



PULLING BACK THE CURTAIN ON PBMS:

A Path Towards Affordable Prescription Drugs

Congressman

BUDDY  CARTER

Georgia's First District

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Key Terms

Step Therapy, Fail First: Requires patients to take one or more treatments for several weeks or months before deciding whether to pay for the one prescribed by their doctor.

Prior Authorization: Requires the patient to get permission from the health plan to use a medicine, device or treatment prescribed by their doctor. Often used in combination with step therapy.

Direct and Indirect Remuneration (DIR) Fee: Fees imposed by PBMs on pharmacies that are not itemized and can be charged a year or more after medications are dispensed to Medicare Part D beneficiaries — a practice that has since also been termed as “clawbacks.”

Spread Pricing: The practice of PBMs charging payers more than they pay the pharmacy for a medication, and then keeping the ‘spread’ or difference as profit.

Patient Steering: The practice of PBMs pushing patients away from local pharmacies in favor of pharmacies or mail-order programs the PBM directly owns or is affiliated with.

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Letter from Congressman Buddy Carter

Pharmacy Benefit Managers (PBMs) are the pharmaceutical supply chain's hidden middlemen that are driving up costs for prescription medications, delaying access to necessary treatments, and robbing hope from patients.

It's time we pull back the curtain on these insidious actors.

Before coming to Congress, I owned and operated Carter's Pharmacy in Georgia. Working in community pharmacy gave me the unique opportunity to help people in my neighborhood, from providing over-the-counter headache medications to vaccinations and life-saving prescriptions for chronic illness. The work that pharmacists do is, and pardon my pun, indispensable. There's a reason we are among the most trusted healthcare professionals in the country: accessibility. We are in patients' communities, and they rely on our expertise to alleviate their suffering.

Unfortunately, community pharmacies are waning, and it is in large part due to the vulturous vertical integration that is occurring in our healthcare system. The largest PBMs own the insurance company as well as the pharmacy, and now only three companies have a virtual triopoly over the entire prescription drug market.

Drug manufacturers are often maligned for their role in raising the cost of prescription medications, and they are not blameless. But they're also not Fortune 25 companies, they're not the ones deciding what patients pay out-of-pocket for prescription drugs, and they're not the ones who manipulate the market without providing any real value to the consumer. Those roles are filled by PBMs.

To raise awareness about the real-world impacts of PBMs' predatory practices, I interviewed patients from across the country about their struggles accessing and affording necessary treatments and prescriptions. While each of them has their own unique story, common themes run through them all: their essential medications would be easier to obtain, their prescriptions would be cheaper, and their health would improve if PBMs were reined in.

As Members of Congress, we can alleviate their suffering. I hope you take the time to read their stories, along with my article that was first published in the Harvard Journal of Legislation and is repurposed for you here, that details exactly how we can help patients without expensive, burdensome, and inefficient government programs.

Your friend from South Georgia,



Buddy Carter

FOR MORE INFORMATION, VISIT:
buddycarter.house.gov/pbmabuses/

I. Introduction

Over the next decade, the Centers for Medicare and Medicaid Services (“CMS”) projects that spending for retail prescription drugs will be the fastest growing health category.¹ In 2019, 52% of American adults reported that healthcare costs have delayed their day-to-day activities.² During the 2020 presidential election, one survey found that 74% of Democratic voters in Blue Wall states believed a top priority of Congress should be lowering the cost of the prescription drugs.³ During my experience running a pharmacy, I have also unfortunately witnessed families discussing how to cut costs on groceries to afford prescription medicine.

Pharmacy Benefit Managers (“PBMs”) have grown into some of the largest, most profitable companies in our nation.⁴ PBMs act as middlemen between pharmacies, drug manufacturing companies, and health insurance plans to administer prescription drug benefits.⁵ Using their size, leverage, and negotiating power, PBMs play a large role in determining which prescription drugs are covered by insurance plans and how much they cost, while keeping themselves mostly hidden from the American public.⁶

This Essay identifies PBMs as a root cause of high prescription drug costs. Behind the curtain,

PBMs play an outsized role in the perilous state of the current American prescription drug market. As everyone from pharmacy owners to patients to taxpayers are victimized by the predatory practices of PBMs, this is inherently a human issue. I hope to expose the hidden actor of PBMs to the American public and encourage Congress to address this problem.

Stories from patients, pharmacists, and doctors have already inspired some congressional action to rein in PBMs’ predatory practices. For example, bipartisan coalitions introduced the Ensuring Seniors Access to Local Pharmacies Act,⁷ which would require transparency of PBM contracts, prohibit patient steering to in-house or PBM associated pharmacies, and allow seniors in Medicare Part D plans to use pharmacies of their choice.⁸ Additionally, the Pharmacy DIR Reform to Reduce Senior Drug Costs Act⁹ would ensure that clawbacks, or price concessions issued by PBMs, are assessed at the point of sale to eliminate the retroactive nature of Direct and Indirect Remuneration (“DIR”) fees.¹⁰ Congress has also sent several letters to the Biden administration,¹¹ but no action has been taken to stop PBMs.

It is time to finally lower drug prices in America, and, together, we can make a difference.

¹ Craig Hanna & Colo, *Prescription Drug Spending in the U.S. Health Care System*, AM. ACAD. ACTUARIES (2018), <https://www.actuary.org/content/prescription-drug-spending-us-health-care-system> [<https://perma.cc/VL9Z-MZRX>].

² See Megan Leonhardt, *Rising Health-Care Costs Stall Americans’ Dreams of Buying Homes, Building Families and Saving for Retirement*, CNBC (Nov. 4, 2019, 1:28 PM), <https://www.cnbc.com/2019/11/04/health-care-costs-are-preventing-many-americans-from-hittinglife-milestones.html> [<https://perma.cc/REX5-BLWZ>].

³ See ASHLEY KIRZINGER, CAILEY MUÑANA, MOLLYANN BRODIE, CHARLIE COOK, AMY WALTER, JENNIFER DUFFY & DAVID WASSERMAN, BLUE WALL VOICES PROJECT 27 (2019), <https://files.kff.org/attachment/REPORT-Blue-Wall-Voices-Project> [<https://perma.cc/6HEEVEYEW>].

⁴ See PBM ACCOUNTABILITY PROJECT, UNDERSTANDING THE EVOLVING BUSINESS MODELS AND REVENUE OF PHARMACY BENEFIT MANAGERS 3 (2021), https://b11210f4-9a71-4e4ca08f-cf43a83bc1df.usrfiles.com/ugd/b11210_264612f6b98e47b3a8502054f66bb2a1.pdf [<https://perma.cc/YWR6-HHLZ>].

⁵ See *id.*

⁶ See *id.*

⁷ H.R. 2608, 117th Cong. (2021).

⁸ See *id.*

⁹ S. 1909, 117th Cong. (2021).

¹⁰ See *id.*

¹¹ See, e.g., Letter from Earl L. “Buddy” Carter, U.S. Representative, House of Representatives et al. to Xavier Becerra, Sec’y, U.S. Dep’t Health & Hum. Servs. (Mar. 16, 2022), https://buddycarter.house.gov/uploadedfiles/dir_reform_letter_to_hhs_3.16.22.pdf [<https://perma.cc/95NR-G9QT>].

II. The Rise in Drug Prices



For a \$100 expenditure on pharmaceuticals, approximately \$24 accrues to insurers and PBMs

Source: [USC](#)

“To get that letter in the mail saying that my specialty doctor wants me on this medication and my insurance company is saying ‘no’ is extremely frustrating...

Prior authorization and step therapy have definitely delayed therapy or changed the order of my treatment.”



Jessica Wofford
Registered Nurse

Jessica has been battling Crohn’s Disease for over 15 years, for which there is no known cure. She says that her health has been adversely impacted by the prior authorization process and refers to it as her **“biggest barrier to care.”** Beyond delaying access to necessary treatments, constant battles with insurance companies have taken a toll on her mental health. The stress has **“worsened [her] condition”** and makes it harder to focus on the one thing that matters: her health. She wants members of Congress to know that, at times, the system designed to treat her can be worse than her disease itself. Even as a nurse, Jessica says she **“still feels lost in this process.”**

Drug prices in America are on the rise.¹² According to GoodRx Health, drug costs rose 33% between 2014 and 2020.¹³ A recent report by the Congressional Budget Office shows the average net price of branded pharmaceutical products in Medicare Part D increasing from \$149 in 2009 to \$353 in 2018.¹⁴ A study by the non-partisan, non-profit RAND Corporation suggests drug prices in the United States are 2.56 times higher than other modern nations.¹⁵ And Americans are spending a larger percentage of their total income on healthcare and drugs than in years past.¹⁶

Insulin provides an illustrative example: diabetic patients pay an average of \$300 for a vial of insulin.¹⁷ A vial of insulin contains 1,000 insulin units, and, depending on the type of diabetes an individual has and his or her weight, he or she may require upwards of 100 insulin units a day.¹⁸ Simple math suggests diabetic patients could spend over \$1,000 a month on insulin alone. As a result, patients often must choose between their health and their wallets. No American should have to make that choice.

¹² See TAMARA HAYFORD & DAVID AUSTIN, CONG. BUDGET OFF., NO. 57050, PRESCRIPTION DRUGS: SPENDING, USE, AND PRICES 13 (2022), <https://www.cbo.gov/system/files/2022-01/57050-Rx-Spending.pdf> [<https://perma.cc/9ELE-HTYS>].

¹³ See Tori Marsh, Prices for Prescription Drugs Rise Faster than Prices for Any Other Medical Good or Service, GOODRX HEALTH (Sept. 17, 2020), <https://www.goodrx.com/healthcare-access/drug-cost-and-savings/prescription-drugs-rise-faster-than-medical-goods-or-services> [<https://perma.cc/NL2P-5QYY>].

¹⁴ See HAYFORD & AUSTIN, *supra* note 12, at 16.

¹⁵ See ANDREW W. MULCAHY, CHRISTOPHER M. WHALEY, MAHLET GIZAW, DANIELSCHWAM, NATHANIEL EDENFIELD & ALEJANDRO U. BECERRA-ORTHENELAS, RAND CORP., INTERNATIONAL PRESCRIPTION DRUG PRICE COMPARISONS: CURRENT EMPIRICAL ESTIMATES AND COMPARISONS WITH PREVIOUS STUDIES 26 (2021), https://www.rand.org/pubs/research_reports/RR2956.html [<https://perma.cc/8GS6-JBWA>].

¹⁶ See Danielle K. Roberts, *The Deadly Cost of Insulin*, AM. J. MANAGED CARE (June 10, 2019), <https://www.ajmc.com/view/the-deadly-costs-of-insulin> [<https://perma.cc/3W8V-HBW3>].

¹⁷ See David Lazarus, *Column: Soaring Insulin Prices Reveal Clout, and Greed of Healthcare Middlemen*, L.A. TIMES (Nov. 30, 2021, 6:00 AM), <https://www.latimes.com/business/story/2021-11-30/lazarus-healthcare-insulin-prices> [<https://perma.cc/YPC6-6VER>].

¹⁸ See SingleCare Team, *Insulin Prices: How Much Does Insulin Cost*, SINGLECARE (Jan. 27, 2020), <https://www.singlecare.com/blog/insulin-prices/> [<https://perma.cc/ER65-4KM6>].

Reducing drug prices has consistently polled as a top issue for American voters.¹⁹ According to a poll released in October 2021 by the Kaiser Family Foundation, 83% of Americans say the costs of prescription drugs are unreasonable.²⁰ The same poll says 26% of Americans have a hard time affording their medications, and 78% of Americans think pharmaceutical companies are to blame for the high prices.²¹ A different poll released by Morning Consult and Politico revealed that 50% of Americans think bringing down prescription drugs should be a priority.²² Clearly, this is an important issue to Americans.

There are competing and complex explanations for why drug prices are so high. Many Americans think it is because pharmaceutical companies jack up prices and pocket those profits.²³ The above statistics might even suggest this to be true. But this argument blatantly ignores other entities within the American healthcare system and the tactics they use to increase prices and pocket greater profits. The American healthcare system is too complex to put the blame on a single entity. I've experienced the complexities of this system myself over my thirty years as a pharmacist, independent pharmacy owner, and now member of Congress on the House Energy and Commerce Health Subcommittee. There is more than meets the eye to this story, and I strive to reveal how hidden "middlemen" in the pharmaceutical supply chain are the ones to blame for these drastic price increases.

GENERIC DRUGS VS. BRANDED DRUGS

Where does the money come from?

Before examining the middlemen within the supply chain and how they raise drug costs, it is important to discuss the pharmaceutical marketplace, how generic drugs and branded drugs differ, and how the marketplace profits off of them.

Generic drugs are unbranded products that compete with the original, branded innovator drug when exclusivity and legal patents expire for the branded product.²⁴ In 1984, Congress passed the Drug Price Competition and Patent Term Restoration Act ("Hatch-Waxman Act"),²⁵ which established a pathway for expedited drugs that are exact copies of branded products already on the market.²⁶ The FDA relies on its determination that the original branded product is safe and effective to approve new generic drugs.²⁷ Because the generic drugs are exact copies of the original product, the companies developing them avoid costly research and development investments, clinical trial costs, and the risk of a drug not being safe or effective.²⁸ Essentially, the Hatch-Waxman Act created competition in the marketplace by giving consumers a choice among different generic and brand-name products when in need of treatment.²⁹

The Hatch-Waxman Act was a success: today, generic drugs account for most of the drugs

¹⁹ See Liz Hamel, Lunna Lopes, Ashely Kirzinger, Grace Sparks, Audrey Kearney, Mellisha Stokes & Mollyann Brodie, *Public Opinion on Prescription Drugs and Their Prices*, KAISER FAM. FOUND. (Oct. 18, 2021), <https://www.kff.org/health-costs/poll-finding/publicopinion-on-prescription-drugs-and-their-prices/> [<https://perma.cc/K37C-DU7H>].

²⁰ See *id.*

²¹ See *id.*

²² See Gaby Galvin, *Curbing Drug Costs Should Be a Top Priority for Congress, 1 in 2 Voters Say*, MORNING CONSULT (May 5, 2021, 6:00 AM), <https://morningconsult.com/2021/05/05/drug-pricing-top-priority-congress-poll/> [<https://perma.cc/KXA5-E835>].

²³ See Marisa Fernandez, *Drug Companies Keep Raising Prices*, AXIOS (Jan. 14, 2021), <https://www.axios.com/drug-price-increases-new-year-2021-cf1fce6d-3c82-456f-9a6c-6b5144b4f061.html> [<https://perma.cc/E2PN-84ZD>].

²⁴ SUZANNE M. KIRCHHOFF, AGATA BODIE, KAVYA SEKAR & SIMI V. SIDDALINGAIAH, CONG. RSCH. SERV., R44832, FREQUENTLY ASKED QUESTIONS ABOUT PRESCRIPTION DRUG PRICING AND POLICY 2 (2021), <https://sgp.fas.org/crs/misc/R44832.pdf> [<https://perma.cc/6J7Y-CPYY>].

²⁵ 21 U.S.C. § 355(j)

²⁶ See *id.*

²⁷ See AGATA DABROWSKA, CONG. RSCH. SERV., IF11075, FDA AND DRUG PRICES: FACILITATING ACCESS TO GENERIC DRUGS 1 (2019), <https://sgp.fas.org/crs/misc/IF11075.pdf> [<https://perma.cc/24VJ-CJQS>].

²⁸ See *id.*

²⁹ See *id.*

sold in the United States—about 90% of all dispensed medications.³⁰ These generic products are usually very cheap, accessible at every pharmacy, and have lower out-of-pocket insurance costs for consumers compared to branded products.³¹ The intense competition between generic drugs and branded drugs has caused generic drug prices to drop by more than 60% since 2008.³² Thus, generic drugs are increasingly becoming very affordable.³³ But despite the high market share, generic drugs account for only 26% of total drug spending, meaning 74% of all spending on drugs is spent on branded drugs.³⁴ The high share of spending on branded drugs is explainable, and there is a good reason for it: branded drugs are often very new to the market. They require years, sometimes decades, of investments into research and development to create, and they treat specific, often rare, health conditions for a small subset of the population.³⁵

New drug development does not come cheap. According to the Congressional Budget Office, the pharmaceutical industry spent \$83 billion in 2019 on research and development.³⁶ That is ten times more than what the industry spent in the 1980s, when adjusted for inflation.³⁷ Drug companies can expect to spend between \$1 billion and \$2 billion for every new product they attempt to bring to the market.³⁸ A recent study published in the *Journal of Health Economics* estimates that it costs drug makers \$2.6

³⁰ HAYFORD & AUSTIN, *supra* note 12, at 10.

³¹ See DABROWSKA, *supra* note 27, at 1.

³² See U.S. DEP'T HEALTH & HUM. SERVS., UNDERSTANDING RECENT TRENDS IN GENERIC DRUG PRICES (2016), <https://aspe.hhs.gov/reports/understanding-recent-trends-generic-drugprices> [<https://perma.cc/Y72T-7YVH>].

³³ See Rachel Schwartz, *The Generic Drug Supply Chain*, ASS'N FOR ACCESSIBLE MEDS. (Oct. 16, 2017), <https://accessiblemeds.org/resources/blog/generic-drug-supply-chain#:~:text=with%2089%20percent%20of%20all,the%20U.S.%20health%20care%20system> [<https://perma.cc/GE6C-Q9ZM>].

³⁴ See *id.*

³⁵ See KIRCHOFF ET AL., *supra* note 24, at 29

³⁶ TAMARA HAYFORD & DAVID AUSTIN, CONG. BUDGET OFF., 57025, RESEARCH AND DEVELOPMENT IN THE PHARMACEUTICAL INDUSTRY 1 (2021), <https://www.cbo.gov/publication/57126> [<https://perma.cc/N26M-2NUP>].

³⁷ *Id.*

³⁸ Jonathan Gardner, *New Estimate Puts Cost to Develop a New Drug at \$1B, Adding to Long-Running Debate*, BIOPHARMA DIVE (Mar. 3, 2020), <https://www.biopharmadive.com/news/new-drug-cost-research-development-market-jama-study/573381/> [<https://perma.cc/LGH3-S8X9>].



Optum Rx®

PBMs are among the Fortune 25 companies - ranked higher than the drug manufacturers

Source: [Fortune 500](#)

“I’ve had so many surgeries that might have been prevented if I could just do what the doctors have implemented...It’s because the doctor-patient relationship has been hijacked by insurance and PBMs.”



Elisa Comer
Healthcare
Administrator

Elisa has a term for the turmoil PBMs have put her

through: **hijacked healthcare**. Even though she is a businesswoman herself, she says that she couldn’t invent a system this convoluted if she tried. In addition to claiming 15-20 hours a week of her time, the equivalent of a part-time job, the endless sea of phone calls and treatment rejections has taken a toll on her mental health.

“I’ve actually had to go in-and-out of medications for anxiety,” says Elisa, because ***“the system is running your healthcare, not you and your doctor.”*** Despite having a background in healthcare administration, this process has stolen her hope. ***“I don’t know any other industry that gets to run their books this way. People are dying,”*** Elisa says.

billion to get a drug to market.³⁹ Despite the billions of dollars drug makers invest in new products, there is no guarantee a new drug will ever make it to pharmacy shelves. The FDA approves only about 9% of all drugs that start clinical trials, proving new drug development to be an extremely risky venture.⁴⁰

Drug companies must charge a price that recoups the billions of dollars in developmental costs, payroll, overhead, financial losses from non-approved drugs, and other expenses—all before taking any profit. These companies take immense risk to create life-saving medicines, experiencing a 91% fail rate on their investments. We must preserve the incentive of modest profits for these companies to take such risks—risks that bring us life-saving medicines.

Where does the money go?

Americans may assume most of the money they spend on drugs goes back to the drug manufacturer. That is not the case. In fact, drug manufacturers receive just 37% of dollars spent on prescription drugs.⁴¹ This number has decreased by 17 percentage points since 2013.⁴² Similarly, branded drug list prices have now declined for the fourth straight year.⁴³ This means, year after year, manufacturers are actually decreasing, not increasing, their listed drug prices.⁴⁴

If drug prices listed by manufacturers continue to decrease, then what explains the increased drug costs for consumers at the pharmacy counter? The answer is middlemen, or PBMs. In 2020, total gross expenditures for branded medications reached \$517 billion.⁴⁵ Brand manufacturers retained just 31% of this spending, while middlemen retained 69%.⁴⁶

³⁹ See Joseph A. DiMasi, Henry G. Grabowski & Ronald W. Hansen, *Innovation in the Pharmaceutical Industry: New Estimates of R&D Costs*, 47 J. HEALTH ECON. 20, 20 (2016).

⁴⁰ See Press Release, Biotechnology Indus. Org., New Study Shows the Rate of Drug Approvals Lower Than Previously Reported (Feb. 14, 2011), <https://archive.bio.org/media/press-release/new-study-shows-rate-drug-approvals-lower-previously-reported> [https://perma.cc/3K7F-5YGX].

⁴¹ Andrew Brownlee & Jordan Watson, *The Pharmaceutical Supply Chain, 2013–2020*, BRG (Jan. 7, 2022), <https://www.thinkbrg.com/insights/publications/pharmaceutical-supplychain-2013-2020> [https://perma.cc/A5EN-MEVN].

⁴² *Id.*

⁴³ See John A. Murphy, III, *Brand Name Drug Prices Fell in 2021 — Again.*, BIO (Jan. 7, 2022), <https://www.bio.org/blogs/brand-name-drug-prices-fell-2021-again> [https://perma.cc/H6DC-DDYQ].

⁴⁴ *See id.*

⁴⁵ Brownlee & Watson, *supra* note 41, at 5.

⁴⁶ *See id.*

In 2006, PBMs took on expanded roles in negotiating drug prices. The result? A 313% increase in the cost of prescription drugs.

Source: *Journal of Law and Biosciences*

“What prior authorizations do is take the decisions out of the hands of the physicians and put them in the hands of the insurance company and that is never appropriate or acceptable.”



Nisha Trivedi
MBA Admissions
Consultant

Nisha has been spared some of the healthcare

industry’s worst trials, but that does not stop her from advocating for others. As a patient, she knows first-hand that **“it should not be this difficult to receive treatment.”** **“Everyone deserves to be healthy and to not go bankrupt based on the cost of drugs,”** she says, recalling a time when she got a surprisingly high bill in the mail that would have been lower if she did not go through insurance at all. While affordability is a massive hindrance to many patients, Nisha notes that patients are **“fighting battles every day. They’re fighting battles with their condition, they’re fighting battles to find treatment for their condition, and then they’re fighting battles to get those medications approved.”** These barriers, bills, and repeated denials are part of a complicated web that leaves patients, many critically ill, in the dust. When discussing PBMs’ predatory practices, Nisha describes them as **“a manipulation of the healthcare system.”**

To summarize, yes, drug prices at the pharmacy counter are rising. But the data shows drug manufacturers are dropping their drug prices, while middlemen in the supply chain are taking substantially more profits every single year. My experience as a pharmacy owner has led me to believe that the main culprits for the rise in drug costs are PBMs.

The drug supply chain encompasses six main entities: manufacturers, distributors, retailers or pharmacies, PBMs, health insurance plans or government-run insurance, and patients.⁴⁷ Manufacturers make a drug, distributors purchase those drugs and ship them to retailers and pharmacies, and the medication is then dispensed to the patient by a pharmacist. These entities provide services that are visible to patients.⁴⁸

Health insurance plans and PBMs operate as virtual entities in the supply chain. Health insurance plans pay a portion of the cost of the dispensed medication. They decide which pharmacies are part of their network—entities your health plan contracts with to provide you with medical benefits. Health plans make money by charging patients premium payments and yearly deductibles.

PBMs operate as middlemen, and they operate exclusively in the United States.⁴⁹ They were originally created to perform administrative functions for insurers related to consumer

drug benefits.⁵⁰ Today, they negotiate costs and reimbursements with pharmacies, drug manufacturers, and insurance plans to establish drug formularies, or lists of generic and branded medications that insurers will cover and pay for according to a consumer's health insurance contract.⁵¹ PBMs also manage the flow of financing in the drug supply chain by providing reimbursements and payments to all entities.⁵²

PBMs claim they are directly responsible for lowering the costs of drugs.⁵³ The Pharmaceutical Care Management Association ("PCMA"), the PBM industry association that lobbies lawmakers in Washington, D.C., has an entire webpage dedicated to explaining the value of PBMs.⁵⁴ They claim discounts and rebates, paid by pharmaceutical companies, and negotiated by PBMs, ultimately lower patient costs.⁵⁵ They claim PBMs build pharmacy networks to provide drugs at discounted rates.⁵⁶ And they claim PBMs work to increase generic drug utilization and patient medication adherence.⁵⁷

PBM lobbyists spread these messages throughout Congress' halls. In the first nine months of 2021, PBMs spent \$5.9 million to convince lawmakers these claims are true.⁵⁸ This was a 20% increase over the same period in 2020.⁵⁹ They are spending this money for good reason. PBMs have been under increased scrutiny by states and the federal government for their business dealings.⁶⁰

⁴⁷ See JULIE SOMERS & ANNA COOK, CONG. BUDGET OFF., NO. 2703, PRESCRIPTION DRUG PRICING IN THE PRIVATE SECTOR 5–11 (2007), <https://www.cbo.gov/sites/default/files/110thcongress-2007-2008/reports/01-03-prescriptiondrug.pdf> [<https://perma.cc/68A7-9M6Q>].

⁴⁸ See *id.* at 1–2.

⁴⁹ See Jeff Lagasse, *Pharmacy Benefit Managers Operate with Lack of Transparency, Expert Finds*, HEALTHCARE FIN. (Sept. 19, 2018), <https://www.healthcarefinancenews.com/news/pharmacy-b>

⁵⁰ See Cole Werble, *Pharmacy Benefit Managers*, HEALTH AFFS. (Sept. 14, 2017), <https://www.healthaffairs.org/doi/10.1377/hpb20171409.000178/> [<https://perma.cc/8FSC-4KZQ>].

⁵¹ See Ana Gascon Ivey, *A Guide to Medication Formularies*, GOODRX HEALTH (May 19, 2020), <https://www.goodrx.com/insurance/health-insurance/medication-formulary/> [<https://perma.cc/GU7W-BAS6>].

⁵² *Pharmacy Benefit Managers and Their Role in Drug Spending*, COMMONWEALTH FUND (Apr. 2019), <https://www.commonwealthfund.org/publications/explainer/2019/apr/pharmacybenefit-managers-and-their-role-drug-spending> [<https://perma.cc/8C5F-NFQ3>].

⁵³ See *The Value of PBMs*, PHARM. CARE MGMT. ASS'N, <https://www.pcmnet.org/thevalue-of-pbms/> [<https://perma.cc/ZL7H-2TL5>].

⁵⁴ *Id.*

⁵⁵ *Id.*

⁵⁶ *Id.*

⁵⁷ *Id.*

⁵⁸ David McKay, *To Be, or Not to Be . . . a Fiduciary: That Is the Question for PBMs*, BENEFITS PRO (Feb. 14, 2022), <https://www.benefitspro.com/2022/02/14/to-be-or-not-to-be-a-fiduciary-that-is-the-question-for-pbms/?slreturn=20220123185822> [<https://perma.cc/A3SHGRHL>].

⁵⁹ *Id.*

⁶⁰ Gaby Galvin, *Pharmacy Benefit Managers Are Feeling a Push from States to 'Turn the Lights on' to Their Business Practices*, OFF. MONT. STATE AUDITOR, COMM'R SEC. & INS. (Aug. 26, 2021), <https://csimt.gov/news/pharmacy-benefit-managers-are-feeling-a-push-from-states-to-turn-the-lights-on-to-their-business-practices/> [<https://perma.cc/M3DJ-TC3G>].

The three largest PBMs **exclude more than 1,150 medicines from their formulary**, essentially blocking them from the market.

Source: [Xcenda](#)

“Several of my medications are no longer on my formulary or have become more expensive so I can’t take them anymore...Not being able to take medication when I need it means I am in excruciating pain. I am basically staying sicker because of this.”



Yuri Cárdenas

Bay Area Resident,
Dog Lover

Yuri received their first diagnosis at just five years old. For over

nine years, they’ve fought near constant battles accessing necessary medications to manage their pain. Recently, a drug that they were on for more than seven years was denied by a PBM, with no warning or explanation. Without coverage, the pills are simply unaffordable. These inconsistencies are more than just frustrating - they are physically taxing. **“I have had to skip doses to be able to afford the cost of my medications,”** says Yuri. **“I sometimes cut my pills in half to be able to save the pills for as long as I need. I am restricted by the costs of medication that insurance is allowed to cover each year, and it changes.”** They believe PBMs are responsible for the exorbitant costs for their medication, saying that every year the prices rise. Yuri admits that each denial **“chips away at a hope for a fruitful career or for ever getting [their] life back.”**

In 2021, over 100 bills were introduced across the country that targeted PBMs.⁶¹ Congress and the Biden and Trump administrations have taken action on PBMs as well. I will discuss these actions in more detail later.

Unfortunately, the lack of transparency in PBM business practices has allowed them to institute practices that harm consumers’ medication access and to increase drug costs.⁶² The key to their lack of transparency: vertical mergers.

PBMs have vertically integrated, creating healthcare conglomerates that control pricing with little competition.⁶³ The three largest PBMs are CVS Caremark, Express Scripts, and OptumRx.⁶⁴ CVS Caremark is integrated with Aetna’s insurance plan and CVS Pharmacy.⁶⁵ Express Scripts is merged with Cigna’s insurance plans and Express Scripts’ mail-order pharmacy.⁶⁶ OptumRx is merged with United Healthcare’s insurance plan and runs its own mail order pharmacy.⁶⁷ The big three PBMs control almost 80% of the market.⁶⁸

PBMs comprise the only entity in the drug supply chain that knows what everyone is paying and what everyone is profiting. Yet, they operate in a black box with no transparency. PBMs use this lack of transparency to take profits from the rest of the supply chain—resulting in much higher drug prices.

⁶¹ *Id.*

⁶² *See id.*

⁶³ Adam J. Fein, *Insurers + PBMs + Specialty Pharmacies + Providers: Will Vertical Consolidation Disrupt Drug Channels in 2020?*, DRUG CHANNELS (Dec. 12, 2019), <https://www.drugchannels.net/2019/12/insurers-pbms-specialty-pharmacies.html> [<https://perma.cc/6JF6-BTYR>].

⁶⁴ *See* Matej Mikulic, *U.S. Prescription Market: Market Share of Pharmacy Benefit Managers 2020*, STATISTA (June 16, 2021), <https://www.statista.com/statistics/239976/us-prescription-market-share-of-top-pharmacy-benefit-managers/> [<https://perma.cc/2GUP-8EUM>].

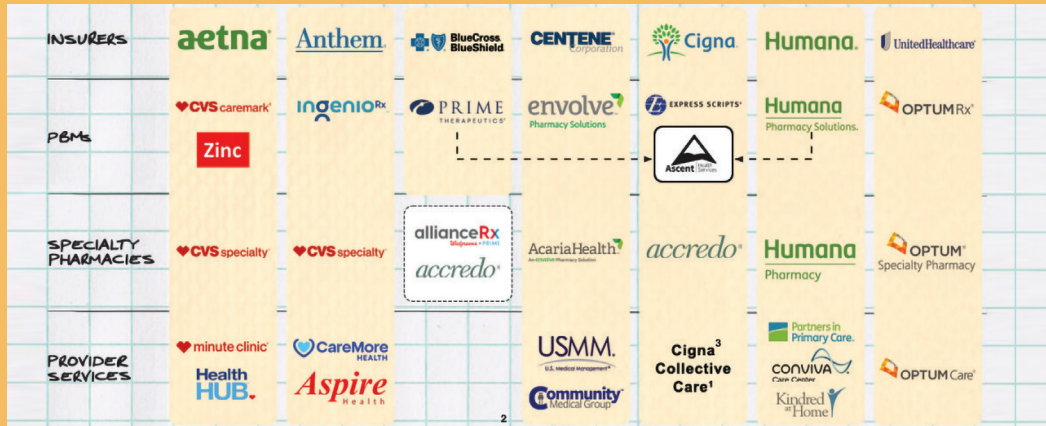
⁶⁵ Fein, *supra* note 63.

⁶⁶ *Id.*

⁶⁷ *Id.*

⁶⁸ Jake Frenz, *Industry Voices—Why It’s Time for PBM Rebates to Come to an End*, FIERCE HEALTHCARE (Apr. 8, 2019, 10:42 AM), <https://www.fiercehealthcare.com/payer/industry-voices-why-it-s-time-for-pbm-rebates-to-come-to-end> [<https://perma.cc/W9F2-BJBV>].

Figure 1: Vertical Business Relationships Among Insurers, PBMs, Specialty Pharmacies, and Providers 2021*



*This graphic has been changed since the HJL article was published to reflect the most up-to-date information

The chart above, from the National Community Pharmacists Association, shows the extent of vertical integration involved.⁶⁹ Note that the integration includes mergers with health providers too, not just insurers and pharmacies. This integration presents opportunities for PBMs to lock competing pharmacies, insurers, or even providers out of the market. With less competition, PBMs can continue raising prices and stealing profits from other entities, again leading to increased drug costs.

PBMs have also merged with specialty pharmacies, which were established to manage the extreme growth of specialty medication use and the extra precautions required to dispense them.⁷⁰ Specialty medications are complex drugs that treat chronic, difficult to treat, or rare conditions.⁷¹ These medications are driving

large spikes in health spending in recent years.⁷² They often have high prices and usually require special handling, storage, additional training for pharmacists, and intensive patient monitoring.⁷³ Specialty medications accounted for 53% of all drug spending in 2020—up from 27% in 2010.⁷⁴ Roughly 75% of all drugs under development right now are specialty medications—mostly oncology and autoimmune medications.⁷⁵ PBMs have realized the potential for profitability with specialty medications. It is estimated that dispensing specialty medications accounted for nearly one-third of PBM profits in 2019.⁷⁶ In 2020, specialty pharmacies are estimated to have dispensed \$176 billion in medications, an increase of 9.1% since 2019.⁷⁷

CVS owns CVS Specialty, Express Scripts owns Accredo, and OptumRx owns BriovaRx.⁷⁸ In

⁶⁹ NCPA, THE PBM STORY (2021)

⁷⁰ See ANNA ANDERSON-COOK & JARED MAEDA, CONG. BUDGET OFF., NO. 54964, PRICES FOR AND SPENDING ON SPECIALTY DRUGS IN MEDICARE PART D AND MEDICAID 1 (2019), https://www.cbo.gov/system/files/2019-03/55011-Specialty_Drugs_WP.pdf [<https://perma.cc/EZ88-DTME>].

⁷¹ Bijal Nitin Patel & Patricia R. Audet, *A Review of Approaches for the Management of Specialty Pharmaceuticals in the United States*, 32 PHARMACOECONOMICS 1105, 1105 (2014).

⁷² See Rabah Kamal, Cynthia Cox & Daniel McDermott, *What Are the Recent and Forecasted Trends in Prescription Drug Spending?*, PETERSON-KAISER FAM. FOUND. HEALTH SYS. TRACKER (Feb. 20, 2019), <https://www.healthsystemtracker.org/chart-collection/recent-forecasted-trends-prescription-drug-spending/> [<https://perma.cc/74PF-8J5K>].

⁷³ See ANDERSON-COOK & MAEDA, *supra* note 70, at 1.

⁷⁴ MURRAY AITKEN & MICHAEL KLEINROCK, IQVIA INST., THE USE OF MEDICINES IN THE U.S. 4 (2021).

⁷⁵ CVS HEALTH, DRUG TREND REPORT 2019 8 (2020).

⁷⁶ See Fein, *supra* note 63.

⁷⁷ Adam J. Fein, *DCI's Top 15 Specialty Pharmacies of 2020: PBMs Expand Amid the Shakeout—While Walgreens' Outlook Dims*, DRUG CHANNELS (May 4, 2021), <https://www.drugchannels.net/2021/05/dcis-top-15-specialty-pharmacies-of.html> [<https://perma.cc/7VD6-LCGU>].

⁷⁸ See Adam J. Fein, *PBM-Owned Specialty Pharmacies Expand Their Role in—and Profits from—the 340B Program*, DRUG CHANNELS (July 21, 2020), <https://www.drugchannels.net/2020/07/pbm-owned-specialty-pharmacies-expand.html> [<https://perma.cc/K5SP-8VAP>].

2018, only 900 United States pharmacies had a specialty pharmacy accreditation.⁷⁹ It is estimated there are more than 60,000 pharmacies in the United States.⁸⁰ PBMs that own specialty pharmacies partake in a little-known practice called “patient steering,” where the PBM forces patients, through their insurance network, to use a specialty pharmacy the PBM owns.⁸¹ The PBM unilaterally decides what medications will be covered as part of a patient’s drug formulary.⁸² This presents an opportunity for PBMs to spike costs because patients have limited options to access the medication elsewhere.

Studies about specialty pharmacies in certain states have indicated that the big three PBMs are involved in this type of “steering” behavior. One report from the Florida Pharmacy Association and the American Pharmacy Cooperative in February 2020 studied the behavior of PBMs in relation to a diverse group of pharmacies in the state of Florida.⁸³ A *Pharmacy Times* review of the report found that PBMs often require “generic specialty drugs to be dispensed at their affiliated pharmacy and the reported payments to these pharmacies far exceeded their [cost of dispensing].”⁸⁴ The report also found that claims “dispensed at affiliated or specialty pharmacies are being reported with a weighted average margin over acquisition cost of up to \$200 per claim” within Florida.⁸⁵

Other states have studied this behavior and come to similar conclusions. The Ohio Pharmacists Association and 46brooklyn Research, a drug-pricing analytics firm, authored a 2019 report⁸⁶ discussing PBM operations in Ohio. Antonio Ciaccia, co-author of the report, commented that the data suggests that in Ohio:

[i]n the case of specialty drugs and [Medicaid managed care organization (“MCO”)]-owned specialty pharmacies, inappropriate profiteering and self-dealing are not just risks, but realities. When those entities who are tasked with containing costs also profit off the cost, it begs the question of whether or not there are adequate incentives to contain costs at all.⁸⁷

The vertical integration of PBMs, insurers, and the rest of the healthcare delivery system increasingly presents opportunities to raise prices and increase profits.⁸⁸ In my opinion, PBMs are filled with conflicts of interest and incentives to raise prices, not decrease them.

There are some independently owned specialty pharmacies operating, and they present customers with a high degree of quality service and competitive prices.⁸⁹ In 2018, 44% of all independent pharmacies dispensed specialty drugs, but not all were accredited specialty

⁷⁹ See Adam J. Fein, *The Specialty Pharmacy Boom: Our Exclusive Update on the U.S. Market*, DRUG CHANNELS (Apr. 23, 2019), <https://www.drugchannels.net/2019/04/the-specialty-pharmacy-boom-our.html> [<https://perma.cc/B9K9-TFLR>].

⁸⁰ PETE HATEMI & CHRISTOPHER ZORN, PHARM. CARE MGMT. ASS’N, INDEPENDENT PHARMACIES IN THE U.S. ARE MORE ON THE RISE THAN ON THE DECLINE 2 (2020).

⁸¹ See *Patient Steering*, NAT’L CMTY. PHARMACISTS ASS’N (2022), <https://ncpa.org/patientsteering> [<https://perma.cc/84PE-AWZJ>].

⁸² Paul B. Ginsburg & Steven M. Lieberman, *Government Regulated or Negotiated Drug Prices: Key Design Considerations*, BROOKINGS (Aug. 30, 2021), <https://www.brookings.edu/essay/government-regulated-or-negotiated-drug-prices-key-design-considerations/> [<https://perma.cc/W3ZX-83WJ>].

⁸³ See 3 AXIS ADVISORS, *SUNSHINE IN THE BLACK BOX OF PHARMACY BENEFITS MANAGEMENT* (2020), https://cdn.ymaws.com/www.floridapharmacy.org/resource/resmgr/docs_2020_legislative_session/fl_master_master_5_0_delieve.pdf [<https://perma.cc/Z68U-7NEJ>].

⁸⁴ Aislinn Antrim, *Florida Pharmacy Association Report Outlines Concerns About PBM, MCO Manipulations*, PHARMACY TIMES (Feb. 5, 2020), <https://www.pharmacytimes.com/view/florida-pharmacy-association-report-outlines-concerns-about-pbm-mco-manipulations> [<https://perma.cc/2HPX-BUP7>].

⁸⁵ 3 AXIS ADVISORS, *supra* note 83, at 9

⁸⁶ 46BROOKLYN RSCH., *NEW DRUG PRICING ANALYSIS REVEALS WHERE PBMS AND PHARMACIES MAKE THEIR MONEY* (2019), <https://www.46brooklyn.com/research/2019/4/21/newpricing-data-reveals-where-pbms-and-pharmacies-make-their-money> [<https://perma.cc/R24KENCN>].

⁸⁷ Darrel Rowland, *PBMs Accused of Exploiting Specialty Drugs*, COLUMBUS DISPATCH (Apr. 24, 2019), <https://www.dispatch.com/story/news/politics/government/2019/04/24/pbmsaccused-exploiting-specialty-drugs/5347089007/> [<https://perma.cc/F9DJ-YBUG>].

⁸⁸ *See id.*

⁸⁹ Elizabeth Seeley & Surya Singh, *Competition, Consolidation, and Evolution in the Pharmacy Market*, COMMONWEALTH FUND (2021), <https://www.commonwealthfund.org/publications/issue-briefs/2021/aug/competition-consolidation-evolution-pharmacy-market> [<https://perma.cc/4HE8-XN4P>].

pharmacies.⁹⁰ Unfortunately, with PBMs' immense control over the specialty pharmacy business, it becomes harder every day for these community pharmacies to compete.

As a Member of Congress seated on the House Energy and Commerce Health Subcommittee, I have warned my colleagues repeatedly that vertical integration of PBMs, insurers, and other health entities is going to raise prices and limit medication access. Three years ago, I sent a letter to the Federal Trade Commission ("FTC") warning against the merging of these companies and tipped off the Department of Health and Human Services ("HHS") that these mergers were going to cause problems for consumers.⁹¹ In that letter, I stated that PBMs maintain a number of conflicts of interest that inhibit their ability and incentive to keep drug costs low.

Congress established the FTC in 1914 through passage of the Federal Trade Commission Act.⁹² The agency is tasked with investigating and preventing unfair competition, or lack thereof, and protecting consumers from lies and deceptive business practices.⁹³ The FTC is also tasked with enforcing various antitrust laws, or laws that regulate the organization of businesses to promote competition and prevent monopolies.⁹⁴

Contrary to the FTC's congressionally mandated mission, it has allowed the mergers discussed previously to occur. In my letter, I pointed out to the FTC that PBMs control prescription drug coverage for over 238 million Americans.⁹⁵ The three largest PBMs

⁹⁰ See PDM Healthcare, *Independent Pharmacies, Chains Enter Specialty Pharmacy*, 7 PDM HEALTHCARE HEALTH INDUS. LINK 4 (2016), http://www.pdmhealthcare.com/HIL.aspx?story=HIL704_12 [<https://perma.cc/4QTP-PYX6>].

⁹¹ See Earl L. "Buddy" Carter, Comment Letter to the Federal Trade Commission on Competition and Consumer Protection in the 21st Century Hearings, Project Number P181201; the State of Antitrust and Consumer Protection Law and Enforcement, and Their Development, Since the Pitofsky Hearings (Aug. 20, 2018), https://www.ftc.gov/system/files/documents/pu_blic_comments/2018/08/ftc-2018-0048-d-0083-155238.pdf [<https://perma.cc/3NLT-S4NF>].

⁹² 15 U.S.C. §§ 41–58.

⁹³ *A Brief Overview of the Federal Trade Commission's Investigative, Law Enforcement, and Rulemaking Authority*, FED. TRADE COMM'N (May 2021), <https://www.ftc.gov/about-ftc/mission/enforcement-authority> [<https://perma.cc/AE42-2S7N>].

⁹⁴ *Guide to Antitrust Laws*, FED. TRADE COMM'N, <https://www.ftc.gov/advice-guidance/competition-guidance/guide-antitrust-laws> [<https://perma.cc/5ZAP-R8UE>].

⁹⁵ See Comment Letter, *supra* note 91, at 2.



Just **three** PBMs control 80% of prescriptions filled in the US

Source: [Xcenda](#)

"It's incredibly frustrating to feel like my health hangs in the balance of a PBM or insurance company...PBMs have definitely robbed me of hope."



Grace Shults

Patient, Student

Grace describes her experience with PBMs and insurance

companies in one word: traumatic.

In fact, she says **"going through the system was more traumatic than the actual diagnosis itself."** While there are treatments and medications out there that could improve her quality of life, PBMs and insurance companies disagree with her physician, despite never meeting Grace in-person. This means she is left **"living on samples"** from her doctor and, at times, she even painfully admits to **"borrowing essential prescriptions"** from friends and family members when the costs get too high. She wants Members of Congress to know that **"they have the power to make peoples' lives a little bit easier"** by reining in PBMs. **"It's scary to feel like you're hitting dead ends all the time,"** says Grace. **"It doesn't have to be this way."**

control approximately 89% of those prescription drug benefits.⁹⁶

PBMs have stated that their role in the marketplace is to control costs.⁹⁷ However, patients' out-of-pocket costs increased 169% from 1987 to 2008.⁹⁸ Employers experienced a 1,553% increase in drug benefit costs over that same time for employer-sponsored insurance benefits offered to employees.⁹⁹ Fast forward to 2018, recent data shows nationwide spending on prescription drugs reached \$335 billion, up from only \$30 billion in 1980.¹⁰⁰

If PBMs argue they keep drug costs low, then the question naturally arises: why have drug costs gone up so much? PBMs have developed a complex business model of rebates, fees, gag clauses, and other practices that allow them to drive up prices and profits.¹⁰¹ For example, if a drug manufacturer wants patients to have access to its product, it may be instructed by the PBM to set a higher list price on the medicine in order to deliver a bigger rebate to the PBM.¹⁰² If the drug manufacturer refuses, the PBM could just exclude the medicine from its drug formulary—denying patients access.¹⁰³ PBMs also have no incentive to negotiate contracts with pharmacies outside of their integrated business. Independent pharmacists can try to negotiate business contracts with the PBM for network access, but they are often told by the PBMs that the contract is non-negotiable. I experienced this at my own pharmacy business.

These practices prevent competition from entering the marketplace and allow PBMs to further consolidate. Furthermore, PBMs are seated in the middle of the drug marketplace, allowing them to control the drug manufacturer rebate, plan formulary, fee paid to the pharmacists, and the price of drugs to the patients.¹⁰⁴ They maintain control of the flow of money with little to no transparency. PBMs have no fiduciary duty to employers, insurance plans, or patients. They are therefore able to negotiate all aspects of drug delivery without any responsibility to disclose any benefits they receive preventing patients, manufacturers, pharmacists, and even plans from determining their true value in the market. To this day, there are no laws or regulations that require PBMs disclose any of their business dealings, despite a HHS proposal to move forward with reforms that would address the growing impact of DIR fees on drug prices.¹⁰⁵

The FTC received my letter but did not investigate PBM business practices. I never received a response from the agency. I followed up with FTC Chair Lina Kahn in December 2021 over the phone. The Chair told me the FTC would be conducting investigations and taking action against PBMs. As of January 2022, they still have not done so.*

**In June 2022, the FTC unanimously approved to launch an inquiry examining pharmacy benefit managers' (PBMs) unfair and deceptive business practices.*

⁹⁶ *Pharmacy Benefit Managers*, NAT'L ASS'N INS. COMM'RS (Mar. 16, 2021), https://content.naic.org/cipr_topics/topic_pharmacy_benefit_managers.htm [<https://perma.cc/BRJ3-F4MA>].

⁹⁷ *Pharmacy Benefit Managers and Their Role in Drug Spending*, *supra* note 52.

⁹⁸ NAT'L CMTY. PHARMACISTS ASS'N, *THE PBM STORY* 8 (2017), <http://www.ncpa.co/pdf/PBM-Storybook-6pg.pdf> [<https://perma.cc/UDQ2-PKVL>].

⁹⁹ *Id.*

¹⁰⁰ HAYFORD & AUSTIN, *supra* note 12.

¹⁰¹ See Lauren Vela, *Reducing Wasteful Spending in Employers' Pharmacy Benefit Plans*, COMMONWEALTH FUND (Aug. 30, 2019), <https://www.commonwealthfund.org/publications/issue-briefs/2019/aug/reducing-wasteful-spending-employers-pharmacy-benefit-plans> [<https://perma.cc/8AEE-CHXF>].

¹⁰² See MATHEMATICA POLY RSCH., INC., *THE ROLE OF PBMS IN MANAGING DRUGCOSTS: IMPLICATIONS FOR A MEDICARE DRUG BENEFIT* 16 (2000), <https://www.kff.org/wpcontent/uploads/2013/01/the-role-of-pbms-in-managing-drug-costs-implications-for-a-medicare-drug-benefit.pdf> [<https://perma.cc/9FGC-34BY>].

¹⁰³ *See id.*

¹⁰⁴ See Mark Meador, *Squeezing the Middleman: Ending Underhanded Dealing in the Pharmacy Benefit Management Industry through Regulation*, 20 *ANNALS HEALTH L.* 77, 78–79 (2011).

¹⁰⁵ See Medicare Program; Contract Year 2023 Policy and Technical Changes to the Medicare Advantage and Medicare Prescription Drug Benefit Programs; Correction, 87 Fed. Reg. 1842 (proposed Feb. 25, 2022) (to be codified at 42 C.F.R. §§ 422–23), <https://www.federalregister.gov/documents/2022/02/25/2022-03966/medicare-program-contract-year-2023-policy-and-technical-changes-to-the-medicare-advantage-and> [<https://perma.cc/K95F76ZU>].

III. PBM Predatory Tactics

Pharmacies are the nation's most accessible healthcare entities—95% of Americans live within five miles of a pharmacy.¹⁰⁶ There are two main types of pharmacies: independently owned “community pharmacies” and retail pharmacies that are integrated, or owned, by PBMs.¹⁰⁷ The best recognized and largest PBM-owned retail pharmacies are CVS, Express Scripts mail order, and OptumRx mail order.¹⁰⁸ The latter two are virtual pharmacies that ship medications to patients—they are not brick-and-mortar stores.¹⁰⁹

Independent pharmacists continue to support their patients, but they are being driven out of the market by PBMs.¹¹⁰ From December 2017 to December 2020, the United States lost more than 2,300 independent pharmacies, while PBMs consolidated more of the market for their own pharmacy business.¹¹¹ Every day that the FTC fails to stop PBMs' mergers and anticompetitive practices, more independent pharmacies are put out of business.¹¹²

PBMs use various tactics to limit patient medication access and increase drug costs to benefit their bottom line: issuing DIR fees, pocketing rebates, spread pricing contracts, and patient steering.¹¹³

DIR FEES

DIR fees were originally conceived in Medicare Part D as an incentive to lower costs for patients.¹¹⁴ The original rule defined DIR fees as including: “discounts, chargebacks or rebates, cash discounts, free goods contingent on a purchase agreement, up-front payments, coupons, goods in kind, free or reduced-price services, grants, or other price concessions or similar benefits from manufacturers, pharmacies or similar entities.”¹¹⁵

The idea was to bring prices down for Medicare patients through incentives. It has since morphed into a tool PBMs use to take more profits. PBMs require that pharmacies fulfill certain metrics when dispensing drugs—often called “performance fees.”¹¹⁶ PBMs are not transparent about how they grade pharmacies to issue these fees, but they are likely based on dispensing rates, medication adherence, and chronic disease management.¹¹⁷ Pharmacies may be hit with DIR fees if they do not refill medications whether a patient asked for it or not, how many medications they dispensed, or if they dispense drugs that are not on the PBMs' preferred drug formulary list.

¹⁰⁶ See Rachel Balick, *HHS Releases Plan Aimed at Increasing Adult Immunizations*, PHARMACY TODAY (May 1, 2016), [https://www.pharmacytoday.org/article/S1042-0991\(16\)30176-1/fulltext](https://www.pharmacytoday.org/article/S1042-0991(16)30176-1/fulltext) [<https://perma.cc/WY2C-JU4M>].

¹⁰⁷ See Patty Taddei-Allen, *Evolution of the Pharmacy Benefit Manager/Community Pharmacy Relationship: An Opportunity for Success*, 26 J. MANAGED CARE & SPECIALTY PHARMACY 708, 708–710 (2020).

¹⁰⁸ See Adam J. Fein, *CVS, Express Scripts, and the Evolution of the PBM Business Model*, DRUG CHANNELS (May 29, 2019), <https://www.drugchannels.net/2019/05/cvs-expressscripts-and-evolution-of.html> [<https://perma.cc/J4FQ-M2ZM>].

¹⁰⁹ See *id.*

¹¹⁰ See Markian Hawryluk, *The Last Drugstore: Rural America is Losing its Pharmacies*, WASH. POST (Nov. 10, 2021, 7:00 AM), <https://www.washingtonpost.com/business/2021/11/10/drugstore-shortage-rural-america/> [<https://perma.cc/TY6Q-ZDQH>].

¹¹¹ See Press Release, Am. Pharmacists Ass'n, *Pharmacy Coalition Praises Legislation to Relieve Patients and Pharmacies from Pharmacy DIR Fees* (May 27, 2021), <https://pharmacist.com/APhA-Press-Releases/pharmacy-coalition-praises-legislation-to-relieve-patients-and-pharmacies-from-pharmacy-dir-fees> [<https://perma.cc/JD4-ZYLA>].

¹¹² See Linette Lopez, *What CVS Is Doing to Mom-And-Pop Pharmacies in the US Will Make Your Blood Boil*, BUS. INSIDER (Mar. 30, 2018, 4:59 AM), <https://www.businessinsider.com/cvs-squeezing-us-mom-and-pop-pharmacies-out-of-business-2018-3> [<https://perma.cc/U7RP-R7F9>].

¹¹³ See *Uncovering Pharmacy Benefit Managers to Promote Market Competition*, BARCLAY DAMON (June 20, 2017), <https://www.barclaydamon.com/blog/health-care/uncovering-pharmacy-benefit-managers-to-promote-market-competition> [<https://perma.cc/U3E4-YAXK>].

¹¹⁴ See True North Political Solutions, *White Paper: DIR Fees Simply Explained*, PHARMACY TIMES (Oct. 25, 2017), <https://www.pharmacytimes.com/view/white-paper-dir-fees-simply-explained> [<https://perma.cc/JKC3-GPL4>].

¹¹⁵ 42 C.F.R. § 423.308 (2010).

¹¹⁶ True North Political Solutions, *supra* note 114.

¹¹⁷ See *id.*

DIR fees are not itemized and can be charged a year or more after medications are expensed—a practice that has since also been termed as “clawbacks”.¹¹⁸ There is no transparency on how DIR fees are calculated, yet they are extracted by the PBM from each pharmacy dispensing claim.¹¹⁹ Pharmacies may not even know if a transaction is profitable for months after it transpired, depending on the DIR fee assessed to the pharmacy by the PBM.¹²⁰

Independent pharmacy owners can be suddenly hit with unplanned expenses from these clawback fees, which are sometimes so high that the business is no longer profitable.¹²¹ These predatory practices make it very difficult for independent pharmacies to remain operational.

According to the CMS fiscal year 2022 budget justification sent to Congress, pharmacy DIR fees under the Medicare program have increased by a staggering 91,500% between 2010 and 2019.¹²² Independent pharmacies rarely have negotiating power to stop these fees.¹²³ They are at the mercy of the PBMs because they rely on in-network status from the insurers the PBM might be merged with. As PBMs make more profit off these fees, the rest of the supply chain is forced to charge higher prices to ensure they make a profit—hurting patients.¹²⁴

Pharmacy DIR reform has strong bipartisan support in both the House and Senate, highlighted in the Pharmacy DIR Reform to Reduce Senior Drug Costs Act.¹²⁵ Additionally, in April 2020, 114 members of Congress signed a letter that I wrote to House and Senate leadership, requesting DIR fee reform be brought up for a vote.¹²⁶ Unfortunately, such a vote has not yet happened.

REBATES

PBMs processed over 90% of all pharmacy claims in 2016.¹²⁷ As the middlemen, PBMs are supposed to use their large purchasing power to negotiate for rebates off the manufacturer’s drug list price and pass those savings on to patients.

Drug list prices are set by manufacturers.¹²⁸ They do not take into account any rebates or discounts to which PBMs and insurers agree. Manufacturers then offer rebates, best described as coupons, on their drugs to the PBMs and insurers in exchange for making their drugs available to patients.¹²⁹ These rebates are then, in theory, supposed to be passed down to the patients at the pharmacy counter or used to cover a patient’s out-of-pocket insurance costs. Drug manufacturers willingly offer coupons on their products so patients get cheaper drugs.¹³⁰

¹¹⁸ See *id.*

¹¹⁹ See *id.*

¹²⁰ See *id.*

¹²¹ Laurie Toich, *DIR Fees and Independent Pharmacies: What is the Impact?*, PHARMACY TIMES (Feb. 13, 2017), <https://www.pharmacytimes.com/view/dir-fees-and-independent-pharmacies-what-is-the-impact> [<https://perma.cc/RG6W-N36L>].

¹²² U.S. DEP’T HEALTH & HUM. SERVS. CTRS. FOR MEDICARE & MEDICAID SERVS., JUSTIFICATION OF ESTIMATES FOR APPROPRIATIONS COMMITTEE 242 (2022), <https://www.cms.gov/files/document/fy2022-cms-congressional-justification-estimates-appropriations-committees.pdf> [<https://perma.cc/EEN3-53HF>].

¹²³ Laurie Toich, *supra* note 121.

¹²⁴ *Pharmacy Benefit Managers and Their Role in Drug Spending*, *supra* note 52

¹²⁵ S. 1909, 117th Cong. (2021); see Gabrielle Ientile, *Pharmacy Associations Praise Bill Seeking to Reform DIR Fees*, DRUG TOPICS (June 2, 2021), <https://www.drugtopics.com/view/pharmacy-associations-praise-bill-seeking-to-reform-dir-fees> [<https://perma.cc/2WTZ-G3Q9>].

¹²⁶ Letter from Earl L. “Buddy” Carter, U.S. Representative, House of Representatives et al. to House & Senate Leadership (Apr. 27, 2020), https://buddycarter.house.gov/uploadedfiles/dir_letter_to_leadership.pdf [<https://perma.cc/7N7C-RXHM>].

¹²⁷ SUSAN K. URAHN, ALAN COUKELL, IAN REYNOLDS & ALISA CHESTER, PEW CHARITABLE TRUSTS, THE PRESCRIPTION DRUG LANDSCAPE, EXPLORED 40 (2019), <https://www.pewtrusts.org/en/research-and-analysis/reports/2019/03/08/the-prescription-drug-landscape-explored> [<https://perma.cc/Y55C-VHX2>].

¹²⁸ See *How Are Prescription Drug Costs Really Determined?*, DRUG COST FACTS, <https://www.drugcostfacts.org/prescription-drug-costs> [<https://perma.cc/WQA4-P8YS>].

¹²⁹ See *id.*

¹³⁰ See Pragya Kakani, Michael Cherner & Amitabh Chandra, *Rebates in the Pharmaceutical Industry: Evidence from Medicines Sold in Retail Pharmacies in the U.S.* 1 (Nat’l Bureau of Econ. Rsch., Working Paper No. 26846, 2020).

Total amount in annual fees
PBMs charge pharmacies:

\$9,100,000,000

Source: [Drug Channels](#)

“All of the time that we spend waiting for me to progress more so that insurance can tell me ‘Actually maybe you should try the other drug’ is going to cost me time. In neuromuscular diseases, time is muscle.”



Kate Pecora

Rare Disease
Advocate

Kate is not mincing words; the “lack of urgency” from insurance providers and PBMs isn’t just costing her time and energy, it’s costing her quality of life.

She spends hours every week fighting for basic treatment and coverage, time this young San Diego resident doesn’t have. “I need a wheelchair because I can’t walk,” says Kate. “My insurance company came back and said that wheelchair access was not ‘medically necessary’ and there wasn’t enough information to approve the claim.” If a team of physical therapists, a medical equipment company, and a primary care physician aren’t enough to convince a PBM or insurance company to cover a wheelchair, then, she says, there is clearly something wrong with our healthcare system. Up to this point, Kate has been able to maintain independent living, but is worried that delays and denials from prior authorizations may end up costing her that freedom.

PBMs leverage their power to get bigger rebates on drugs from manufacturers, putting even more money into their pockets.¹³¹ Drug manufacturers have no choice in this matter. If they do not offer larger rebates to the PBM, the PBM can choose to not include its drugs in their list of covered medicines.¹³² As PBMs demand larger rebates, manufacturers lose profits and are forced to increase costs to make up for the losses PBMs are pocketing.¹³³ Patients are on the losing end of this—paying increasingly higher prices for drugs.¹³⁴

On May 4, 2021, the House Energy and Commerce Health Subcommittee, which I am seated on, held a hearing titled, “Negotiating a Better Deal: Legislation to Lower the Cost of Prescription Drugs.”¹³⁵ Dr. Gaurav Gupta, founder of Ascendant BioCapital, testified to the committee that only 53% of what a patient pays for a drug at the counter makes it back to the drug manufacturer.¹³⁶ 47% gets taken by middlemen—largely PBMs.¹³⁷ PBMs are convoluting the rebate system, originally designed to decrease costs, in order to increase prices and take a larger portion of the cost increase for themselves.¹³⁸

SPREAD PRICING

PBMs also utilize their power to pigeonhole independently owned pharmacies into predatory business contracts with a reimbursement structure

¹³¹ See Frenz, *supra* note 68.

¹³² See *Pharmacy Benefit Managers and Their Role in Drug Spending*, *supra* note 52.

¹³³ See Katheryn Houghton, *States Step Up Push to Regulate Pharmacy Drug Brokers*, KAISER HEALTH NEWS (June 30, 2021), <https://khn.org/news/article/states-step-up-push-to-regulate-pharmacy-drug-brokers/> [<https://perma.cc/WZB2-HEY3>].

¹³⁴ See Ryan Oftebro, *Op-ed: Addressing Rising Drug Costs for Patients*, STATE OF REFORM (Mar. 4, 2022), <https://stateofreform.com/news/washington/2022/03/op-ed-addressing-rising-drug-costs-for-patients/> [<https://perma.cc/6LQA-C8W6>].

¹³⁵ *Negotiating a Better Deal: Legislation to Lower the Cost of Prescription Drugs: Hearing Before the Subcomm. on Health of the H. Comm. On Energy and Commerce*, 117th Cong. (2021).

¹³⁶ Prelim. Transcript, *Negotiating a Better Deal: Legislation to Lower the Cost of Prescription Drugs: Hearing Before the Subcomm. on Health of the H. Comm. On Energy and Commerce*, 117th Cong., at 120 (May 4, 2021).

¹³⁷ See Robert Langreth, David Ingold & Jackie Gu, *The Secret Drug Pricing System Middlemen Use to Rake in Millions*, BLOOMBERG (Sept. 11, 2018), <https://www.bloomberg.com/graphics/2018-drug-spread-pricing/> [<https://perma.cc/G99A-VATK>].

¹³⁸ See Frenz, *supra* note 68.

termed “spread pricing.”¹³⁹ According to the National Community Pharmacists Association, “spread pricing is the PBM practice of charging payers like Medicaid more than they pay the pharmacy for a medication, and then the PBM keeps the ‘spread’ or difference, as profit.”¹⁴⁰ For example, an independent pharmacy in Iowa serviced the local county jail and dispensed a generic bottle of antipsychotic pills for an inmate.¹⁴¹ The PBM, CVS Caremark, billed the jail \$198.22 for the medication but gave the pharmacy only \$5.73.¹⁴² CVS Caremark took \$192.49 of profit on the generic medication, and the pharmacy reportedly lost money servicing the county jail for that year.¹⁴³

PBMs use spread pricing tactics quite frequently to reimburse pharmacy claims below the cost of the dispensed drug. Pharmacy owners have little choice but to agree to these contracts, otherwise the PBM will not include them as an in-network pharmacy, likely putting the pharmacy out of business.¹⁴⁴

Drug costs through Medicaid have increased, yet PBM reimbursements to pharmacies have decreased.¹⁴⁵ States have found that the practice of spread pricing meant Medicaid programs were billed more than what the actual pharmacies were paid for claims.¹⁴⁶ For example, in 2017, PBMs profited \$1.3 billion of the \$4.2 billion state Medicaid programs spent on drugs.¹⁴⁷

A few states have audited PBMs to uncover the profits they make from spread pricing contracts in Medicaid drug programs. Maryland found PBMs pocket \$72 million annually from spread pricing.¹⁴⁸

¹³⁹ Trevor J. Royce, Sheetal Kircher & Rena M. Conti, *Pharmacy Benefit Manager Reform: Lessons From Ohio*, 322 J. AM. MED. ASS’N 299, 299 (2019).

¹⁴⁰ *Spread Pricing 101*, NAT’L CMTY PHARMACISTS ASS’N, <https://ncpa.org/spread-pricing101> [https://perma.cc/2QTM-UGCN].

¹⁴¹ See Langreth, et al., *supra* note 137.

¹⁴² *Id.*

¹⁴³ *Id.*

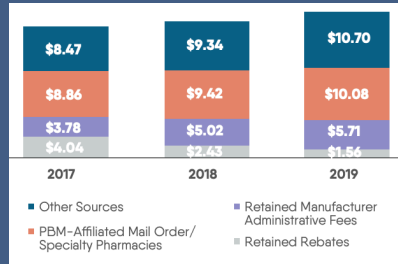
¹⁴⁴ *Pharmacy Benefit Managers and Their Role in Drug Spending*, *supra* note 52.

¹⁴⁵ Rachel Garfield, Rachel Dolan & Elizabeth Williams, *Costs and Savings under Federal Policy Approaches to Address Medicaid Prescription Drug Spending*, KAISER FAM. FOUND. (June 22, 2021), <https://www.kff.org/medicaid/issue-brief/costs-and-savings-under-federal-policy-approaches-to-address-medicare-prescription-drug-spending/> [https://perma.cc/RQ47-3HX9].

¹⁴⁶ See Langreth, et al., *supra* note 137.

¹⁴⁷ *Id.*

¹⁴⁸ See *Spread Pricing 101*, *supra* note 140.



PBM Gross Profit (\$B), 2017-2019

Source: [PBM Accountability Project](#)

“If there are medications out there that would help me get my independence back, then I should be able to have access to those.”



Kami Obman

Artist

Kami has been through the wringer by the healthcare system. **“Each time I thought I might be getting somewhere there’s always been five steps back and its just been a very difficult road,”** she says. Kami understands better than most how wading through the sea of doctors appointments, insurance claims, prior authorizations, and more leads many patients with chronic physical illnesses to develop mental illnesses as well. **“Emotionally, I have suffered. I have anxiety and that has been rampant,”** she says. **“It’s such a weight and burden to carry. It’s a huge responsibility that takes up my entire life.”** While access to medication and treatment will not alleviate that entire burden, she knows that her health, and the health of thousands of patients just like her, would be massively improved if the system were designed around patients instead of PBMs.

Michigan found PBMs overcharged their Medicaid program over \$64 million, and Kentucky found PBMs pocketed \$123.5 million in spread pricing annually.¹⁴⁹

The Congressional Budget Office determined that a spread pricing ban in Medicaid programs would save federal taxpayers at least \$1 billion over 10 years.¹⁵⁰ I introduced bipartisan legislation to stop this practice, H.R. 6101, the Drug Price Transparency in Medicaid Act of 2021.¹⁵¹ This legislation would ban spread pricing tactics used by PBMs in Medicaid programs.¹⁵² I have introduced this bill in previous Congresses as well,¹⁵³ but as of February 28, 2022 the legislation has still not passed Congress.

PATIENT STEERING

PBMs also use a practice called patient steering to steer patients away from independent pharmacies in favor of pharmacies or mail-order programs the PBM directly owns.¹⁵⁴

To illustrate, consider a patient in rural Kansas walking into their local pharmacy that they have been a customer of for decades. After their pharmacist fills the prescription, they may get a phone call from the PBM telling them that their drug costs could be less expensive if the PBM filled the patient's prescription at a big box drug

store, like CVS, or a mail-order service the PBM runs. Or maybe the PBM informs the patient that their local pharmacy is no longer in-network, forcing them to take an extended drive to a larger town where the medication can be filled by an in-network pharmacy, or a pharmacy that is merged with the PBM.

This is a patient steering and—make no mistake about it—it is harmful to patients.¹⁵⁵ Patient steering by PBMs requires patients to break preexisting relationships with pharmacists with whom they are comfortable.¹⁵⁶ A survey conducted by the National Community Pharmacists Association found 79% of independent pharmacists say their patients' prescriptions were transferred to a different pharmacy by a PBM without the patient's consent.¹⁵⁷

Although the short-term gain of a less expensive drug for the patient sounds beneficial, the long-term consequences are worse. As PBMs steer patients into pharmacies they own, independent pharmacies lose business, and the healthcare delivery system becomes more integrated and anti-competitive, driving higher drug costs and presenting opportunities for PBMs to take more profits.¹⁵⁸ Consumers should have the freedom to choose, especially when it comes to their healthcare.

¹⁴⁹ *Id.*

¹⁵⁰ Garfield, et al., *supra* note 145.

¹⁵¹ H.R. 6101, 117th Cong. (2021).

¹⁵² *See id.*

¹⁵³ *NCPA Supports Bipartisan Bill to Ban PBM Spread Pricing Tactics; Pay Pharmacies Appropriately*, NAT'L CMTY. PHARMACISTS ASS'N (Dec. 1, 2021), <https://ncpa.org/newsroom/news-releases/2021/12/01/ncpa-supports-bipartisan-bill-ban-pbm-spread-pricing-tactics-pay> [<https://perma.cc/DNB6-UA2A>].

¹⁵⁴ *See Letter from Ronna Hauser, Vice President, Pharmacy & Regul. Aff., Nat'l Comm. Pharmacists Ass'n, to Off. Sec'y, Fed. Trade Comm'n* (Nov. 15, 2018), https://www.ftc.gov/system/files/documents/public_comments/2018/11/ftc-2018-0076-d-0018-162492.pdf [<https://perma.cc/AR4W-JWBK>].

¹⁵⁵ *See CAL. PHARMACISTS ASS'N, SB 524 (SKINNER) – PBMS: PATIENT STEERING 1* (Aug. 2021), https://cpha.com/wp-content/uploads/2021/08/Patient-Steering-Fact-Sheet-_F.pdf [<https://perma.cc/XTL2-UFXT>].

¹⁵⁶ *See id.*

¹⁵⁷ *Press Release, Nat'l Comm. Pharmacists Ass'n, Patient Steering a Massive Problem for Comm. Pharmacists, New Survey Shows* (Sept. 17, 2020), <https://ncpa.org/newsroom/newsreleases/2020/09/17/patient-steering-massive-problem-community-pharmacists-new-survey> [<https://perma.cc/H7JS-D8WW>].

¹⁵⁸ Elizabeth Seeley & Surya Singh, *Competition, Consolidation, and Evolution in the Pharmacy Market*, COMMONWEALTH FUND (Aug. 12, 2021) <https://www.commonwealthfund.org/publications/issue-briefs/2021/aug/competition-consolidation-evolution-pharmacy-market> [<https://perma.cc/32B4-JHRL>].

IV. Potential Policy Solutions

Significant change addressing PBMs' predatory practices has proven to be difficult.

The Trump administration recognized the harmful impacts of PBMs, and, in February 2019, CMS issued a notice of proposed rulemaking to reduce out-of-pocket spending for beneficiaries at the pharmacy and other points-of-care.¹⁵⁹

This proposed rule would have forced PBMs to transfer rebates to the customer at the pharmacy counter, and DIR fees would have to be assessed at the point of sale instead of months after the medication is dispensed.¹⁶⁰

This proposal would have ensured patients' out-of-pocket costs were reduced because the PBMs would no longer be able to take the drug manufacturer rebates for themselves—saving patients up to 30% of what they spend on drugs.¹⁶¹ Assessing DIR fees at the point of sale would allow independently owned pharmacies to plan ahead for these fees and remodel their business to account for them.¹⁶²

The Trump administration issued a final rule in November 2020, but the rule excluded any DIR fee reform and opted only to force rebates to

patients at the point of sale.¹⁶³ The rule was set to take effect on January 1, 2022.¹⁶⁴ The PCMA sued the Trump administration, arguing the rule would lead to higher insurance premiums in Medicare Part D.¹⁶⁵ On January 30, 2021, the United States District Court for the District of Columbia issued an order postponing the rule's enactment until January 1, 2023.¹⁶⁶

In a win for PBMs, the Biden administration further delayed the rule's implementation after a court order staying litigation on the rule until HHS is able to review it.¹⁶⁷ Congress then passed a legislative delay of the rule until 2026 as a "pay-for" to finance the infrastructure bill signed into law by President Biden on November 15, 2021.¹⁶⁸ The legislative delay was projected by the Congressional Budget Office to save the federal government \$49 billion in premium increases if the rule took effect.¹⁶⁹

As previously discussed, members of Congress have also introduced legislation to stop these PBM practices, notably the Pharmacy DIR Reform to Reduce Senior Drug Costs Act¹⁷⁰ and the Drug Price Transparency in Medicaid Act of 2021.¹⁷¹

¹⁵⁹ See Fraud and Abuse; Removal of Safe Harbor Protection for Rebates Involving Prescription Pharmaceuticals and Creation of New Safe Harbor Protection for Certain Point-of-Sale Reductions in Price on Prescription Pharmaceuticals and Certain Pharmacy Benefit Manager Service Fees, 84 Fed. Reg. 3240 (proposed Feb. 6, 2019) (to be codified at 42 C.F.R. pt. 1001), <https://www.federalregister.gov/documents/2019/02/06/2019-01026/fraud-and-abuseremoval-of-safe-harbor-protection-for-rebates-involving-prescription-pharmaceuticals> [<https://perma.cc/8WKR-UNNG>].

¹⁶⁰ See *id.*

¹⁶¹ See Jeff Lagasse, *Updated: Trump-Era Rebate Rule for Medicare Part D on Hold Until 2023*, HEALTHCARE FIN. (Feb. 1, 2021), <https://www.healthcarefinancenews.com/news/bidenadministration-puts-hold-trump-era-rebate-rule-medicare-part-d> [<https://perma.cc/SPJ5-K263>].

¹⁶² See T. Joseph Mattingly II & Ge Bai, *Reforming Pharmacy Direct and Indirect Remuneration in the Medicare Part D Program*, HEALTH AFFS. (July 19, 2021), <https://www.healthaffairs.org/doi/10.1377/forefront.20210714.70749/full> [<https://perma.cc/BBJ5-YW9W>].

¹⁶³ 42 C.F.R. § 1001 (2020); see Press Release, U.S. Dep't of Health & Human Servs., HHS Finalizes Rule to Bring Drug Discounts Directly to Seniors at the Pharmacy Counter (Nov. 20, 2020), <https://www.hhs.gov/about/news/2020/11/20/hhs-finalizes-rule-bring-drugdiscounts-directly-seniors-pharmacy-counter.html> [<https://perma.cc/LS3Q-PB48>].

¹⁶⁴ Thomas Sullivan, *PBM Rebate Rule Effective Date Postponed*, POL'Y & MED., <https://www.policymed.com/2021/02/pbm-rebate-rule-effective-date-postponed.html> [<https://perma.cc/V6BB-D5B5>] (last updated Feb. 14, 2021).

¹⁶⁵ See *Pharm. Care Mgmt. Ass'n v. U.S. Dep't of Health & Human Servs.*, 21 Civ. 21-95 (JDB) (D.D.C. Mar. 15, 2021).

¹⁶⁶ See *Order, Pharm. Care Mgmt. Ass'n v. U.S. Dep't of Health & Human Servs.*, 21 Civ. 21-95 (JDB), at 1 (D.D.C. Jan. 30, 2021).

¹⁶⁷ See *Order, Pharm. Care Mgmt. Ass'n v. U.S. Dep't of Health & Human Servs.*, 21 Civ. 21-95 (JDB), at 1 (D.D.C. Mar. 15, 2021); see also Jacquie Lee & Ian Lopez, *HHS Delays Trump-Era Drug Rebate Rule to 2023 After Court Order*, BLOOMBERG (Mar. 18, 2021), <https://news.bloomberglaw.com/pharma-and-life-sciences/biden-dela>

¹⁶⁸ Infrastructure Investment and Jobs Act, Pub. L. No. 117-58, 135 Stat. 429 (2021).

¹⁶⁹ CONG. BUDGET OFF., INCORPORATING THE EFFECTS OF THE PROPOSED RULE ON SAFEHARBORS FOR PHARMACEUTICAL REBATES IN CBO'S BUDGET PROJECTIONS—SUPPLEMENTAL MATERIAL FOR UPDATED BUDGET PROJECTIONS: 2019 TO 2029 (2019), <https://www.cbo.gov/system/files/2019-05/55151-SupplementalMaterial.pdf> [<https://perma.cc/Q54Q-587P>].

¹⁷⁰ S. 1909, 117th Cong. (2021).

¹⁷¹ H.R. 6101, 117th Cong. (2021).



Number of days it took to get authorization for her medication

\$1,000 – \$2,000

range of her monthly co-pays with insurance

“We’re looking for superheroes to help us get the medicines that we need...that are available, accessible, and affordable without sacrificing the essential needs of daily living.”

Charlene L.

Patient Advocate, Physician

Charlene defines her journey through the healthcare system as a “roller coaster ride” that she can’t get off and does “not have any control over.” Her frustrations stem from insurance companies treating her like a number instead of a person. To PBMs, step therapy is a cost-saving measure; but, for Charlene, it has “ripple effects” that impact not just her, but her friends and family, too. “All the medications that I had to try and fail the first time, they all had some kind of side effect,” said Charlene. Those side effects can be catastrophic; Charlene believes the “fail-first” treatment system contributed to her cancer diagnosis. On top of the severe physical toll this system has taken on her and her health, she is still at times forced to choose between “bills, food, and medicine,” due to the high cost of her prescriptions, an issue PBMs were supposed to address.

State action has also taken place to stop PBMs. On December 10, 2020, the Supreme Court ruled 8-0 in *Rutledge v. Pharmaceutical Care Management Association (PCMA)*¹⁷² that an Arkansas law (“Act 900”) does not preempt federal Employee Retirement Income Security Act of 1974 (“ERISA”) laws.¹⁷³ Act 900 regulates reimbursements to pharmacies by PBMs for the cost of prescription drugs.¹⁷⁴ Under Act 900, PBMs are required to raise reimbursement rates for drugs if they are below the pharmacy’s wholesale acquisition cost.¹⁷⁵ This would prohibit PBMs from reimbursing pharmacies less than what it cost for them to purchase the drug.¹⁷⁶

The *Rutledge* case will likely service as a model for other states to enact laws aimed at stopping PBMs’ practices. It was a big win for all pharmacists, and the ruling opens the door for states to take additional action against PBMs, not just stopping low reimbursement rates.

¹⁷² 598 U.S. ___ (2020).

¹⁷³ See Kimberly J. Donovan & Michele Noble, *Supreme Court Rules That Arkansas Act 900, Affecting the Prices That PBMs Pay to Pharmacies, Is Not Preempted Under ERISA*, NAT’L L. REV. (Dec. 11, 2020), <https://www.natlawreview.com/article/supreme-court-rules-arkansas-act-900-affecting-prices-pbms-pay-to-pharmacies-not> [<https://perma.cc/DM85-TH22>].

¹⁷⁴ PBM Reimbursement, ARK. PHARMACISTS ASS’N, <https://www.arrx.org/reimbursement> [<https://perma.cc/D2X5-N6YF>].

¹⁷⁵ *Id.*

¹⁷⁶ *Id.*

V. Conclusion

Members of Congress, and legislators across the country, have a tall order to fill. Lowering the cost of prescription drugs and addressing the role that PBMs play in setting those costs are not overly partisan issues. These are issues Democrats and Republicans all over the country and in Congress agree must be addressed. The PBM lobby is powerful and influential, but it is not untouchable. We know how to fix this mess. We know how to bring immediate relief to American's wallets. But we, collectively, must have the courage to fight back against PBMs and enact significant reforms to stop their predatory practices.



Number of days it took to get authorization for her medication

“Congress needs to understand that **insurance companies...have more power to take lives and cause pain than the doctors that are actually trying to save lives or lessen pain.**”



Angela Deeds
Lynchburg, VA

Angela struggles not just affording medication for her gastroparesis, but accessing it. Despite having a specialist who knows her body and medical history better than anyone, she says **“someone behind a computer,”** whom she has never met, has ultimate control over her care. She describes her fight for medication and treatment as a punishment, saying that **“I’m being penalized for a condition I never wanted...I’m being punished for wanting a life, which according to the constitution, I’m allowed to have.”** Being only in her early 30s, Angela has her whole life ahead of her and wants the brick walls insurance companies and PBMs place in her path to disappear. She’s tired of proving that she needs medication and is ready to get back to her life outside of being a patient.

Thank you to all the patients who took time out of their busy schedules to open up about the difficulties they've experienced at the hands of PBMs. This booklet is dedicated to you.



FOR MORE INFORMATION, VISIT:

buddycarter.house.gov/pbmabuses/

Congressman

BUDDY  CARTER

Georgia's First District