



## **FACT SHEET**

### **How Do Pharmaceutical Benefit Managers (PBMs) “Middle Men” Contribute to Higher Drug Costs and Reduced Prescription Drug Affordability?**

When it comes to lowering drug prices, lawmakers have many opportunities for interventions that increase access and affordability, cut waste in health care systems and decrease incentives for corporations to put profits over patients. Reforms are needed in every area of the system: drug manufacturers, health insurers, and the “middle-men” who negotiate between them called Pharmacy Benefit Managers (PBMs).

#### **What are Pharmacy Benefit Managers (PBMs)?**

Pharmacy Benefit Managers (PBMs) are key players in the prescription drug distribution chain that have an impact on prescription drug affordability. Essentially, PBMs administer health plans’ prescription drug benefits: they negotiate and manage prescription drug benefits on behalf of health insurance companies, Medicare Part D plans, large employers, and other payers. They play an important behind-the-scenes role in determining drug costs by developing formularies and negotiating rebates and discounts between drug corporations and pharmacies. They also create and manage networks of pharmacies and own pharmacies themselves. PBMs have taken on an increased role in prescription drug access over the last several decades.

#### **How do PBMs make profits and affect affordability of prescriptions?**

PBMs control formularies (which drugs are covered under a plan) and negotiate prices between insurers and drug manufacturers. No one is privy to these negotiations besides the PBMs, so it’s hard to know exactly what they are negotiating and how much they benefit. We know PBMs make profit through various tactics that have attracted scrutiny from Congress and consumers. For instance:

- PBMs collect rebates that represent a percentage of the drug manufacturer’s list price. There is very little transparency about how big these rebates are and what proportion of the rebates get passed onto consumers in the form of lower prices for their prescriptions versus what portion of these rebates the PBMs retain. PBMs may negotiate rebates from drug manufacturers in exchange for giving a drug preferred status on a health plan's formulary. That means that the choice of drug for a formulary is not necessarily based on efficacy of the medicine, value to patients or affordability, but may just be tied to the size of the rebate for the PBM. PBMs face accusations from the drug corporations and other stakeholders that discounts are not being passed on to patients.

- PBMs use “spread pricing” to reap profits from their customers. Spread pricing is when PBMs charge their payers (the insurer, health plan, Medicaid, etc.) more for generic prescription drugs than the PBM pays the wholesaler. PBMs pocket the additional amount but quantifying that amount is hard because of lack of reporting and transparency.
- PBMs are highly integrated with the same insurers that they are supposed to be bargaining on behalf of in a very concentrated market model that limits competition. [Currently](#), although there are over 6 PBMss in existence, 3 PBMs account for 79% of prescription drug claims, and 6 PBMs handle 96%. The largest PBM (CVS-Caremark) accounts for 33% for all prescription drug claims, followed by Express Scripts (24%), OptumRx (22%), Humana (8%), Prime Therapeutics (5%), and MedImpact (4%). Furthermore, 5 of the 6 largest PBMs are vertically integrated with insurers.
- PBMs also make money from administrative fees and costs that are passed on to the consumers and to the insurers.

### **How profitable are PBMs?**

The rapid growth of PBMs and integration with major insurers has boosted their profits tremendously. The combined revenues from PBM business units [increased](#) 250% between 2012 and 2022, from \$196.7 billion to \$492.4 billion. In some cases, PBMs are now the lead source of profit for their parent companies. [More than half](#) (52%) of three companies’ profits in 2022 came from their PBM business units: Cigna’s Evernorth, CVS/Aetna’s Caremark, and UnitedHealth’s Optum. Cigna now gets far more revenue and profits from its PBM than from its health plans. And CVS gets more revenue from its PBM than from either Aetna’s health plans or its nearly 10,000 retail stores.

### **How much support is there for PBM reforms in Congress?**

There’s evidence that a lot of bipartisan support already exists for some reforms like increased PBM transparency. In 2022 ([and again in 2023](#)), Sens. Chuck Grassley (R-IA) and Maria Cantwell (D-WA) introduced the Pharmacy Benefit Manager Transparency Act of 2023 ([S. 127](#)), which would prohibit spread pricing, require full rebate pass-throughs, and require PBMs to file an annual report to HHS. Congress has conducted bipartisan investigations into the impact of PBM rebates and formularies as well. Some of these efforts are propelled by the drug corporations, who have consistently pointed to PBM’s as culprits for too high drug prices in order to deflect attention from their own price-gouging. Because the PBM sector is so concentrated, integrated and anti-competitive, the [Federal Trade Commision](#) has also launched investigations into their business model and behavior. A 2023 [poll](#) showed that although the public knows very little about PBMs and their role in the prescription drug supply chain, there is strong support for increased competition, transparency, and accountability for PBMs.

### **What kind of reforms are being considered right now?**

There are multiple bills in the House and Senate that would require PBMs to disclose, at different levels, how much they pay for drugs, how much money they retain and what costs and savings get passed along to health plan sponsors and patients. The [Lower Costs More Transparency Act of 2023](#) passed out of the House in December 2023. The Senate Health, Education, Labor and Pensions (HELP) Committee and the Senate Finance Committee have also passed bills.

**Read more about Congressional action::** [Commonwealth Fund Summary of Bipartisan Actions](#)  
**More about PBM reforms here:** [Reforming PBMs Puts Money In Patients’ Pockets](#),