Misunderstanding Leads to Misalignment

"Delinking" isn't the solution to high drug prices, and doing it would lead to higher drug costs.

Recent proposals in Congress have suggested prohibiting PBMs from being compensated based on a drug's list price or utilization, thereby breaking the link between payment and performance. That's what "delinking" really does. The desire to tamper with the current model, which allows plan sponsors to choose how to pay for their PBM services, stems from a false premise—the belief that rebates and drug prices are somehow correlated.

Rebates do not impact drug prices.

- Statistical analysis of the top brand drugs in Medicare Part D found no correlation between rising list prices set by drug manufacturers and the change in rebate levels negotiated with PBMs.[1]
- The Health and Human Services (HHS) Office of Inspector General (OIG) found that PBM-negotiated rebates led to lower prescription drug costs in the Medicare prescription drug program.[2]
- For more than a third of the brand-name drugs it reviewed, OIG found that rebates declined as costs increased. It also found that the majority (95.6%) of Medicare Part D brand-name drug costs increased regardless of rebates over the five-year period examined.[3]
- Pharmaceutical manufacturers take enormous price increases for Part D drugs without rebates and for Part B drugs, for which PBMs do not negotiate rebates.[4]

What is causing drug prices to go up?

- As Dr. Rena Conti of Boston University noted during the September 19, 2023, House Oversight Committee hearing, "Drug prices are set high in the United States because, simply, drug manufacturers can charge them, and we will pay them."[5]
- Over the last several years, increased expenditures on specialty drugs have been a key driver in keeping overall drug spending high. According to the HHS Office of the Assistant Secretary for Planning and Evaluation, "The cost of specialty drugs has continued to grow, totaling $301 billion in 2021, an increase of 43% since 2016. Specialty drugs represented 50% of total drug spending in 2021."[6]
- Between 2008 and 2021, launch prices for new drugs increased exponentially by 20% per year. From 2020 to 2021, 47% of new drugs were initially priced above $150,000 per year. Prices increased by 11% per year, even after adjusting for estimated manufacturer discounts and changes in certain drug characteristics, such as more oncology and specialty drugs (e.g., injectables, biologics) introduced in recent years.[7]

What happens to the rebate dollars that PBMs negotiate today?

- According to GAO, 99.6% of rebates in Medicare Part D get passed along to plan sponsors and, in accordance with current law, plan sponsors use those rebates to keep premiums affordable or to otherwise support beneficiaries.[8] In the commercial market, 91% of rebates are passed on to plan sponsors and plan sponsors choose what to do with those dollars.[9]

- 94% of every prescription drug dollar is retained by drug manufacturers, pharmacies, and wholesalers—with PBMs receiving only 6% and spending 67% of that amount providing services—ultimately retaining just 2% of the drug dollar.
- The same data also shows that drug companies keep 65% of that hypothetical drug dollar, giving the industry trillions of dollars in revenue and some of the highest profit margins of any industry.[10]

What would happen if Congress used "delinking" to prevent payers from deciding how to pay for their PBM services?

Part D Impact[11]

- "Delinking" would result in a financial windfall for big drug companies with up to an additional $10 billion every year for them.
- "Delinking" would cost patients and payers up to $18 billion.
- "Delinking" would lead to taxpayers paying more for Medicare, higher premiums for seniors in Medicare Part D, and reduced PBM competition.

Commercial Market Impact[12]

- "Delinking" in the commercial market would give big drug companies up to an additional $22 billion per year.
- "Delinking" would increase premiums in the commercial market by up to $26.6 billion.
- "Delinking" would also result in increased nondrug health costs and reduced innovation.
- "Delinking" PBM compensation in the commercial market would be even costlier to health plan sponsors and patients than implementing the proposal in Part D.

"Delinking" would result in higher costs, not healthcare savings.[13]

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3 Ibid.
4 Visante. 2018. https://www.pcmanet.org/wp-content/uploads/2018/08/Reconsidering-Drug-Prices-Rebates-and-PBMs-08-09-18.pdf.
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9 Pew Charitable Trusts. 2019. https://www.pewtrusts.org/-/media/assets/2019/03/the_prescription_drug_landscape-explored.pdf.
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12 Brill. 2023. https://getmga.com/the-economics-of-delinking-pbm-compensation/.
13 Ibid.