

Understanding Pharmacy Benefit Managers (PBMs): Glossary of Key Terms



PBMs

Administrative middlemen companies that oversee prescription drug plans on behalf of insurers and plan sponsors. Among other functions, PBMs set formularies, patient co-pay amounts, pharmacy networks, pharmacy reimbursement rates, and the rates charged to plan sponsors.



Clawback

The amount of money a PBM takes back from a pharmacy after a prescription drug has already been paid for by the PBM and/or the patient. When your pharmacy submits a claim for a prescription drug, that pharmacy is then compensated for the dispensing of a medication in two ways: **1)** payment from the PBM; **2)** any applicable co-pay from the patient. PBMs exploit this process by pulling back some of the compensation money.



Co-pay

The out-of-pocket costs a PBM requires a pharmacy to charge a patient in order to obtain their covered medications.



Drug acquisition cost

A phrase typically used to define the costs pharmacies pay to acquire prescription drugs from manufacturers and drug wholesalers. This price is typically much lower than the drug's list price.



Formularies

List of prescription drugs covered by a prescription drug plan.



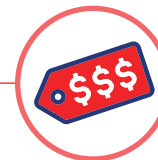
List price

The price a drug manufacturer initially sets, which very few people actually pay, but many members of the supply chain rely on as a basis for compensation.



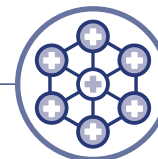
Net cost

The cost of the drug after subtracting any rebates or other price concessions from the list price.



Pharmacy network

The list of pharmacies a PBM allows a patient to use to obtain their medications through their benefits coverage.



Plan sponsor

The entity that pays for the prescription drug plan; usually a government program or commercial employer.



Prior authorization

An administrative barrier constructed by PBMs that requires doctors and pharmacists to obtain prior approval before certain patient services and prescription drugs can receive coverage by the PBM. PBMs often use prior authorization as a means to restrict access to medications. This may be done because a medication is too expensive in the eyes of the PBM, or other times PBMs add a prior authorization requirement on a cheaper medication as they prefer consumers use a higher priced medication that the PBM can make more money on.



Rebates

Drug companies pay PBMs negotiated discounts on many medicines, typically in response to PBM demands to ensure preferred placement on formularies. PBMs choose how much of those savings to share with patients and plan sponsors.



Spread pricing

The difference between the payments made by a PBM to the pharmacy for a prescription and the charge to the payer for the same claim.

