

The Truth About Rebates



Pharmacy benefit companies negotiate billions in savings from big drug companies every year. That's great, but what happens to that money?

Pharmacy benefit companies (PBMs) are the only entities in the pharmaceutical supply and payment chain with the mission of lowering costs. Their work to bring down costs for plan sponsors and patients provides savings to keep health care affordable and accessible. For many brand drugs, PBMs negotiate directly with drug manufacturers, which compete for formulary placement by offering rebates. **PBMs negotiate \$148 billion in savings from manufacturers and pharmacies annually,¹ and those savings benefit health plans, employers, retirees, and patients directly.**

How much of the rebates that PBMs negotiate go back into plan sponsors' pockets?

- » According to GAO, 99.6% of rebates in Medicare Part D are passed directly back to Part D plans that—as required by law—use those rebates to keep premiums affordable or to otherwise support beneficiaries.²
- » In the commercial market, 91% of rebates go to plan sponsors, who choose what to do with those dollars.³
- » Employers use drug company rebates to lower cost sharing and premiums and to fund other health programs.⁴

How much of the drug dollar do PBMs retain?

- » 94% of the 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.⁵
- » The same data also shows that drug companies keep 65% of that drug dollar, giving the industry trillions of dollars in revenue and some of the highest profit margins of any industry.⁶

Share of Drug Dollar Retained by Drug Supply Chain Participants

6%

PBM Services

- Negotiating with drug makers and pharmacies
- Tracking new outcomes evidence & updating formularies
- Assuring patient safety/ detecting contraindications
- Running adherence programs & medication therapy management
- Encouraging generic and high-value utilization
- Detecting and preventing fraud
- Utilization review and analysis

4%

Wholesalers

25%

Pharmacies

65%

Manufacturers

Do rebates 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.⁷
- » 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.⁸
- » 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.⁹
- » Pharmaceutical manufacturers take enormous price increases for Part D drugs without rebates and for Part B drugs, for which PBMs do not negotiate rebates.¹⁰
- » 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.¹¹

PBMs save health plans, including Part D plan sponsors and employers, an average of \$1,040 per person per year,¹² and are the only ones in the drug supply chain with the primary mission of lowering drug costs. So what's driving drug prices higher?

- » 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 (ASPE), "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."¹³

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."¹⁴

1 Mulligan. 2022. https://www.nber.org/system/files/working_papers/w30231/w30231.pdf.

2 GAO. 2019. Available at <https://www.gao.gov/assets/gao-19-498.pdf>.

3 Pew Charitable Trusts. 2019. https://www.pewtrusts.org/-/media/assets/2019/03/the_prescription_drug_landscape-explored.pdf.

4 CAPD. 2023. <https://www.affordableprescriptiondrugs.org/resources/employers-survey-key-findings-and-toplines/>.

5 Visante estimates, based on data published by IQVIA, Pembroke, Altarum, USC Schaefer, and Health Affairs. 2023. Available at <https://www.pcmagnet.org/wp-content/uploads/2023/04/Share-of-the-Drug-Dollar.pdf>.

6 Ibid.

7 Visante. 2018. <https://www.pcmagnet.org/wp-content/uploads/2018/08/Reconsidering-Drug-Prices-Rebates-and-PBMs-08-09-18.pdf>.

8 HHS OIG. 2019. <https://oig.hhs.gov/oei/reports/oei-03-19-00010.pdf>.

9 Ibid.

10 Visante. 2018. <https://www.pcmagnet.org/wp-content/uploads/2018/08/Reconsidering-Drug-Prices-Rebates-and-PBMs-08-09-18.pdf>.

11 JAMA. 2021. <https://jamanetwork.com/journals/jama/fullarticle/2792986>.

12 Visante. 2023. <https://www.pcmagnet.org/wp-content/uploads/2023/01/The-Return-on-Investment-ROI-on-PBM-Services-January-2023.pdf>. <https://www.pcmagnet.org/wp-content/uploads/2023/01/The-Return-on-Investment-ROI-on-PBM-Services-January-2023.pdf>.

13 ASPE. 2022. <https://aspe.hhs.gov/sites/default/files/documents/88c547c976e915fc31fe2c6903ac0bc9/sdp-trends-prescription-drug-spending.pdf>.

14 Conti. 2023. Transcript: House Oversight and Accountability Committee hearing: The Role of Pharmacy Benefit Managers in Prescription Drug Markets Part II: Not What the Doctor Ordered.

ABOUT PCMA

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