

Ike Brannon: Wisconsin residents could face higher healthcare costs if pharmacy benefit managers are constrained

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As the results of the 2022 election finally begin to become clear, we can begin to contemplate what Congress and the Administration might attempt to accomplish in the next two years.

While the reflexive answer should always be “not much”, especially with control of Congress split, one evergreen agenda item for both parties is to find ways to reduce healthcare costs, although Democrats and Republicans rarely share the same perspective for accomplishing such a thing.

There is clearly an appetite amongst Wisconsinites for something to be done: In 2023 the cost of purchasing health insurance on the Wisconsin exchange will [increase by nearly eight percent](#), and it would have been significantly higher had it not been for increased subsidies via the Inflation Reduction Act. For those above the income threshold to qualify for government subsidies, that increase is even higher.

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One issue that the Democrats—and a few Republicans—have broached on this issue has been to address prescription drug prices by reducing the reach of pharmacy benefit managers, or PBMs. While this rare confluence might appear at face value to offer hope for ameliorating high drug costs, the reality is that each party wants to

neuter them for different reasons, neither of which has much to do with lower drug prices.

Pharmacy Benefit Managers negotiate prescription drug prices on behalf of unions, large employers that self-insure, and state and local governments, among others.

PBMs can accomplish two things: First, their ability to negotiate on behalf of a wide variety of providers gives them enough market power to force pharmaceutical companies to reduce the costs of their expensive on-patent drugs: refusing to bargain with a PBM could result in their drug not being included on the PBM's formulary, which would eliminate a wide swath of potential users for the drug.

Secondly, PBMs use the data they accumulate from their millions of patients to improve efficacy. Most notably, they have been aggressive in implementing the home delivery of drugs where possible, which greatly improves adherence and—concomitantly—health outcomes as well. One study estimates that the annual cost savings from increased adherence due to prescription drug deliveries to be \$15 billion a year just for treatment of diabetes and high blood pressure.

Why the pushback against PBMs? Democrats object to them in large part because they simply perceive them as being too big, regardless of the fact that this is what gives them the ability to negotiate lower prices with the (also large) pharmaceutical companies that have government-granted monopolies. Their vast number of patients also allows them to deliver more efficient services.

FTC Chair Lina Khan, whose agency recently began a study to determine their impact on the market, objects to them mainly because of her perception that they are merely “middlemen” which are, by her intimation, irredeemably bad. Khan's Neo-Brandeisian view of the world rejects the notion that consumer prices should be the yardstick by which we measure a market's performance, and that other, amorphous, political objectives take precedence over mere market efficiency.

There has also been a modicum of pushback against pharmacy benefit managers from Republicans—most notably Georgia Congressman Buddy Carter—who complain that home delivery of drugs threatens independent pharmacists. Carter has sought legislation that would restrict the ability of PBMs to provide home delivery of drugs while also increasing the fees Medicare pays to pharmacies for filling prescriptions.

Together, these would increase taxpayers' costs and reduce health outcomes. It's

difficult to argue that this is a valid reason to accept these negative outcomes.

Wisconsin has a sizable population of seniors, as well as a considerable number of households who don't live all that near to a pharmacy. Limiting direct delivery of drugs won't do them any favors at all, and implementing a policy that limits the ability of PBMs to negotiate prices will increase insurance costs further.

No one would argue that the U.S. has an efficient or comprehensible healthcare system, but neutering pharmacy benefit managers would do nothing to improve it while increasing its cost for Badgers and people across the rest of the country.

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