



The Role of PBMs and the 340B Program

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What Is a PBM?

- A pharmacy benefits manager (PBM) is a health care company that contracts with plan sponsors—insurers, employers, labor unions, and government programs to administer the prescription drug portion of the health care benefit.
- PBMs are a business-to-business vendor that performs a variety of services to ensure high-quality, cost-efficient delivery of prescription drugs to consumers.
- Competition in PBM Marketplace is strong with 66 PBMs in the U.S.¹
- PBMs vary in size, geographic footprint, service offerings, expertise and focus.
- The PBM market is dynamic to reflect better ways to serve patients and clients: consolidation, vertical integration, new entrants.
- PBMs' net profit is lowest in supply chain.²

¹ Pharmacy Benefit Management Institute (PBMI) data.

² *The Flow of Money Through the Pharmaceutical Distribution System*. Schaeffer Center for Health Policy & Economics, University of Southern California. June 2017.

How PBMs Drive Savings and Quality:

- The drug manufacturer sets the price of the drug.
- PBMs are able to bring volume to manufacturers and in some cases, obtain price concessions.
- Rebates reduce the net cost of drugs for payers, **but they aren't available on all drugs**—only where there is competition.
 - 90% of drugs dispensed are generics, with little-to-no rebate in commercial programs.
 - In Medicare Part D, 64% of brands were not eligible for rebates.¹
 - PBM clients get the vast majority of the rebates.^{2, 3}
- Rebates help reduce premiums & cost-sharing
- Plans have no alternative tool at this time that is as effective at forcing manufacturers to compete, bringing down the net cost of drugs.

¹ Milliman, "Prescription Drug Rebates and Part D Drug Costs." (July 2018).

² U.S. Government Accountability Office, "Medicare Part D: Use of Pharmacy Benefit Managers and Efforts to Manage Drug Expenditures and Utilization." (July 2019).

³ Pew Charitable Trusts, "The Prescription Drug Landscape, Explored." (March 2019).

What is the 340B Program and Why Does It Exist?

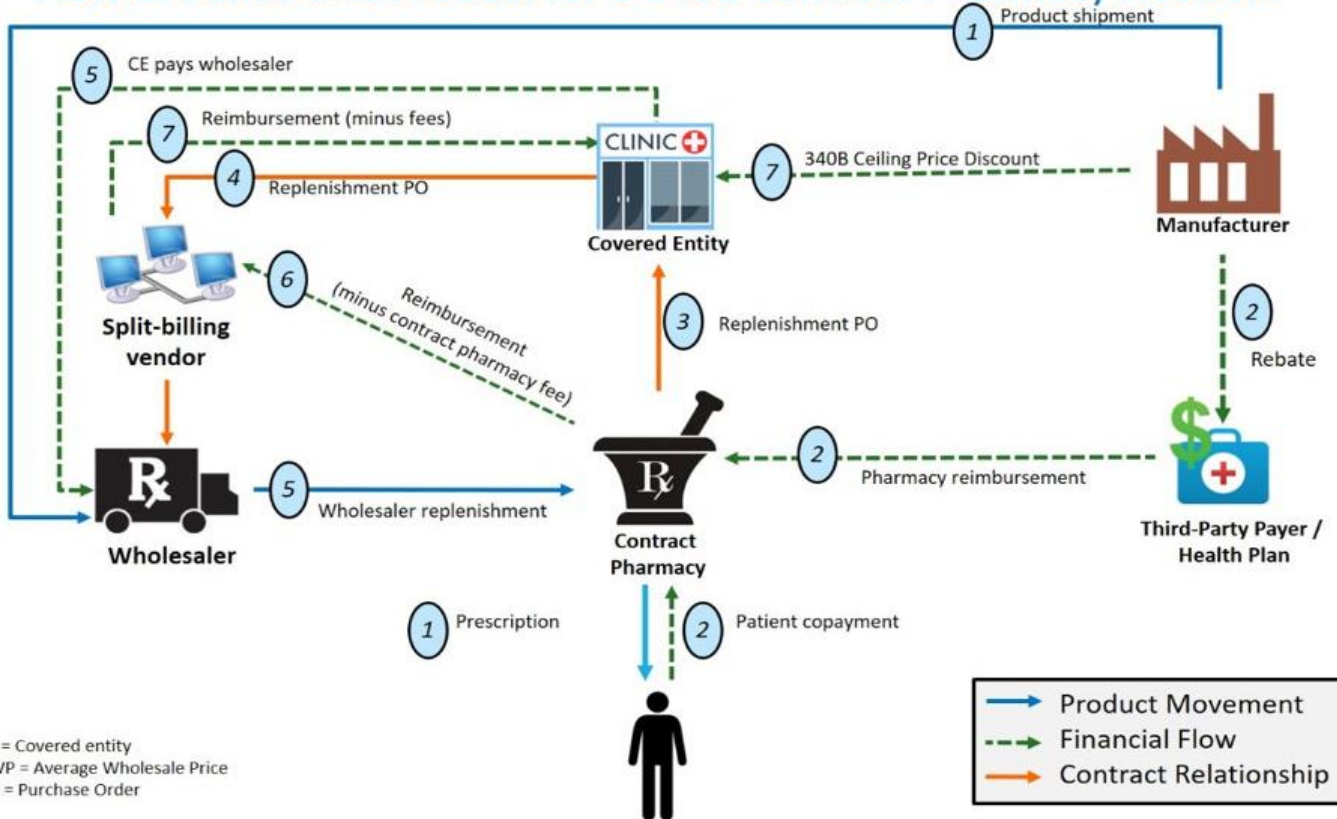
- The 340B program is a federal drug discount program envisioned as a safety net program to address the unintended consequences of the 1990 Medicaid Drug Rebate Statute
- The 340B program is “to stretch scarce federal resources as far as possible, reaching more eligible patients and providing more comprehensive services” by reducing the amount “**covered entities**” spent on outpatient drugs H.R. Rep. No. 102-384(II), at 12 (1992)
- Pharmaceutical Manufacturers must participate in the 340B program if their drugs are to be covered by Medicaid and Medicare
- The Manufacturers must agree to provide up front discounts on covered outpatient drugs purchased by “**covered entities**”.

What is the 340B Program and Why Does It Exist?

- A 340B approved facility is known as a “**covered entity**” and is defined by the federal law. “**Covered entities**” can be non-profit hospitals and their subsidiaries, community health centers, Ryan White Clinic, etc.
- A 340B prescription is a prescription written by a physician that works for a “**covered entity**”
- Anyone, regardless of his or her income level, can qualify as a patient to receive a 340B prescription as long as they are a patient of a physician who works at a 340B-approved facility otherwise known as a “**covered entity**”
- Prescriptions written by these physicians at a “**covered entity**” can be filled at most pharmacies, but the 340B pricing can only be accessed through an arrangement between a “**contracted pharmacy**” and the “**covered entity**”.

Covered Entities – Contracted Pharmacies - Networks

Flow of Funds and Product for a 340B Contract Pharmacy Network



CE = Covered entity
AWP = Average Wholesale Price
PO = Purchase Order

Source: Drug Channels Institute research. This exhibit illustrates the most common arrangements between a 340B covered entity and its contract pharmacy. It is not intended to be a complete representation of every type of financial, product flow, or contractual relationship in the marketplace.

This chart appears as Exhibit 168 in *The 2019 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*, Drug Channels Institute. Available at <http://drugch.nl/pharmacy>

- 340B “**covered entities**” create their own network with “**contract pharmacies**”
- “**Covered entities**” purchase the drugs at significantly discounted rates and “**contract pharmacies**” can access these discounted rates through various arrangements

Key Issues

- PCMA supports the original goal of the 340B Program to be a safety net for vulnerable and uninsured patients
- PCMA is neutral on proposed legislative proposals on 340B, except in instances where it erodes PBM tools
- Any changes to the 340B Program must be made by the Federal Government