

# PHARMACY BENEFIT MANAGERS (PBMs): THE BASICS

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## What are PBMs?

PBMs are third party companies that act as intermediaries between drug manufacturers, health plans, and pharmacies. They help manage costs, safety, and quality of prescription drugs.



Did you know?

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PBMs are registered with the Department of Managed Health Care in California.

## What do PBMs do?



### Formulary Design

Develop and maintain the list of drugs covered by a health plan (formulary).



### Medication Management

Ensure patient safety and reduce adverse drug events through education and medication mitigation.



### Price Negotiation

Negotiate with drug manufacturers, wholesalers, and pharmacies on behalf of health plans.



### Mail Order Pharmacy

Administer home delivery services to patients for prescription drugs.



### Utilization Management

Oversee pharmacy benefit management tools such as prior authorization, quantity limits, and step therapy.



### Pharmacy Network

Create and manage a network of pharmacies in which a health plan's enrollees can access drugs.



### Pharmacy Claims Processing

Review claims and submit reimbursement to pharmacies for covered or health plan-approved drugs.

## PBM Relationships



### Drug Manufacturer

PBM negotiates drug formulary placement and cost to health plan, including rebates paid by manufacturer to PBM (financial incentives often tied to sales performance).



### Health Plan

PBM may handle some or all of items in figure above on behalf of the health plan. Some PBMs are vertically integrated with a health plan and pharmacy.



### Pharmacy

PBM negotiates dispensing fees and health plan reimbursement rates for drugs that the pharmacy dispenses. May include a "clawback" if enrollee copay is higher than full drug cost.

Looking for more details? Check out this other CHBRP publication: [Health Care Nuts and Bolts: Drug Supply Chain](#)

