

How pharmaceutical profiteers are screwing us over

*featuring Hannah Garden-Monheit
Director, Office of Policy Planning
Federal Trade Commission*



This time on Code WACK!

So you might have heard the term **pharmacy benefit managers** – or PBMs – in the news. But what are they? **How did these middlemen get to be so powerful? How are they causing drug prices to skyrocket?** And what's the Federal Trade Commission doing about it?

To find out, we recently interviewed [Hannah Garden-Monheit](#), the **FTC's** director of the **Office of Policy Planning**. Prior to joining the FTC, Garden-Monheit worked at the **National Economic Council** (NEC), where she served as Special Assistant to the President for Economic Policy and Director for Competition Council Policy. At the NEC, she was extensively involved in shaping the President's Executive Order on Promoting Competition in the American Economy, and much more. This is the first episode in a two part series.

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WE DISCUSS

What are pharmacy benefit managers (or PBMs) and why has the Federal Trade Commission launched a general inquiry into them?

"...pharmacy benefit managers are these extremely powerful middlemen in our prescription drug supply chain. They started out, originally they processed pharmacy reimbursement claims between pharmacies and insurers. But today they've expanded to control or influence almost every aspect of our prescription drug supply chain.

"So for example, they design insurers' pharmacy networks, which means they design what pharmacies your insurance will work with and how much those pharmacies will get reimbursed for filling your prescription.

"They design what your insurance coverage will be, establishing the formularies that say what drugs are covered and at what cost to the patient. And then they negotiate contracts with pharmaceutical manufacturers – the drug companies for rebates, which are these payments that the prescription drug manufacturers make to the PBMs and the insurers to influence what that insurance coverage on the formularies would be.

"And because there has been a huge amount of vertical and horizontal consolidation over the last couple of decades, we now have essentially three giant conglomerates that overwhelmingly control these functions in our healthcare system.

"And our report is focused on some of the different ways these industry dynamics – this concentration, vertical integration – can create opportunities for gamesmanship, self preferencing, disfavoring lower cost generic drugs, and the ways in which these practices can hurt patients. –

Hannah Garden-Monheit

In July, 2024, the FTC issued a report titled "[Pharmacy Benefit Managers: The Powerful Middlemen Inflating Drug Costs and Squeezing Main Street Pharmacies.](#)" What would you say are the biggest takeaways from this report?

"...I think there's two sort of clusters of practices that we really focus on in this report. One of them is our concern that this conflict of interest is enabling these big companies to inflate the prices that they're paying to their affiliated pharmacies and self-preferencing themselves in ways that jack up their revenues while increasing costs for patients. And in particular, our report looks at two cancer drugs as a case study. And on those we find that they are paying their own pharmacies 25-40 times the average cost of acquiring those drugs while paying significantly less to independent pharmacies. And that in turn raises costs for patients both at the pharmacy counter and then also, you know, via their insurance premiums. 'cause It's inflating the cost of prescription drugs. And then ... the other sort of cluster of practices that the report looks at is on rebate practices, where we're very concerned about exclusionary rebating practices.

"Again, rebates are these payments between the pharmaceutical manufacturers and the PBMs to influence how things are covered on your insurance plan and we're concerned about contract terms that may disfavor coverage for drugs that have a cheaper list price. So for example, we saw in our review of their documents contract terms that say, 'your insurance coverage will not reimburse a pharmacy if they fill a prescription with a generic drug.' That can frustrate things like state substitution laws, which are intended to enable your pharmacist to give you the cheaper generic drug regardless of how your prescription is written. That is wonky but these are, you know, very concerning practices with respect to competition and effects on people's out-of-pocket costs for prescription drugs in this country." - **Hannah Garden-Monheit**

The report mentions vertical integration. What is that?

“Vertical integration is when a company - *one company and its affiliated entities* - control multiple parts of the supply chain, whether that's up the supply chain and down the supply chain. And so I'll, I'll give you an example to get a little more precise.

“Take Optum. Optum is the pharmacy benefit manager. Optum is owned by UnitedHealth. UnitedHealth is the largest insurer in the country. Optum also operates specialty mail order pharmacies. And then through its affiliated OptumHealth arm, Optum employs one in 10 doctors in the country.

“Another one of the big three is CVS/Caremark, right? Caremark is the PBM. It's owned by CVS. CVS also owns the fourth largest insurer. It owns the largest chain of retail pharmacies in the country. And now CVS is also getting into the drug relabeling and repackaging business. It's selling drugs itself, operating as a manufacturer of sorts in selling CVS label drugs.

“And so that creates all of these, these opportunities, right? When you are the health insurer who stands to benefit when patients go to your pharmacy, because that's money you make too, right, that gives you the ability and incentive to steer patients to your affiliated company irrespective of whether that is in fact the best deal for them and can create other opportunities for gamesmanship.

“There are allegations around CVS, for example. There's a drug called Humira where CVS in that repackaging and relabeling business made a biosimilar, which is like a generic for a biologic, for this drug. And then ... that drug that was CVS's own drug got better placement on insurance coverage so then people don't have access to the cheaper competitor drugs. There are all sorts of opportunities like that that exist when you control all of these different points along the supply chain.” - **Hannah Garden-Monheit**

How did we get to this point, where all of this is allowed? Why aren't there more regulations on this industry?

“Part of the story here is past unchecked consolidation in these industries, meaning that there were mergers and acquisition activity that happened over the 2000s that ultimately went unchallenged by antitrust enforcement agents. And, you know, that is part of the story about how we got to such a consolidated and vertically integrated state.

“You know, in the 2000s there were dozens of players and then by 2021 it had winnowed down to essentially three that manage 80% of prescription drug claims. That is part of the story here.

“This administration certainly is committed to a robust enforcement of the antitrust laws in this highly concentrated and vertically integrated state. The absence of regulation also matters as well. And so we are encouraged to see that there's bipartisan interest in Congress in filling that gap.” –

Hannah Garden-Monheit

Helpful Links

[Pharmacy Benefit Managers: The Powerful Middlemen Inflating Drug Costs and Squeezing Main Street Pharmacies](#), *Federal Trade Commission, Office of Policy Planning*

[Private Equity's Healthcare Problem: The Coming Investigations into Vertical and Horizontal Integration](#), *Capstone, DC*

[Study finds vertical integration in medicine is leading to higher costs and worse health outcomes](#), *Harvard Kennedy School*

[PBMs and Big Pharma Play Blame Game for Inflated Prescription Drug Prices](#), *Biospace*

[PBMs are driving up drug prices through fees, PhRMA report claims, Healthcare Finance News](#)

Episode Transcript

Read the [episode transcript](#).

Guest Biography - Hannah Gardner-Monheit

Hannah Garden-Monheit is the **Director of the Office of Policy Planning at the Federal Trade Commission**. Prior to joining the FTC, Garden-Monheit worked at the **National Economic Council (NEC)**, where she served as Special Assistant to the President for Economic Policy and Director for Competition Council Policy. At the NEC, she was extensively involved in shaping the President's Executive Order on Promoting Competition in the American Economy and its implementation, as well as the bipartisan Ocean Shipping Reform Act, the high-speed internet title of the Bipartisan Infrastructure Law, the nursing home reform agenda, and other matters.

Prior to joining the Administration, Garden-Monheit served as a Senior Advisor to the **CARES Act Congressional Oversight Commission**. She previously worked as a Supreme Court and appellate attorney in private practice, as a trial attorney at the Department of Justice Civil Rights Division, and as an analyst for the Iowa State Senate. She has served as a law clerk to the Honorable Judge Stephen Reinhardt, Ninth Circuit Court of Appeals, and the Honorable Judge Randolph Moss, District Court for the District of Columbia.

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