5 Common Ways Employers Overpay for Pharmacy Benefits

The Problem

For most self-funded employers, pharmacy benefits are among the top three healthcare expenses. Yet many employers don't fully understand how their pharmacy benefit manager (PBM) makes money or how this impacts what they pay for pharmacy benefits. Behind the scenes, many PBMs operate using opaque pricing models and complex contracts that quietly drive up costs, even when rebates look generous on paper.

What Brokers and Employers Should Watch For

Here are five ways employers can overpay for their pharmacy benefits:

Spread Pricing

Spread pricing is when a PBM charges a health plan more for a drug than it reimburses the pharmacy. The PBM uses this difference as revenue rather than collecting a fixed administrative fee. For employers, this hidden margin can mean inflated drug costs.

Rebate Retention

Traditional PBMs may keep all manufacturer rebates, or share only part while keeping the rest as profit. When those dollars don't flow back to the health plan, employers lose a key source of savings and pay more for pharmacy benefits than necessary.

Lack of Formulary Transparency

Drugs may be placed on the formulary based on rebate value, not clinical effectiveness or cost. This means high-priced drugs with big rebates can be favored over lower-cost, equally effective options.

Limited Reporting

Without clear data on actual Rx costs, rebates, and member utilization, employers can't see where their money is going or how to save. This lack of visibility makes it easier for PBMs to hide spread pricing or keep rebate.

No Coordination with Care Management

A PBM that isn't connected to care management can lead to duplicate or unnecessary treatments. Employers end up paying more while members miss out on more effective, coordinated care.