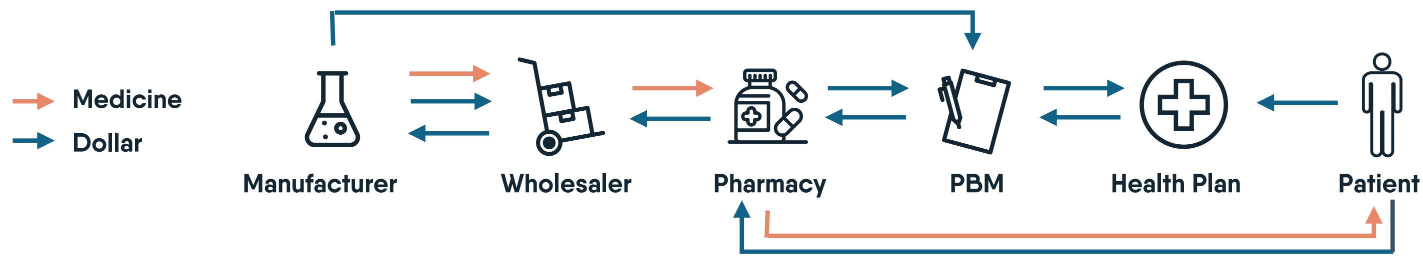
PBM ACCOUNTABILITY PROJECT

HOW PBMs MAKE MONEY

Pharmacy benefit managers' (or PBMs) primary role should be straightforward: Manage prescription drug benefits and provide the lowest possible cost to consumers, businesses, unions and other payers. However, a new report from the PBM Accountability Project, "Understanding the Evolving Business Models and Revenue of Pharmacy Benefit Managers," shows how PBMs are finding new and hidden ways to directly profit from the role that they play rather than pass along savings to patients.

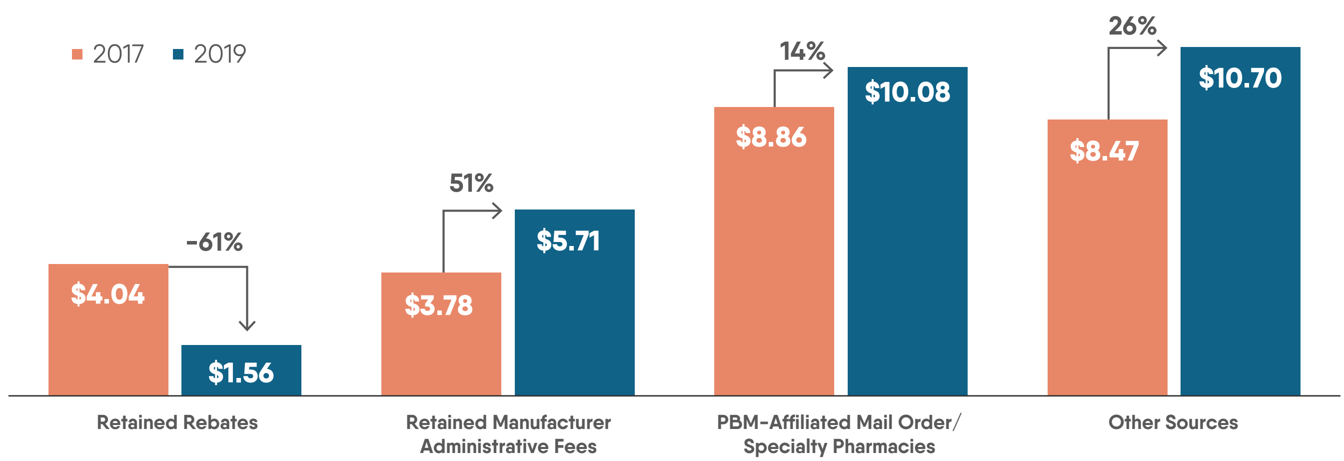
The Pharmaceutical Payment and Distribution Supply Chain



* Simplified illustrative representation of the pharmaceutical supply chain; this graphic is not intended to represent every relationship and stakeholder in the marketplace

PBMs derive much of their revenue from collecting a range of service fees and other charges from manufacturers, pharmacies, and other supply chain entities, ultimately driving up the cost of the prescription drugs. A new study by the PBM Accountability project shines a light on the PBM business model, often described as a "black box," revealing the sources of growth in PBM gross profit between 2017 and 2019.

SOURCES OF PBM GROSS PROFIT ($B), 2017-2019



HOW PBMs MAKE MONEY

PBM ACCOUNTABILITY PROJECT

The study found that PBM gross profit (defined as revenue minus the cost of goods sold) **increased by 12% in two years, from $25 billion to $28 billion.**

PBMs have successfully grown total revenue, despite reducing their retained manufacturer rebates, by evolving their business practices. For example, PBM gross profit from retained administrative fees paid by manufacturers for services provided by PBMs **increased by 51%, from $3.8 billion to $5.7 billion in the two years.**

Overall, the margin PBMs collect from their mail-order and specialty pharmacies is becoming an increasingly important source of revenue. PBM gross profit from PBM-owned mail-order and specialty pharmacies **increased from $8.9 billion to $10.1 billion.** The largest PBMs, insurers, and specialty pharmacies have combined into vertically integrated organizations – expanding beyond traditional mail-order processing of routine maintenance drugs to the management of some of the most complex and expensive drug therapies currently on the market. These relationships have blurred the lines between PBM and client, leading to an overall reduction in transparency and increasing barriers to competition.

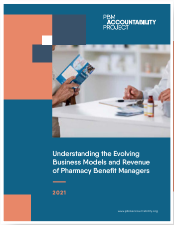
PBM gross profit from "other sources" **increased by nearly 26%, from $8.5 billion in 2017 to $10.7 billion in 2019.**

Although "other sources" – which include spread pricing, pharmacy fees and clawbacks, fees collected from payers, and other non-administrative fees collected from manufacturers – constitute nearly 40% of all PBM gross profit, analysis of the publicly available financial data sheds little light on how much gross profit is derived from the specific components.

A number of market factors enable PBMs to increase their gross profit at the expense of other prescription drug stakeholders. These include:

- Misalignment of incentives
- Excess pricing complexity
- Lack of transparency and oversight

As PBMs' revenue sources continue to evolve, meaningful reforms are needed. These findings highlight the need for consideration of new approaches to realigning PBM incentive structures as part of prescription drug policy discussions. These should include limiting spread pricing within Medicaid, establishing disclosure requirements for commercial plans, requiring rebates and discounts to be shared with plans and patients at the pharmacy counter, delinking PBM compensation from the list price of medicines, and ensuring patient choice of pharmacies.



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.