The Role of PBMs in the Rx Drug Supply Chain...and Why it Matters to Employers

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Over the last decade, the pharmacy benefit management (PBM) industry has been on an extended run of mergers, acquisitions, consolidation and cross-industry partnerships. But this flurry of activity hasn’t necessarily been for the benefit of consumers and employers. In fact, the current Rx drug supply chain is not aligned to drive cost savings, value and transparency for plan sponsors and consumers.

Most employers don’t understand how PBMs make money and what role they play in the drug supply chain. The fact is these “middlemen” can drive up pharmacy costs. Historically, PBMs have two main goals:

1. Negotiate drug prices, supposedly to keep costs low for consumers and employers
2. Favor the most effective drug where there are similar drugs treating the same condition

But PBMs also have a third goal: make money for their owners and shareholders. Arguably this goal overrides the other two. Many industry watchers-and members of the public-are wondering if pharmacy benefit managers provide much value other than skimming as much profit from the drug supply chain as possible.

PBMs are charged with providing clinical management protocols to protect patients and promote cost savings. One method is step therapy, where doctors are required to first prescribe a lower-cost medication (first line therapy) before a more expensive brand or specialty therapy; this helps keep costs down.

Other measures include recommending blood or lab tests before specific medications are prescribed-a layer of clinical management that’s meant to ensure that the most therapeutically appropriate and cost-effective medications are used prior to, or in place of, the often well-marketed and significantly more expensive brand or specialty medications.

A constant in the Rx drug supply chain is that PBMs are also motivated by volume.

The higher the number of prescription drugs that flow through the system, the more money that can flow to their bottom line. This incents a loose enforcement of clinical management protocols, such as weak administration of prior authorization requirements that serve to ensure patients don’t get steered toward
higher-cost medications unnecessarily for the sake of the profit motive.

Pharmaceutical manufacturers set clinical protocols for their medications to ensure appropriate use, maximize therapeutic efficacy and to ensure patient safety. For example, another protocol may be that a specialist prescribes certain medications only after specific blood work results and appropriate ranges have been validated, rather than a primary care physician (PCP) without the supporting lab work.

If the PCP tries to prescribe the drug, a PBM will flag it because it’s outside of proper protocols. However, PBMs often loosen enforcement of these clinical guidelines so that these drugs are approved anyway. This drives volume, which increases revenue.

Many PBMs promote the aggressive discounts and Rx drug rebates achieved by their formularies that may look good on paper, but often provide no transparency of true costs. This can result in employers paying much more than they should. When PBMs sell their discounts and rebates to employers, but allow more drugs to flow through the health plan to achieve their desired profit margins, employers end up with higher net costs.

The current Rx drug supply chain also enables PBMs to pick and choose which medications to put on a formulary in the first place-decisions that are often motivated by drug manufacturer incentives. Often, higher-cost brand or generic drugs will appear on a formulary even though there are significantly lower-cost options available with the same or greater efficacy. It's up to employers, or their consultants, to manage their PBMs to ensure this middleman is working with their best interest in mind.

There's no telling what the continuing industry disruption will mean for healthcare, insurance and the Rx drug supply chain in the future. For now, one thing is certain: the cost of pharmacy benefits will continue to rise, especially when it comes to specialty drugs, which are expected to increase 17.7% in 2018.¹

To ensure you’re getting the most out of your PBM, look for one that offers transparent/pass-through pricing and focuses on driving lower net costs through appropriate formulary design and strict enforcement of clinical management programs, rather than just offering the best discounts and the highest rebates.

This means conducting a rigorous and thorough PBM procurement process with an experienced and knowledgeable pharmacy consultant. This can help you select a PBM that offers transparent and competitive pricing and is flexible enough to implement the appropriate clinical and cost-saving programs that drive meaningful results for participants and your bottom line.

Meaningful results: that's why it pays to understand the Rx drug supply chain.

¹Segal Consulting, “Segal Group Projects Lower Rx Cost Trend Increases in 2018”

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