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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.