

Pharmacy Benefit Managers Fact Sheet

Revisiting the business practices of Pharmacy Benefit Managers (PBMs), including an overview of their compensation model and proposed legislative reform

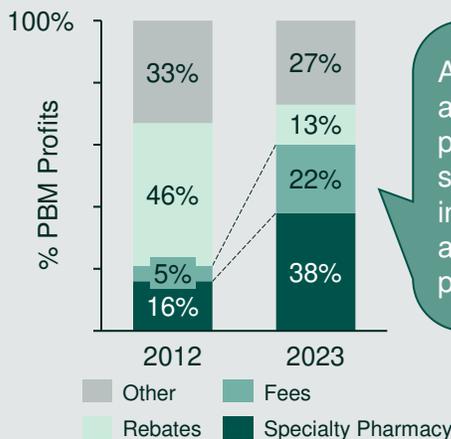
PBMs are intermediaries that provide pharmacy benefit administration, negotiating leverage, and contracting expertise to health plan and employers

While the stated mission of PBMs is to ensure affordable patient access, their compensation models often **link revenue to the list price of medicines**:

- 1 In **spread pricing** models, PBMs rely on several compensation sources: the spread between their acquisition and reimbursement amounts, rebate retention, and other dispensing fees
- 2 PBMs that use **pass-through pricing** contracts receive fee-based compensation directly from the health plan or plan sponsor. Rebate streams are directly passed through to their clients.

Tying compensation to the price of medicines incentivizes PBMs to seek the greatest differential between list and net price rather than negotiate the lowest possible net price

PBM Profits Breakdown Evolution¹, 2012-2023



Administrative fees and specialty pharmacy fees have significantly increased, now accounting for 60% of profits

Key issues with the PBM operational model^{2,3}:

- 1 **Lack of transparency** in where discounts/fees are being allocated allows PBMs to pocket savings instead of passing down discounts to patients at the pharmacy
- 2 As fees continue to be central PBM profits, **perverse incentives** link PBM compensation with list prices and favor keeping drug prices high
- 3 Due to SPs network integration, PBMs hold **outsized bargaining power** that pushes out independent pharmacies who do not have the same leverage

PBM History: Rising Power, Market Consolidation, and Recent Reform

Late 1990s: Employers desire to reduce spend trend for medicines fuels adoption of PBMs to manage costs

2019⁴: HHS proposed a rule to carve out rebates from safe harbor protections; this was later withdrawn by the Trump administration.

2024³: White House hosts listening session where panelists describe the effects of "opaque" PBM tactics

2010s: Negotiating power of PBMs increases, driven primarily by horizontal consolidation

2023⁵: Legislation targeting harmful PBM practices gets introduced in both the House and Senate

2023⁶: Mergers of major PBMs are blocked due to existing consolidation of the market

Sources: 1 Nephron Research, "Trends in Profitability and Compensation of PBMs & PBM Contracting Entities", 2023; 2 "Pharmacy Benefit Managers, Rebates, and Drug Prices: Conflicts of Interest in the Market for Prescription Drugs." SSRN Electronic Journal, 2019; 3 "Prescribing PBM Reform: Accelerating Transparency with Bipartisan Action" Event, The Hill 2024; 4. Baker Donaldson, "HHS/OIG Finalizes Rule Stripping PBM Rebates of Safe Harbor Protection", 2020; 5 McDermott+ "Pharmacy Benefit Manager Reform: What's on the Horizon?" 2023; 6 FTC "FTC Sues to Block ..." 2023