Pharmacy Benefit Managers (PBMs) determine which medicines will be covered by health insurance plans and how much patients pay for their prescription drugs. The business of PBMs is often a mystery to consumers as well as employers, pharmacies and state and local governments who contract with them.

To help Granite Staters understand the role of these middlemen in driving up the cost of our medicines, we’ve explained just a few of the many games PBMs play to make money.

**Rebates**

Like many consumer goods, prescriptions medicines often come with a rebate. Drug companies pay PBMs negotiated rebates on many medicines. **But it’s PBMs that get money back, not consumers.**

Business and employee group purchasers often negotiate with PBMs to pass through more of their drug company rebates. Some PBMs claim to pass all the rebates transparently through to their customers. What is less transparent however, are the **other games that PBMs play and continuously invent**, like the ones below, to claw back those rebate pass-throughs and direct even more income streams to themselves.

**Spread Pricing**

Health insurance purchasers pay PBMs to allow patients to get their medicines at the pharmacy. PBMs, in turn, reimburse pharmacies for the medicines that are dispensed to patients. The trouble is **PBMs often pay pharmacies far less than what the PBMs get paid by health plans** and they profit from “the spread.” Many independent pharmacies are struggling to stay in business because PBM payments are so low.

**Formulary Management**

PBMs create the tiered list of medicines that are covered by health plans – called formularies. Formularies enable PBMs to **steer patients to certain medicines that have higher profit margins for the PBM but may not be the best choice for the patient.**

**Data Rights**

PBMs generally resist allowing full data access and data rights to their clients. Some PBMs charge for restricted access to the data, while others **sell patients’ de-identified data as a revenue stream.**

**Gag Rules**

PBMs determine how much pharmacists will be reimbursed and frequently require contracts that prevent pharmacists from telling their customers when PBM copays are higher than the cost of paying retail price to fill their prescriptions.

**Offsetting Financial Guarantees**

PBMs’ contracts with health plans include **multiple guarantees that have the effect of canceling each other out.** The result: health insurance purchasers don’t receive any financial reward for meeting certain goals set by the PBM.

**Inflation Protection**

PBMs may require that drug manufacturers pay additional rebates to the PBM if the manufacturer increases the list price of a drug. **When this occurs, self-funded group purchasers and patients rarely see the benefit because they are rarely passed through.**

**Administrative Fees**

PBMs charge health plans administrative fees to perform services, but there is typically no validation that the fees represent the actual cost to do business, and the fees are rarely itemized.

**Specialty and Home Delivery Pharmacies**

PBMs may require or incentivize consumers to use one of the PBM’s own pharmacies. **When this happens, PBMs can generate additional income by tacking additional fees onto other prescription drug charges.**