

Pharmacy Benefit Managers – The Basics



Pharmacy benefit managers (PBMs) are entities that administer prescription drug programs for many private, public, and employer health insurance plans.

How Does a PBM Operate?

PBMs establish pharmacy networks, negotiate prices with pharmaceutical manufacturers on behalf of their clients, and provide basic claims administration. PBMs generally attempt to drive utilization towards lower-cost generics or branded drugs for which they have been able to secure rebates. PBMs establish formularies – the list of drugs a plan covers – and determine the tiering structures for the drugs on a formulary. Often, specialty drugs – like cancer drugs – are placed on the highest cost-sharing tier and have a coinsurance requirement instead of a flat copayment. These tools, along with other methods such as prior authorization and step therapy allow the PBM to manage drug utilization and contain costs for the insurer.

Who uses PBMs?

A wide range of insurers including self-insured employer plans, commercial health insurance plans, Medicare Part D plans, Medicaid, the Federal Employees Health Benefits Plan, and state government employee plans. According to the PBM industry association, PBMs manage drug benefits for 266 million Americans.¹

Who are the main PBMs?

Although there are over 80 PBMs operating nationwide,² three PBMs dominate the market: CVS Caremark, Express Scripts, and OptumRx.³ Together, the big three account for just over 70 percent of PBM market share.⁴

How do PBMs make money?

PBMs are paid by employers and insurance plans for providing the administrative services previously described. Drug manufacturers – interested in securing a spot for their product on an insurer's formulary – may provide PBMs with rebates. Generally, PBMs retain a portion of these rebates and pass along a portion to the plan sponsor. In addition, PBMs maintain separate contracts with plan sponsors and network pharmacies. They reimburse pharmacies for a given drug at a contracted rate, and generally charge a markup to the plan sponsor for the drug.⁵ According to a recent analysis from researchers at USC, PBMs have a modest average net margin of 2.3%.⁶

What happens to the discounts and rebates PBMs negotiate?

It is generally unknown as these contracts are confidential. Some PBMs claim that they pass along 90 percent of the rebates that they obtain from manufacturers to their clients.⁷ However, the actual terms of the rebate agreements are not public. Plan sponsors are also generally unaware of the rebates that PBMs secure from manufacturers.⁸ Some contracts, however, are written to require the PBM to pass along 100 percent of the rebate to plan sponsors.

Often, patients end up facing a coinsurance payment based on a drug's list price, rather than the discounted price obtained by the PBM. Policymakers are currently discussing proposals that would

require Medicare Part D plans and relevant PBMs to take rebates into account when determining a patient's coinsurance payment for the drugs – thus allowing patients to benefit from the rebates.

How do PBMs interact with pharmacies?

PBMs contract separately with pharmacies to dispense the drugs. PBMs develop pharmacy networks and steer patients towards preferred pharmacies. Most PBMs also own and operate their own mail-order pharmacies, which compete with retail pharmacies.⁹

How do PBMs handle oncology drugs?

Infused drugs that are administered in a practice setting by an oncologist are generally covered by a plan's medical benefit, such as Medicare Part B. This means that PBMs do not handle many oncology drugs. However, recent trends suggest that more oral medications are entering the market. As many as 35 percent of drugs in the oncology pipeline are oral medications – meaning they will be covered under the pharmacy benefit.¹⁰

¹ PCMA. Our Industry. Available at: <https://www.pcmamet.org/our-industry/>

² PCMA. PBMs are trusted business partners for healthcare payers. Available at: https://www.pcmamet.org/wp-content/uploads/2017/03/PBM-Payer-Relationships_inforgraphic_FINAL.pdf

³ DOL ERISA Advisory Council. PBM Compensation and Fee Disclosure. 2014. Available at: <https://www.dol.gov/sites/default/files/ebsa/about-ebsa/about-us/erisa-advisory-council/2014-pbm-compensation-and-fee-disclosure-danzon-06-19.pdf>

⁴ Id.

⁵ Id.

⁶ Sood et al. 2017. The flow of money through the pharmaceutical distribution system. USC Schaeffer Center. Available at: http://healthpolicy.usc.edu/documents/USC%20Schaeffer_Flow%20of%20Money_2017.pdf

⁷ PCMA. Get the facts: how prescription drug rebates reduce costs. Available at: <http://drugbenefitsolutions.com/get-the-facts/drug-rebates/>

⁸ NCPA. Pharmacy Benefit Managers (PBMs) 101. Available at: http://www.ncpa.co/pdf/leg/nov12/pbm_one_pager.pdf

⁹ DOL ERISA Advisory Council.

¹⁰ Community Oncology Alliance. Fact Sheet: Patient Access to Oral Oncolytics. Available at: <http://www.communityoncology.org/pdfs/fact-sheet-oral-oncolytics.pdf>