Five Tips for Renegotiating Pharmacy Benefits Manager (PBM) Contracts

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The U.S. Department of Health and Human Services estimates that $603 billion was spent on prescription drugs in 2021 before accounting for rebates. A significant portion of employers' healthcare costs are attributed to pharmaceuticals, and these expenses continue to climb. As expensive specialty drugs and new gene therapies become more prevalent in the market, companies must do their diligence when choosing a pharmacy benefits manager (PBM) or renegotiating their existing contract.

The complexity, industry jargon, and overall breadth of these agreements might discourage companies from fully exploring their options and seeking the most competitive rates for their business and employees. Fortunately, there are ways that companies can make sure their PBM contracts are appropriate to their business. Here, we explore five tips to help companies navigate the PBM contract renegotiation process.

1. Know Your Data

Your data may be the most crucial tool when entering into negotiations on your PBM contract. Having a deep understanding of how your drug spend currently is allocated, how your members are using your plan, your formulary adherence, and utilization by drug class is imperative to understanding your greatest cost levers and potential risks.

A grasp of what therapeutic classes and drug types are used by your in-force membership, where the marketplace is trending in the coming years, and pipeline drugs that may have a signific impact on spend can aid a company in making the best decision for their circumstances.

2. Understand Key Definitions

Pharmacy contracts are complex, often containing technical legal terminology and concepts that are unfamiliar or difficult to understand. Without a clear understanding of the contract details, companies are vulnerable to coverage risk and might miss out on valuable rebates and discount opportunities.

Clarity around how your PBM defines and administers specialty drugs, limited distribution drugs, and drugs that fall under the 340B categorization is crucial to ensuring that your company is receiving the full value for your contracted terms.

3. Negotiate Market Checks

The pharmaceutical industry is always evolving, marked by constant innovation, new drugs and therapies entering the marketplace, the introduction of off-label indications, and shorter patent lifespans. As a result, even short-term deals negotiated with PBMs can quickly become outdated. That is why it is crucial to include an annual market review in any PBM contract to protect against changes that result in misalignment with the market.

A market check is an annual review of active contracts and pricing to determine if your current deal is misaligned according to some predetermined threshold. In the instance where you are not receiving pricing commensurate with the marketplace, an adjustment can be made to bring your contract in line with your peers, which provides insurance against unexpected changes.

4. Understand Contract Adjudication Language

Companies will often find themselves in situations where the contract they signed is not providing the value they had anticipated, simply because they did not fully comprehend the terms by which their contract would be adjudicated. Will guarantee surpluses in one drug class be applied to offset losses in another, or is each line adjudicated separately? Which drugs or classes of drugs are excluded from rebate and discount guarantees? Which entity is entitled to any rebates generated on 340B claims? The answer to these questions and others can drastically affect the size of your discounts and rebates, and the overall value delivered on your contract. Understanding the contract terms and being able to translate them to your financial bottom line is imperative when attempting to compare competing PBM bids or value proposed deals.

5. Don't Overlook the Smaller Firms

The [top three largest PBMs] process roughly 80% of all prescriptions in the country. Lack of competition has contributed to shallower discounts, lower prescription rebates, and an overall lack of transparency. In recent years, several smaller PBMs have entered the marketplace and demonstrated the ability to execute and deliver value commensurate with their larger counterparts. In 2024, we saw the first Fortune 500 company eschew the major players in favor of a smaller firm. By including smaller PBMs in your RFP process, companies can force the larger players to come to the table and ultimately help drive value in your renegotiation.

Conclusion

Renegotiating your PBM contracts can be incredibly advantageous, but it's important to have a firm understanding of your data, the contract language, and legal concepts so that you can be strategic about what areas you're renegotiating.

BDO has deep experience in PBM contracts and can help you navigate the renegotiation process. With our support, you can feel confident in your understanding of the terms, expected value, and potential pitfalls of your contracts. We can also help you determine whether it's time to seek a contract with a new PBM.

HAVE QUESTIONS OR WANT TO LEARN MORE? **CONTACT US!**