AMA examines PBM market competition and integration with insurers

CHICAGO – A new analysis (PDF) by the American Medical Association (AMA) finds a widespread lack of competition in local markets across the United States where prescription drug middlemen known as pharmacy benefit managers (PBMs) provide services to commercial health insurers. The AMA analysis is the first to shed light on variations in market shares and competition among PBMs at the state and metropolitan levels.

Based on 2020 data for individuals with a commercial drug benefit tied to a medical benefit and the PBMs used by insurers, the AMA’s competition analysis presents national and local market insight on five different PBM services performed for insurers: rebate negotiation, retail network management, claim adjudication, formulary management, and benefit design. It presents the two largest PBM market shares and concentration levels for all states and metropolitan areas.

“The American Medical Association already has serious concerns (PDF) about PBM business practices that can have a detrimental impact on patients’ access to and cost of prescription drugs,” said AMA President Jack Resneck Jr, M.D. “PBM markets require careful scrutiny as less competition and more vertical integration can embolden anti-competitive business practices to the detriment of patients. The novel data presented by the AMA analysis is intended to help regulators, lawmakers, researchers, and policymakers better evaluate merger proposals in the future that may harm patients by raising prices, lowering quality, reducing choice and stifling innovation.”

The analysis found significant portions (37%) of the national markets for two services, formulary management and benefit design, were managed in house by health insurers rather than buying those services from the PBM market. In contrast, commercial insurers largely use a PBM for three services: rebate negotiation, retail network management and claims adjudication, rather than conducting them in house. The analysis thus assessed market competition for those three PBM services.

At the national level, the analysis found that a handful of PBMs have a large collective market share for the three PBM services most used by insurers:

- The 10 largest PBMs had a collective share of 97%.
- The four largest PBMs had a collective share of roughly 66%.
- Six PBMs are used exclusively by one insurer or a set of Blue Cross Blue Shield affiliates.

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At both the state and metropolitan levels, the analysis found a high degree of market concentration for each of the three PBM services assessed by the study:

- More than three of four (about 78%) states had highly concentrated PBM markets.
- More than four of five (85%) of metropolitan areas had highly concentrated PBM markets.

The analysis also quantified the extent of vertical integration between health insurers and PBMs. An insurer is vertically integrated with a PBM when a PBM service is performed in house or supplied by a PBM that shares ownership with the insurer.

- Health insurers that were vertically integrated with a PBM covered 69% of all people with commercial drug insurance.
- Although the average vertical integration shares across states and metropolitan areas were slightly lower (63% and 65%), there was wide variation across states and metropolitan areas.
- Some states have almost no vertical integration between insurers and PBMs, while others are almost entirely vertically integrated. South Dakota has the smallest vertical integration share (6%) and North Carolina has the highest vertical integration share (97%).

According to the analysis, “even though the largest health insurers and PBMs are vertically integrated, there is still a significant portion of the market that remains not vertically integrated, particularly at the local level.” Vertically integrated insurers may not allow non-vertically integrated insurer competitors to access their PBMs, or they could raise the cost of those PBM services. This could adversely affect non-vertically integrated insurers and ultimately patients through higher premiums.

The analysis of competition in commercial PBM service markets adds to the AMA’s work to shine light on market consolidation in the health insurance industry. Protecting patients and physicians from anticompetitive harm will continue to be a vital issue of public policy for the AMA, the federation of medicine, and the nation’s physicians. The AMA website offers additional information on the AMA’s efforts against anti-competitive mergers.