

The Invisible Middlemen:

How Pharmacy Benefit Managers Affect Drug Costs and Access to Treatment

What is a PBM?

Hired by health plans to manage drug benefit programs; act as intermediaries between health plans, manufacturers, and pharmacies.

The PBM Problem

Use position and lack of transparency to negotiate contracts with health plans, manufacturers, and pharmacies that maximize profits at patients' expense.

PBM Revenue Sources

Spread Pricing
Rebates

Spread Pricing

- Spread: Difference between what PBM charges health plan for a given drug and what it reimburses pharmacy for dispensing it.
- Pharmacies don't know what health plans pay PBM for a drug and health plans don't know how much PBM reimburses pharmacies for dispensing it.
 - PBMs use this lack of transparency to keep spread as profit.

The Rebate System

- Rebate: Retroactive discount paid by manufacturers to PBMs in exchange for preferred placement on PBM formulary; amount is negotiated percentage off list price (WAC).
 - Motivates PBMs to construct formularies based on rebates, not efficacy, safety, and cost.
 - Leads to practices like step therapy, prior authorization, non-medical switching, etc.
- Creates market pressure for list prices (higher the list price, higher the rebate).
 - Patient cost-sharing based of list price, not rebated price, so patients pay inflated amount.
- Rebates are not always passed back to health plans, even though plan-PBM contracts have rebate pass through terms.
 - PBM is only contractually obligated to pass on "rebate" as specifically defined in contract.
 - Health plans do not know rebate amount PBM collects from manufacturer.
 - PBMs exploit non-transparency to "reclassify" portion of rebate in manufacturer contract as "fees," which PBM keeps as profit.

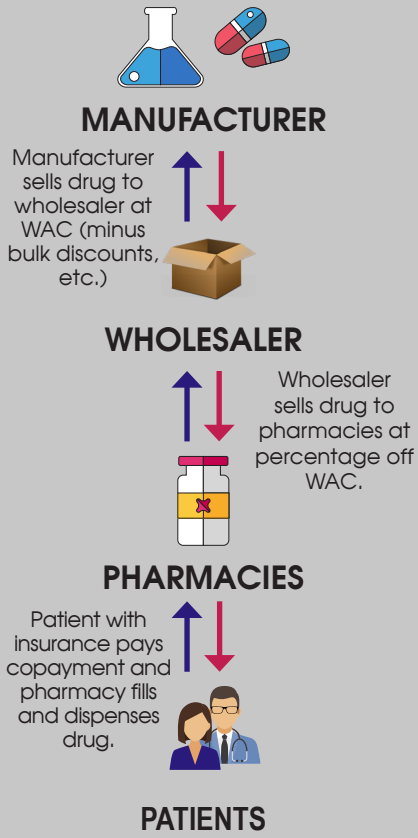
Have Questions about PBMs or ATAP? Contact the ATAP Policy Team

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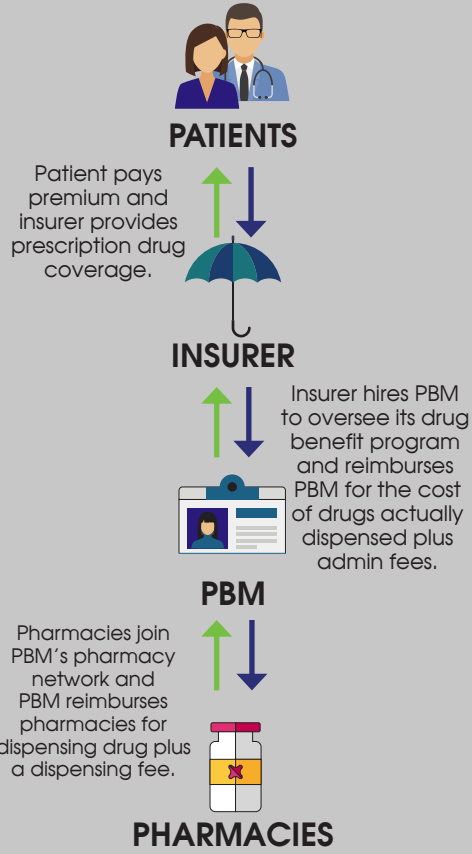
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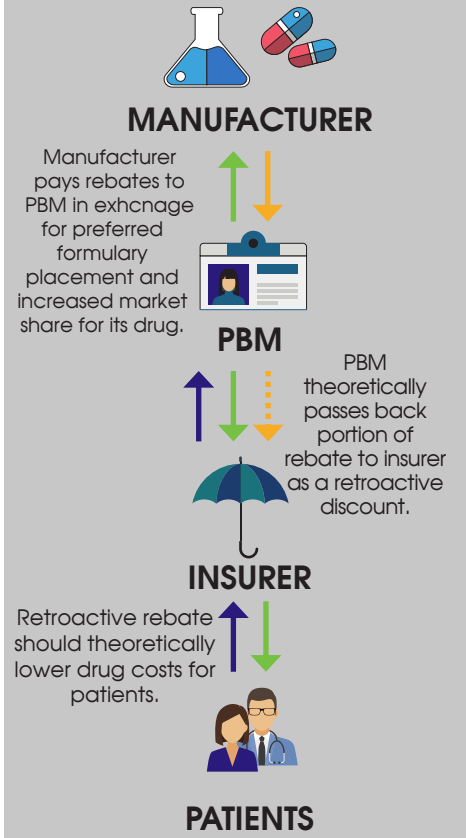
Drug Supply Chain



Drug Benefit Program



The Rebate System



Putting It All Together: The Drug Industry

ATAP
 ALLIANCE for TRANSPARENT & AFFORDABLE PRESCRIPTIONS

