Opinion

RUTH D. WILLIAMS, MD

What Do You Know About Pharmacy Benefit Managers?

When I showed my patient his progressing visual field and recommended that we add a second glaucoma drop, his first question was, "How much will it cost?" In the past, patients usually asked first about side effects or efficacy or treatment goals. Now, their chief concern is financial. It's common for patients to give me a detailed accounting of the prices of their multiple medications. Many can't afford another co-pay.

And no wonder: The cost of oral drugs given on an outpatient basis increased by 9.2% annually from 2008-2016,[1] and prescription drug expenditures are about 15% of overall health care spending.[2] The current administration has developed recommendations for addressing prescription drug costs, including a rule that was due to go into effect in July. The rule—which was struck down by a federal judge on July 8—would have required TV ads to include the list price of medications. But ophthalmologists, who explain list prices, coupons, and donut holes to our patients all the time, know it's much more complex than that. For example, pharmacy benefit managers (PBMs) play an outsized role in drug pricing, yet most of my patients have never heard of a PBM.

What, exactly, are PBMs? Initially, they were conceived to relieve the burden of processing claims for insurance companies. PBMs then began to negotiate prices between drug and insurance companies.

Today, PBMs actively manage the drug benefits for health plans, create formularies, and negotiate discounts and rebates on behalf of the insurance companies. PBMs generate revenue from rebates, from fees charged to the supply chain, and from the "pharmacy spread" when they charge the health plan more than they reimburse the pharmacy. And thanks to recent consolidation, three PBMs—CVS/Caremark, OptumRx, and Express Scripts—now control 85% of the market.

Theoretically, PBMs have the power to decrease drug costs by aggregating demand and using their buying power to negotiate lower prices from drug makers. Theoretically, these savings could be passed on to the insurance companies who could pass on the savings to patients. But is this happening?

The existence of rebates results in two drug prices: the list price and the net price. While it's the net price—after rebates—that determines the cost to insurers, it's the list price that often determines out-of-pocket payments for many Americans. And there's another problem: Rebates negotiated by PBMs from pharmaceutical companies could distort incentives, as not all of the rebate is passed on to the insurer. Are PBMs offering the drug with the highest rebate rather than the one with the lowest cost?

In February, two governmental agencies published a proposed rule that would restrict rebates to PBMs for Part D and Medicaid managed care and shift to sharing discounts with beneficiaries at the point of sale. Proponents of the rule—especially drug companies—argue that rebates and the opacity of the system create misaligned incentives. Opponents are concerned that eliminating rebates removes the pressure on drug companies to lower prices.

Ruth D. Williams, MD
Chief Medical Editor, EyeNet

So, what's the takeaway for an ophthalmologist in a short discussion about an extraordinarily complex issue? First, what happens to rebates, list prices, and out-of-pocket costs directly affects our patients' ability to purchase drugs and their adherence to our treatments. Second, we need to know a little about these issues, because our patients will be asking about them, thanks in part to the 2020 election cycle. Third, shining a light on PBMs is already affecting change. For example, UnitedHealthcare announced that, starting in 2020, new employer-sponsored health plans must pass a portion of discounts and rebates back to the enrollees at the point of sale.

More than ever, we are the advocates for our patients. We can add to the conversation—and then add to the pressure—when we know more.

1 Hernandez I et al. *Health Aff.* 2019;38(1):76-83.

2 Yu NL et al. Spending on prescription drugs in the U.S.: Where does all the money go? www.healthaffairs.org/do/10.1377/hblog20180726.670593/full/.