.g., hypertension and obesity).

[Click here to listen to the PBMs and Diabetes Care podcast](#)



[Click here to learn more about PBM involvement in care coordination](#)





Pharmacy benefit companies develop formularies, lists of drugs covered by a prescription drug plan, to meet patients' needs.

- » PBM create and manage formularies relying on panels of experts, called P&T committees, made up of independent physicians, pharmacists, and other clinicians who analyze the latest scientific data to recommend the most appropriate medications for individual disease states and conditions.
- » Several elements are factored into the development of formularies, including tiers and prior authorization, to encourage use of the most clinically appropriate and economically sound therapies.
- » Cost is considered only after the robust clinical assessment of a drug's safety and efficacy and comparisons to alternatives.
- » Plan sponsors make the final decision on how their formularies will be designed.

Pharmacy benefit companies leverage technology to improve the patient experience.


- » PBMs use state of the art technology including RTBTs and electronic prior authorization to benefit patients, their prescribers, and the pharmacies they use.
- » Using PBM technology at the point of prescribing, physicians and patients can learn whether a drug is covered, what cost sharing may apply, what alternatives are available, and whether additional steps may be needed to access a drug.

Pharmacy benefit companies help make drugs accessible to patients.

- » Pharmacy benefit companies and health plan sponsors recognize the challenges posed by social determinants of health and are proactively exploring solutions.¹¹
- » PBM programs like home delivery help to improve access for patients with transportation challenges and those living in areas where pharmacies are less accessible.

Endnotes

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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.pcmnet.org.