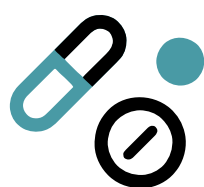
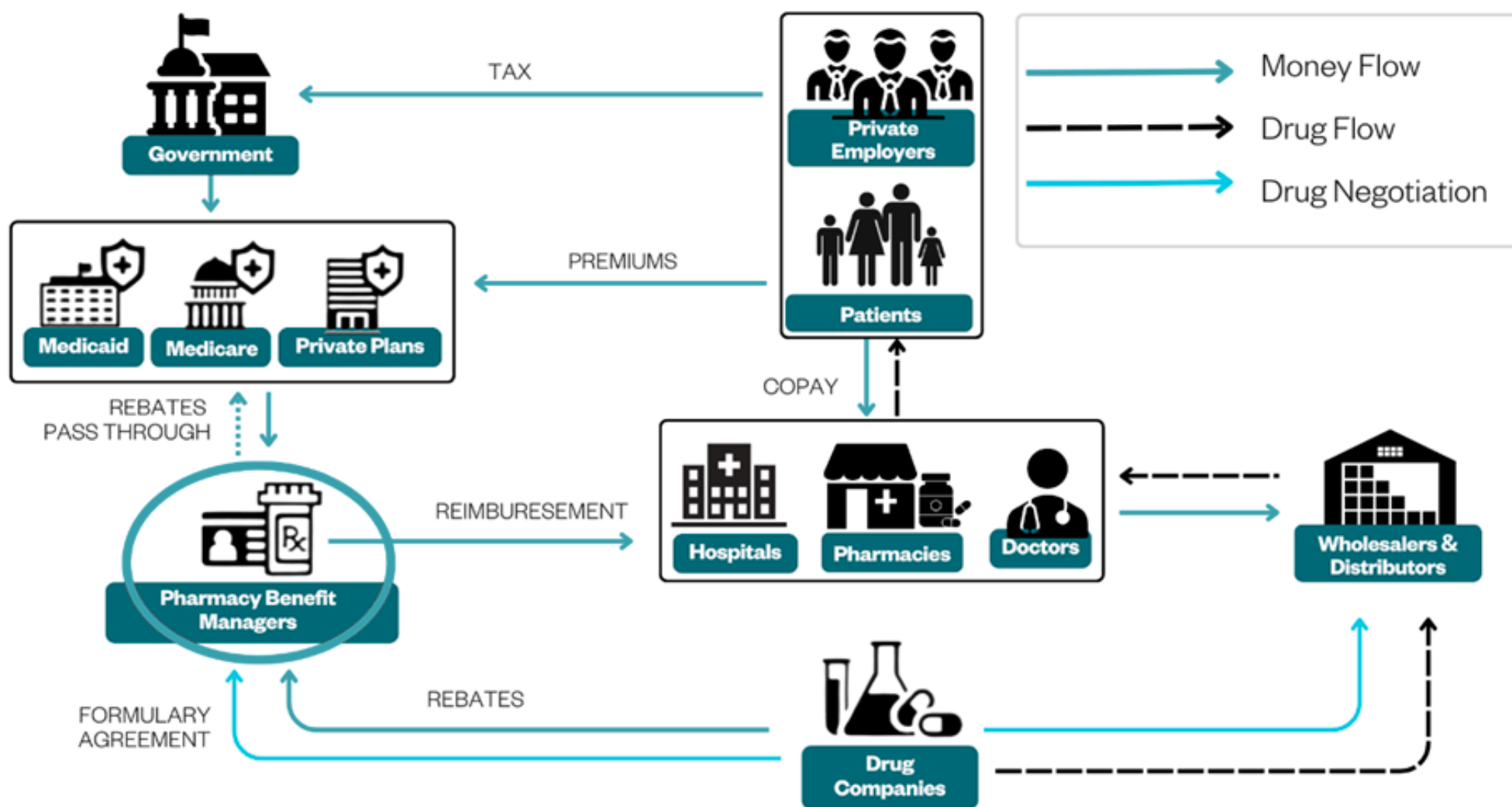


# The Middle Men

The rise of Pharmacy Benefit Managers and their influence on drug affordability and price transparency.

Pharmacy Benefit Managers (PBMs) influence care for **275+ million Americans**, yet **75% of adults** don't know that PBMs exist. Let's discuss their role within the U.S. drug supply chain.

## THE U.S. HEALTHCARE LANDSCAPE



### What is a PBM?

Pharmacy benefit managers (PBMs) began as claims processors to help insurers and employers manage the growing burden of prescription drug benefits.



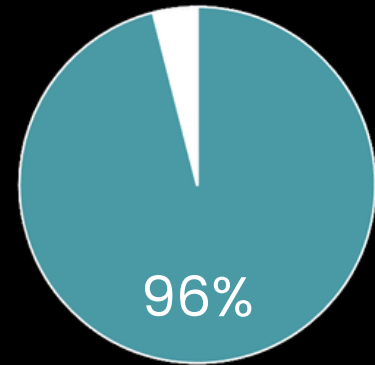
### How PBMs have evolved

Over time, PBMs have evolved from middlemen who process administrative claims into vertically integrated conglomerates with outsized control over the entire healthcare ecosystem. Most notably, they hold great influence over drug rebates and formulary design.

**PBMs' structure allow them to leverage drug rebates and formulary design to shape patient access.**



For **every dollar** spent on brand-name drugs, roughly **40 cents** flows through PBM-negotiated rebates and fees.



The **top six PBMs** control **96%** of U.S. prescription drug claims.

Since PBMs design drug formularies and wield outsized market power, they effectively determine which drugs are covered and what patients pay.

If drug manufacturers don't offer a high rebate on some drugs, PBMs may place them in a high copay category or not cover them at all. This incentivizes PBMs to favor higher-cost drugs to generate a proportionally higher rebate. This then incentivizes drug manufacturers to raise drug list prices. As a result, higher rebates do not always translate into greater savings for patients, as they are often based on higher list prices and are not directly passed on at the pharmacy counter.

### Who are the top three PBMs?

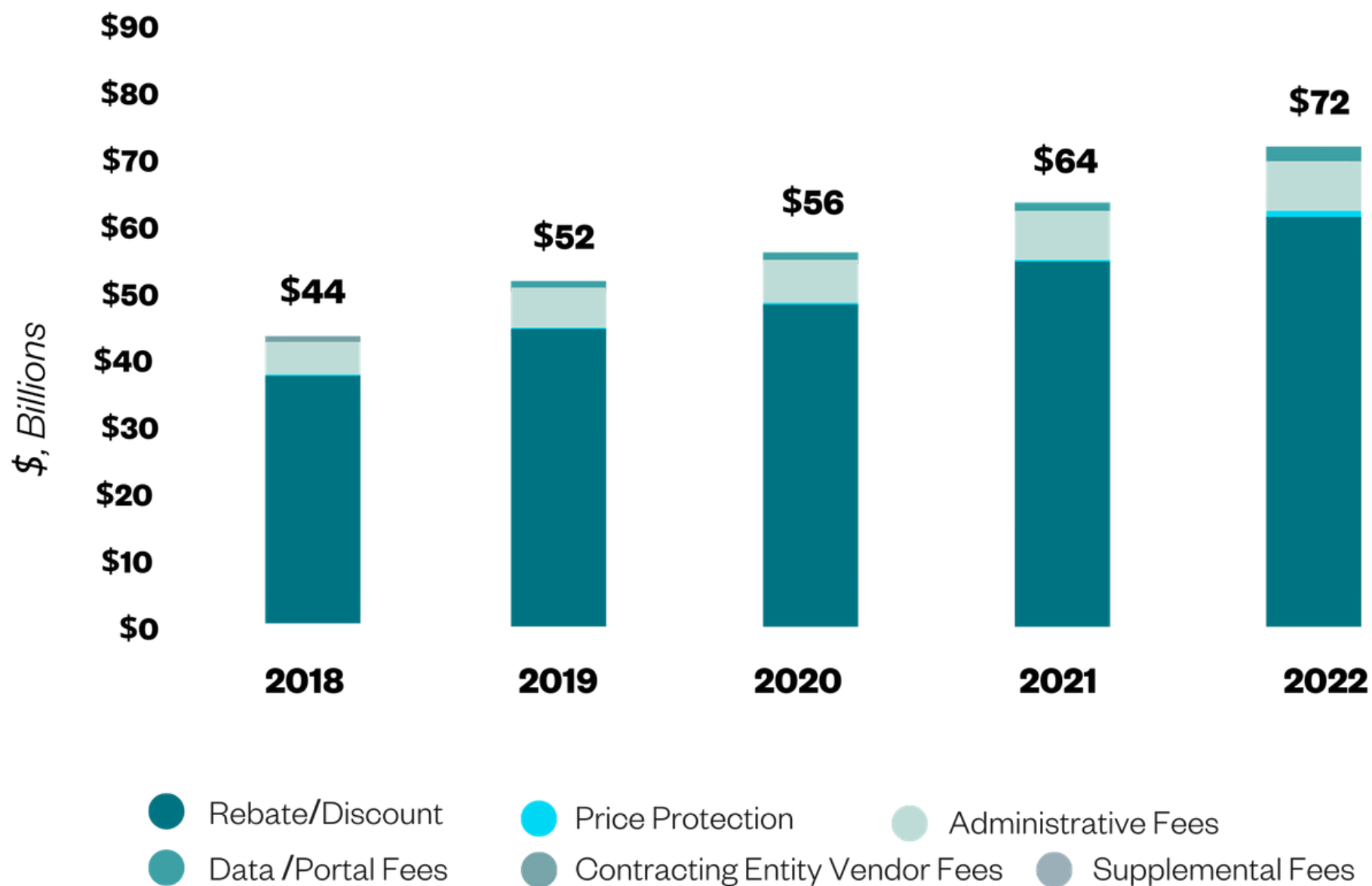
1. **CVS Caremark**
2. **Express Scripts**
3. **OptumRx**



**CVS Pharmacy**  
**Cigna**  
**UnitedHealthcare**

PBM combined compensation grew from **\$44 billion** to **\$72 billion** in five years; their administrative and contracting fees doubled from **\$3.8 billion** to **\$7.6 billion** during the same period. In contrast, total U.S. drug sales rose from **\$542 billion** to **\$618 billion** (inflation-adjusted), a much smaller **14%** increase.

## PBM COMBINED COMPENSATION



Rising PBM compensation, combined with limited impact on drug affordability, raises questions about incentive alignment. Meanwhile, federal PBM reform efforts have largely fallen short.

Read Chapter 16 of *Innovation is the Best Medicine* for more on how PBMs operate and potential policy reforms .