

Scope of PBMs

By using innovative tools and techniques, PBMs have helped their clients — health plans, self-insured employers, union-sponsored plans, and public purchasers, including Medicare Part D, Medicaid, and the Federal Employees Health Benefits Program — extend prescription drug benefits to the vast majority of American workers and retirees. PBMs aggregate the buying clout of millions of enrollees through their client health plans, enabling plan sponsors and individuals to obtain lower prices for their prescription drugs. Today, more than 210 million Americans nationwide receive drug benefits administered by PBMs.

Competition Among PBMs

Currently, there are approximately 60 PBMs managing the majority of prescription drug expenditures in the United States. PBMs operate in an extremely demanding marketplace where competition has been described as “vigorous” by the Federal Trade Commission (FTC).¹ PBMs compete to win business by offering their clients a range of sophisticated administrative and clinically based services, enabling them to manage drug spending by enhancing price competition and increasing the cost-effectiveness of medications.

PBM Strategies and Tools

All PBMs offer a core set of services to manage the cost and utilization of prescription drugs and improve the value of plan sponsors' drug benefits. Such tools include:

- **Pharmacy networks** — PBMs build networks of retail pharmacies to provide consumers convenient access to prescriptions at discounted rates. PBMs monitor prescription safety across all of the network pharmacies, alerting pharmacists to potential drug interactions even if a consumer uses multiple pharmacies.
- **Mail-service pharmacies** — PBMs provide highly efficient mail-service pharmacies that supply home-delivered prescriptions with great accuracy and safety and at a substantial savings. In a 2005 report, the FTC determined that PBM-owned mail-order pharmacies (1) offer lower prices on prescription drugs than retail pharmacies and non-PBM owned mail pharmacies; (2) are very effective at capitalizing on opportunities to dispense generic medications; and (3) have incentives closely aligned with their customers: the third-party payers who fund prescription drug care.²
- **Formularies** — PBMs use panels of independent physicians, pharmacists, and other clinical experts to develop lists of drugs approved for reimbursement in order to encourage clinically appropriate and cost-effective prescribing; PBM clients always have the final say over what drugs are included on the formulary that they offer to their employees or members.
- **Manufacturer discounts** — PBMs pool purchasing power to negotiate substantial discounts from pharmaceutical manufacturers in order to lower benefit costs for clients and consumers.

Proven Cost-Savings

- **Centers for Medicare and Medicaid Services (CMS):** In a January 2007 Health Affairs report, Centers for Medicare and Medicaid Services (CMS) researchers found that prescription drug spending in 2005 slowed to its lowest growth rate in the past 10 years, rising only 5.8 percent. CMS attributes this decline to a variety of factors, including rapid growth in generics and a shift towards mail-order dispensing – the very tools PBMs rely upon.³ In a January 2009 report, CMS found that the rate has continued to slow even more, rising in 2007 to only 4.9 percent.⁴
- **Congressional Budget Office (CBO):** In October 2002, the non-partisan CBO estimated that PBMs have the potential to save as much as 30 percent in total drug spending relative to unmanaged purchases of prescription drugs where PBMs can use their full range of price discounts and rebates, utilization control tools, and other tools for encouraging appropriate utilization.⁵
- **US General Accounting Office (GAO):** According to a 2003 study by the U.S. General Accounting Office (GAO), the average price of prescriptions through mail-service pharmacies was 27 percent below the average cash price consumers would pay at a retail pharmacy for brand name drugs, and 53 percent below the retail cash price for generic drugs.⁶
- **PricewaterhouseCoopers (PwC):** In a March 2007 report, PwC concluded that PBMs save consumers and plan sponsors, on average, 29 percent on the cost of prescription drugs compared to retail purchases with no pharmacy benefit management. By PwC's estimation, PBMs will lower the cost of prescription drugs by approximately \$1.3 trillion dollars between 2008-2017.⁷
- **The Lewin Group:** From 2007-2016, the utilization of mail-service pharmacies is estimated to save Iowa consumers and employers approximately \$836 million on the cost of their prescription drugs if the current trends in the growth of mail-service utilization continue, according to a 2006 study.⁸

¹ US Federal Trade Commission & US Department of Justice Antitrust Division, “Improving Health Care: A Dose of Competition,” July 2004.

² Federal Trade Commission, “Pharmacy Benefit Managers: Ownership of Mail-Order Pharmacies,” August 2005, available at <http://ftc.gov/ftcpress/index.html#2005>

³ Cutler, A., et. al., “National Health Spending in 2005: The Slowdown Continues,” *Health Affairs*, January/February 2007.

⁴ Cutler, A., et. al., “National Health Spending in 2007: The Slowdown Continues,” *Health Affairs*, January/February 2009.

⁵ Congressional Budget Office, “Issue in Designing a Prescription Drug Benefit for Medicare,” October 2002.

⁶ US General Accounting Office, “Effects of Using Pharmacy Benefit Managers on Health Plans, Retailers and Pharmacies,” GAO-03-196, January 2003.

⁷ PricewaterhouseCoopers, “Pharmacy Benefit Management Savings in Medicare and the Commercial Marketplace & the Cost of Proposed PBM Legislation 2008-2017,” March 2007.

⁸ The Lewin Group, “Mail-Service Pharmacy Savings and the Cost of Proposed Limitations in Medicare and the Commercial Sector,” September 2006.