Enacting "Delinking" Would Ban Spread Pricing, Require 100% Rebate Pass-Through, End Pay for Performance AND Drive Up Drug Costs

Drug companies are advocating "delinking" PBM compensation from the drug's list price, any pricing standard (such as average wholesale price (AWP) or average manufacturer price (AMP)), the volume of drugs dispensed, and sometimes from the premium costs or number of plan enrollees. Under "delinking," PBMs could only charge health plan sponsors—employers, health insurers, unions, Medicare Part D plans—a flat fee.

- **"Delinking" would ban spread pricing arrangements.** Under spread pricing, a PBM charges the health plan the same regardless of which pharmacy an enrollee uses. If the pharmacy charges more than the PBM charges the plan, the PBM loses money. If the pharmacy charges less than the PBM charges the plan, the PBM makes a margin. Many employers, particularly small employers, prefer spread pricing for its predictability, as the PBM holds the risk that enrollees will choose costlier pharmacies. Because spread pricing is based on the price of the drug, it would be banned under "delinking."
- **"Delinking" would require 100 percent rebate pass-through.** Currently, many health plans compensate their PBMs by contracting for the PBM to retain a small portion of the rebates (discounts) it negotiates with drug companies. This gives the PBM an incentive to negotiate as hard as possible to get the greatest discount for the client. Under "delinking," keeping any amount of rebate would be banned and forces clients to chose "pass-through" models. PBMs could not be rewarded for getting the extra deep discounts (because that would be basing compensation on the drug's price).
- **"Delinking" would disincentivize value-based contracting.** PBMs are compensated based on the value they provide employers and health plans by lowering drug costs. Flat-fee arrangements would prevent PBMs from being rewarded for doing a better job, which runs counter to the current shift in the health care system toward value.
- **"Delinking" would also make it harder to manage very expensive specialty drugs, where a PBM ordinarily would try to contract not to pay for the drug if it did not work.** Without reassurance that it would be compensated for undertaking these negotiations with drug companies, PBMs would likely abandon them. Drug companies would also not be responsible for evaluating the effectiveness of their drugs once released to the general population.
- **"Delinking" that also included bans on compensation based on premium or number of prescriptions or enrollees would leave PBMs with little method of compensation.** If PBMs could not be paid for managing prescription drugs benefits based on the volume of enrollees or prescriptions managed—in other words, the amount of work they are doing—**It would add tens of billions of dollars to drug company profits.**

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.pcmanet.org.

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