PCMA

STOP the Big Pharma “Delinking” Bailout

Misguided “Delinking” Legislation Would Hand Big Pharma a $32 Billion Bailout Paid for by Patients, Taxpayers, and Health Plan Sponsors, Including Small Businesses

Congress is considering misguided proposals targeting the market-based role of pharmacy benefit companies in the health care system.

So-called “delinking” proposals are the most recent, and most catastrophic, policies targeting pharmacy benefit companies to be floated in Washington. These bills would ban market-based incentives for pharmacy benefit companies to secure the most savings possible for patients and plan sponsors on their prescription drug costs through rebates, discounts, and other price concessions. These savings are passed directly to health plan sponsors, including employers, small businesses, unions, and government entities, who use them to help better the lives of patients and families, including by lowering premiums, reducing cost sharing, and offering more comprehensive benefits, like wellness programs.

Breaking Down the Cost of Big Pharma’s “Delinking” Bailout

- **Big drug companies stand to reap a windfall of more than $32 billion** in increased revenues should delinking policies be imposed on the Medicare Part D and commercial markets.[1]
- **The Big Pharma bailout would be paid for on the backs of patients and health plan sponsors**. In the Medicare Part D program alone, ‘delinking’ would cost patients and payers up to **$18 billion.**[2]
- **In the commercial market, ‘delinking’ would saddle patients with as much as $26 billion** in increased premiums.[1]
- These **misguided proposals would do nothing to lower drug prices, as rebates are NOT correlated with higher prices**; **99.6 percent** of rebates get passed on to Medicare Part D plans and **91 percent** to health plan sponsors, like employers and unions.[3,4]
- In fact**, 81 percent of employers say that losing rebates would HINDER their companies’ ability to offer prescription drug benefits** to employees.[5]

[1]Alex Brill, “The Economics of “Delinking” PBM Compensation,” November 2, 2023, https://getmga.com/the-economics-of-delinking-pbm-compensation/
[2]Casey M. Mulligan, “Ending Pay for PBM Performance: Consequences for Prescription Drug Prices, Utilization, and Government Spending,” National Bureau Of Economic Research, September 2023, https://www.nber.org/papers/w31667
[3]Government Accountability Office, “Use of Pharmacy Benefit Managers and Efforts to Manage Drug Expenditures,” July 2019, https://www.gao.gov/assets/gao-19-498.pdf
[4]Pew Charitable Trusts, “The Prescription Drug Landscape, Explored,” March 2019, https://www.pewtrusts.org/-/media/assets/2019/03/the_prescription_drug_landscape-explored.pdf
[5]Coalition for Affordable Prescription Drugs, “Employer Survey: Key Findings and Toplines, October 5, 2023, https://www.affordableprescriptiondrugs.org/resources/employers-survey-key-findings-and-toplines/

Experts Unpack the ‘Delinking’ Danger

Alex Brill, “The Economics of ‘Delinking’ PBM Compensation,” *Matrix Global Advisors (MGA)*

> “The desire to control or restrict [pharmacy benefit managers] PBMs stems from a misconception about the role they play in the pharmaceutical supply chain. In reality, PBMs negotiate lower prices from drug manufacturers, and the savings are generally passed along to health plan sponsors and used to lower health insurance premiums.”
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> “[R]ebates reflect the savings generated for health plans as a result of the incentives in place today for PBMs… A significant share of these higher costs (an estimated $6.3 billion–$21.9 billion) would accrue to drug manufacturers… the aggregate effect of delinking in the commercial market and Part D could be an increase of more than $32 billion in drug profits.”

Dr. Casey B. Mulligan, “Ending Pay For PBM Performance: Consequences For Prescription Drug Prices, Utilization, And Government Spending,” *National Bureau of Economic Research (NBER)*

> “Lawmakers are considering prohibiting any link between the remuneration of Pharmacy Benefit Managers (PBMs) and a drug’s list price or other price benchmark. Without such a link, PBM fees would no longer be contingent on the rebates and discounts they negotiate for drug insurance plans. As a change to financial incentives for purchasers in the drug supply chain, this ‘delinking’ policy has the potential to significantly (i) increase drug prices, (ii) reduce drug utilization, and (iii) redistribute billions of dollars annually from patients and taxpayers to pharmacy companies and drug manufacturers.”
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> “Introducing a new friction or obstacle between buyers and sellers is unlikely to increase competition or consumer welfare in benefit management or any other market… Given that the commercial market has negotiated rebates and discounts of roughly similar aggregate magnitude as Medicare Part D, the consequences of a delinking regulation for the commercial segment would be similar in both direction and magnitude.”

Dr. Joel Zinberg, M.D., “A Free Market Solution For Drug Distribution,” *Competitive Enterprise Institute (CEI)*

> “The prescription drug distribution market is not perfect. But the various legislative proposals to restrict PBMs are more likely to make it worse than better. Congress should not enact them… Rebates are price discounts based on sales volume. Rebates go up and prices come down when more of the drugs are sold. There is nothing particularly unique or nefarious in the use of rebates for drug sales… In fact, nearly all of the manufacturer rebates to PBMs are passed back to the plan sponsors… Rebates have benefitted both payers and consumers in the form of lower premiums for plan enrollees. Plan sponsors have strong incentives to pass on rebates to their enrollees in the form of lower premiums and better benefits. Rebate payments have also lowered government costs and benefitted taxpayers.”

Dr. Ike Brannon, "The Problem With Delinking In Drug-Price Negotiations," ***Jack Kemp Foundation***

> "Despite their valuable role in the drug supply chain, Members of Congress on both sides of the aisle are working on a variety of legislative proposals that would severely constrain PBMs in numerous ways. For instance, one such proposal would effectively prohibit any contract that rewards PBMs for the size of the price discount they obtain on a drug via negotiations, a provision referred to as delinking… it would completely destroy their incentives to reduce drug costs for their customers."
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> "PBMs are compensated based on how effectively they secure savings from drug companies and pharmacies, which is both why they are effective and why pharmaceutical companies resent them. One recent analysis noted that annual federal spending on Medicare Part D premiums would increase $3 billion to $10 billion as a result of such legislation… Another critical point the legislation ignores is that rebates on prescription drugs are not correlated to the prices that drug companies set… Pharmacy benefit managers are one of the few mechanisms we have for constraining pharmaceutical prices. We should think carefully before taking steps to constrain them."

Joe Grogan, "Congress Wants a Better Value. So Why Are They Eliminating Performance Based Payment?," ***USC Schaeffer Center***

> "PBM expertise in negotiating and managing financial flows uniquely qualifies them to negotiate and manage alternative payment arrangements for these drugs, such as warranty models or subscriptions. Policies targeting performance-based payments bolster the argument that the only actor who can competently negotiate drug prices is the Government."
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> "[S]everal committees in both chambers have decided that the best way to lower drug costs is to require PBMs be paid on a flat fee basis, thus banning the most effective means of ensuring accountability: paying for results… Congressional eagerness to destroy this contractual arrangement punishes patients and taxpayers far more than it would punish PBMs. In a post-delinking world, the PBM would be paid the same amount for each dispensation of the same type of drug, or a single flat fee for all their services, decreasing incentives to negotiate deep discounts. Rebates could decline by as much as 31 percent… Additionally, delinking will impose costs on patients. A decrease in the size of negotiated rebates caused by the removal of incentives means plan premiums would increase by as much as $10 billion a year for seniors."

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