

ANALYSIS OF PBM FINANCIAL REPORTS REVEALS:

# How an Uncompetitive PBM Market Drives Prescription Drug Inflation & the Kinds of Policies That Can Correct It

**P**harmacy benefit managers (PBMs) play a central role in the U.S. pharmaceutical supply chain, influencing patient access to prescription medicines and the costs ultimately paid by plan sponsors and many individuals with prescription drug coverage from Medicare, Medicaid or private insurance.

As policymakers work to lower health care costs, a new report highlights the changing role and behavior of PBMs and identifies areas where policy reform could be most effective in making prescription drugs affordable to Americans. These include misalignment of PBM incentives, lack of transparency, and absence of effective market competition that drive PBM behavior and increase prices in the prescription drug marketplace.

## Exhibit 1: The Perverse PBM Incentive to Prefer Higher Drug List Prices

PBM revenue is often tied to the list price of a medicine, not the final, or “net,” amount that is ultimately paid by the plan sponsor. As a result, when the list price of a medicine goes up, PBM revenue increases. A PBM considering two equivalent medicines with the same net price can make a higher profit margin from the product with the higher list price and larger rebate, even though the final cost to the plan is the same. This perverse incentive harms patients with deductibles and coinsurance, who typically pay a share of the undiscounted list price of a medicine, rather than the discounted price paid by the PBM. In fact, when medicines with lower list prices are available, PBMs may exclude them from the formulary – the list of prescription drugs covered by a prescription drug plan – even though for many patients, the cost share for the medicine would be less expensive.

- **Example:** Two of the three largest PBMs exclude versions of hepatitis C treatments and insulin with lower list prices from their standard formulary, instead covering the higher-priced brand equivalent. The same exclusions have been applied to lower-cost biosimilar insulin products.

## Exhibit 2: Lack of Price Transparency Prevents Plan Sponsors and Patients from Properly Evaluating True Prescription Drug Costs

PBM pricing models are extremely complex, making it difficult for plan sponsors and patients to determine the true cost of prescription drugs. Opaque PBM pricing models typically render plan sponsors unable to conduct apples-to-apples comparisons of the actual costs of alternative PBM prescription benefit proposals. In such a marketplace, there is little prospect that competition will have the desired outcome of reducing prescription drug prices. In fact, PBMs often exploit the lack of transparency to generate more revenue for themselves.

- **Example:** PBMs generate revenue through “spread pricing.” Spread pricing occurs when PBMs charge client health plans more for prescription drugs than they reimburse pharmacies for dispensing the same drugs to their plan participants. PBMs keep the hidden “spread” for themselves.
- **Example:** PBM contracts with plan sponsors in the private sector often include language that allows only auditors approved by the PBM, limits the documents that auditors can access, or precludes the employer plan sponsor from auditing the PBM altogether.



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### Exhibit 3: Consolidation of PBMs Continues to Erode Market Competition

The three largest PBMs account for 77% of U.S. market share, and all three are vertically integrated with major health insurers and affiliated pharmacies. As the industry grows increasingly consolidated and vertically integrated, regulation and monitoring will become even more difficult. Already, PBMs are taking steps to further consolidate.

- **Example:** Between 2019 and 2021, all three of the largest PBMs formed their own rebate aggregators or group purchasing organizations (GPOs) as consolidated contracting entities to handle rebate negotiations on behalf of themselves and other PBMs. Industry experts believe the new GPO entities will introduce an additional non-transparent layer of complexity that may enable retention of a larger share of rebates and extraction of additional fees, and/or other price concessions.

The new, PBM-created GPOs, like other aspects of PBM vertical consolidation, face little regulatory scrutiny. Ultimately, they increase PBM leverage, reduce transparency, distort market competition amongst PBMs, and further limit oversight capabilities, especially since two of the three GPOs are based outside of the U.S.

### How Policymakers Can Take Action

Policy solutions are needed to correct misaligned PBM incentives, reduce excessive complexity in PBM contracts, provide transparency into PBM practices, and regulate the PBM marketplace.

Federal lawmakers can continue to pursue policies that would increase PBM transparency and accountability, including:

- Delinking PBM compensation from the list price of medicines
- Requiring rebates and discounts to be shared with plan sponsors and/or patients at the pharmacy counter
- Limiting spread pricing practices within Medicaid
- Establishing disclosure requirements for commercial prescription drug plans

States are already making meaningful progress, including:

- An Arkansas law set standards for how PBMs reimburse their pharmacy networks
- A West Virginia law requires PBMs to pass along savings to patients
- Several states have implemented a PBM reverse auction to help create a transparent review process for selecting competing PBM proposals; learn more about this solution [here](#)

**Plan sponsors, patients and the American health care system need relief from excessive prescription drug costs. Oversight and reform of the PBM marketplace will help.**



To view our new report, “Understanding the Evolving Business Models and Revenue of Pharmacy Benefit Managers,” and to learn more, visit the **PBM Accountability Project website.**