NAVITUS

PBM 101

Understanding and Navigating the Pharmacy Benefits Industry

A comprehensive guide for plan sponsors, consultants and industry professionals

Dear Colleague,

If you work in pharmacy benefit management (PBM) long enough, two truths become obvious. Over the years, I've seen both of these truths challenge even the most experienced consultants and plan sponsors.

First, the PBM industry is anything but straightforward. Limited transparency in an intricate drug supply chain can force plan sponsors to make high-stakes decisions with incomplete information. And when you aren't able to see the full picture, you can't make the best call for your clients and those you serve.

Second, the choices you make today will shape member access, affordability and outcomes for years to come. That's why misaligned incentives, poorly designed formularies and opaque contracts can lead to high medication costs, delays in needed therapies and compromised member care. With so much at stake in your pharmacy benefit decisions, the solution becomes clear: full transparency.

For more than two decades, Navitus has operated on a foundation of clarity, focused on eliminating complexity to best serve all. As part of that commitment, we've created this PBM 101 e-book to bring the moving parts into plain view.

In the pages ahead, we explain how PBM models differ in practice, what to evaluate beyond rebate guarantees and how contract terms and pricing structures can influence total cost of care. With that knowledge, you'll be equipped to make informed decisions that withstand time and audits, deliver long-term value and, most importantly, lead to better outcomes for everyone involved.

Thank you for seeking out the best path forward in this complex landscape. I hope this guide will be useful to you now and even more valuable when it's time to make those key decisions.

Best regards,

David Fields

President and CEO

01 What PBMs Are and Why Their Model Matters

Pharmacy benefit managers (PBMs) play a central, often unseen, role in the pharmaceutical and health care industry. As intermediaries between drug manufacturers, pharmacies, health plans and plan sponsors, they negotiate prices, shape formularies and influence how medications move through system.

Because so much of their work happens behind the scenes, it is easy to underestimate just how much influence your PBM partner actually has. Most of what they do is invisible to members, yet those quiet decisions determine everything that directly affects people at the point of care, from which drugs are covered under the plan to what they owe at the pharmacy counter.

For organizations accountable for both plan members' health and the millions of dollars at stake, choosing the right PBM is an important decision. With the right PBM model, plan sponsors can:

- Lower costs without sacrificing care by encouraging appropriate generics, smart formulary design and lower-cost options, so members get the right medication at a better price
- Manage trend over time by focusing on strategies that keep costs predictable year after year, instead of chasing one-time savings
- Build smarter pharmacy networks that balance access, convenience and affordability
- Enhance safety and outcomes through clinical programs that flag risky combinations, improve adherence and support better prescribing
- Gain real visibility and control with a clear view of where the money goes and what is truly driving trend

In the market where drug costs, regulatory scrutiny and member expectations are all rising, the real question is no longer whether you have a PBM partner. It's whether your PBM's model is firmly aligned with the health and financial outcomes you need to deliver.

Key takeaway

The value of a PBM partner isn't just in the services it provides, but in how its model and incentives turn everyday decisions into a long-term value for your plan and members.

02 The Three PBM Models

For many organizations, the biggest surprise in pharmacy benefits isn't what a PBM does. It's how differently two PBMs can perform while offering what seems to be the same list of services. The difference usually comes down to the business model. How a PBM is structured determines where it earns revenue, what plan sponsors actually pay and save, how their benefit performs and whether members can receive the care they need at a price they can afford.

In this chapter, we'll look at the three models and how they affect critical PBM components.

Traditional Model

Traditional PBMs offer volume discounts and high rebates to achieve cost savings. However, they often retain spread compensation from pharma revenue on rebates, discounts and incentives. While some of this revenue is shared with plan sponsors, limited transparency makes it unclear how much the PBM keeps. Traditional PBMs also offer savings guarantees, which may be capped at certain amounts so they can keep the difference.

Hybrid Model

Bridging the gap between traditional and pass-through models, hybrid models offer some transparency into pricing and revenue practices, but do not eliminate spread completely. Some channels (i.e. retail, mail order and specialty) may be pass-through while others may contain spread. A hybrid model may also share some pharma revenue such as rebates, discounts and incentives with plan sponsors, but visibility into how much the PBM retains remains limited. Hybrids may also charge a minimal admin fee.

Pass-through Model

Pass-through PBMs, like Navitus, offer the most transparency among PBM models. They pass 100% of all rebates and discounts back to the plan sponsor and earn revenue through an administration fee. They typically provide full financial and operational disclosures and offer extensive audit rights down to the individual claim and invoice level, so plan sponsors can verify their savings. This model also focuses on lowering overall drug spend through the right drug mix, selective rebates and clinical programs that support member health, improve drug trend and reduce per member per month (PMPM) cost.

Key takeaway

PBMs may look similar on the surface, but their business models drive very different outcomes. The pass-through model offers the clearest view of where money is going and what costs actually cover in a benefit plan.

03 How to Evaluate Your PBM Partner

Choosing a PBM isn't just about managing prescription drug costs – it's about ensuring your PBM operates in a way that aligns with your financial, operational and philosophical goals. A truly aligned PBM works toward the same objectives as you: lowering costs, improving member experiences and delivering better health outcomes.

So how can you tell if your PBM is truly working in your best interest?

A well-structured PBM can help plan sponsors optimize drug spending over time, protect employee well-being and ensure seamless execution of their benefits plan. However, not all PBMs operate with the same priorities.

Some emphasize transparency and cost savings for clients, while others maximize their own revenue through hidden fees, retained rebates and upsell strategies. If your PBM isn't fully transparent about pricing structures, contract terms or revenue streams, it may not be as aligned with your goals as you think.

03 How to Evaluate Your PBM Partner

Consider these key differences:

A PBM Aligned with Their Own Goals	A PBM Aligned with Client Goals
Retains price improvements as additional PBM revenue	Passes all price improvements and rebates directly to the plan sponsors
Structures formularies to maximize rebate revenue	Structures formularies based on lowest net cost
Prioritizes high-rebate drugs, even when lower costs are available	Leverages rebates to offset client costs, not as a driver for decision-making
Focuses on generating more PBM revenue through upselling programs	Focuses on achieving the lowest net cost through various cost strategies and value-based programs
Account teams receive bonuses for upselling services regardless of their value	Account teams prioritize client needs, not sales quotas
Bases programs on their bottom line instead of member outcomes	Reinforces member therapy adherence through clinical engagement programs
Uses vague clinical criteria for claims processing	Adheres to documented audit and clinical guidelines for clear claims processing
Uses complex contract language, often lacking transparency	Uses clear, concise and transparent contract terms
Minimizes access to drug claim level data to obscure actual costs	Provides access to drug claim level data for full visibility to how the benefit is being used

Key takeaway

If your PBM isn't fully transparent or aligned with your goals, it's time to explore a better alternative.

04 Navigating the Drug Supply Chain

Before a prescription ever reaches a pharmacy counter, it has already moved through a complex ecosystem known as the drug supply chain. From manufacturers and wholesalers to PBMs and pharmacies, each entity plays a role in determining how much a drug costs and who ultimately pays for it.

For plan sponsors, health plans and consultants, this system often lacks transparency, making it difficult to see where the money goes or why medication costs continue to climb. At Navitus, we believe transparency is the foundation for driving better outcomes. That's why we're committed to demystifying the supply chain and offering a different kind of PBM experience – one that's 100% aligned with client goals.

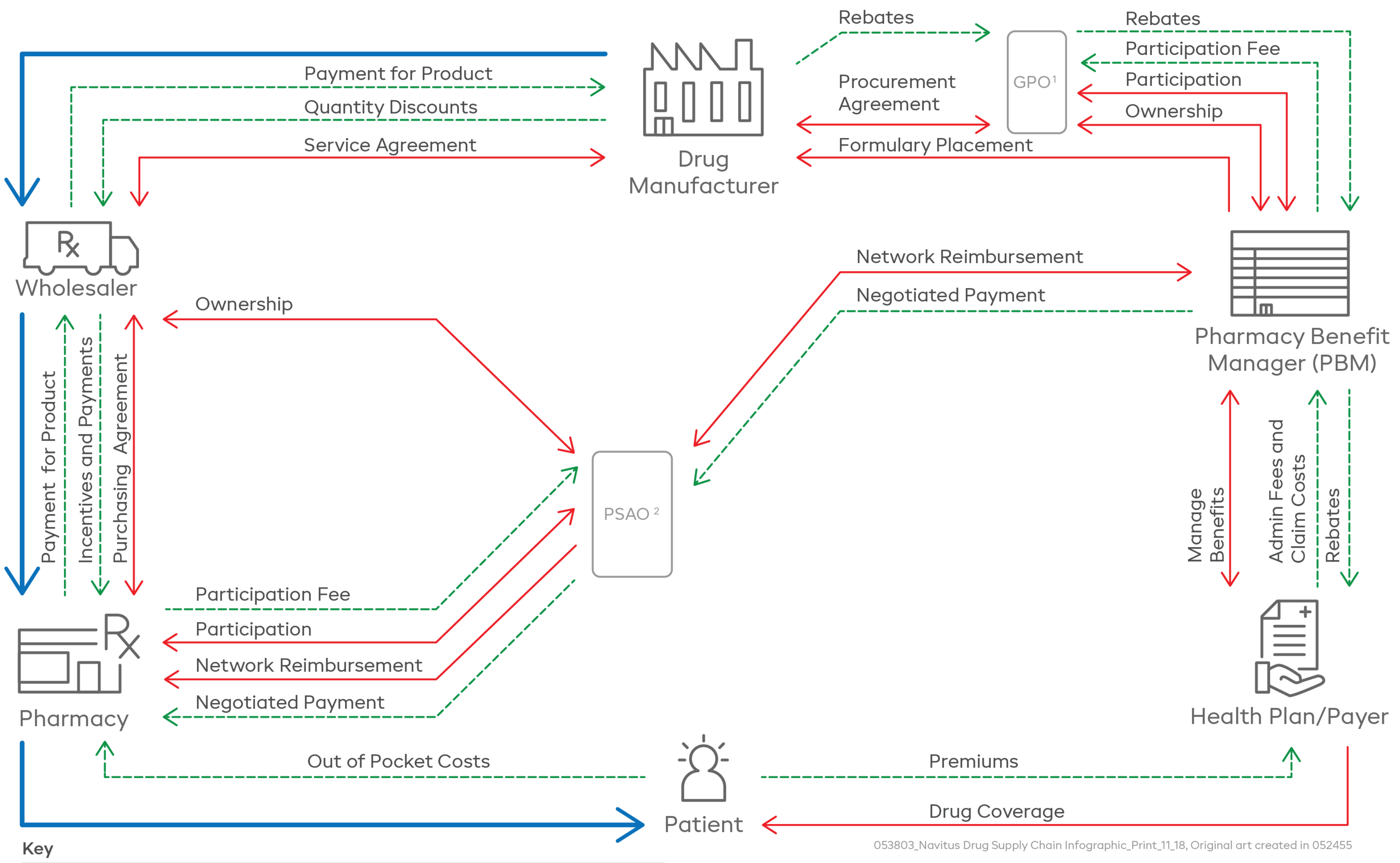
Defining the drug supply chain

In simple terms, the drug supply chain represents the full journey a prescription medication takes from lab to patient. But it's not a straight line – it's a complex web of players and financial exchanges that happen behind the scenes.

While the basic structure of the supply chain is consistent across the industry, how a PBM operates within it can significantly impact cost and care outcomes.

Key players in the supply chain

Each stakeholder plays a specific role, and together they shape drug costs, access and member experiences. Here's an overview of who's involved in the drug supply chain and what they do:



Key

Contract Agreement
Money Flow
Flow of Drugs

[1] Some, but not all, PBMs own GPOs
[2] Some, but not all, pharmacies contract through PSAOs
[3] Many PSAOS, but not all, are owned by wholesalers

04 Navigating the Drug Supply Chain

01 Drug manufacturers

They develop medications and set the list price for each drug, which becomes a starting point for all pricing and rebate negotiations.

02 Group purchasing organizations (GPOs)

They help providers and pharmacies negotiate lower medication pricing by pooling their purchasing power.

03 Wholesalers

They buy drugs in bulk from manufacturers and distribute them to pharmacies and health systems.

04 Pharmacy services administrative organizations (PSAOs)

These organizations give independent pharmacies the scale to compete by handling contracting, admin work and negotiations on their behalf.

05 Pharmacy benefit managers (PBMs)

They negotiate drug prices and rebates, manage formularies, build pharmacy networks and design benefits that balance cost, access and quality of care.

06 Health plans and Payers

They work with PBMs to define which drugs are covered on the formulary and how much members will ultimately pay.

07 Pharmacies

They dispense medications, educate patients and ensure safe, timely access to treatments. PBMs work closely with pharmacies to build strong networks that support both patient access and plan performance.

08 Patients

They are the reason the entire drug supply chain exists. What they pay, how fast they get their medications and which options they have are all driven by decisions made upstream. As a PBM, we never lose sight of that.

04 Navigating the Drug Supply Chain

Why the PBM's position matters

Positioned in the middle of the drug supply chain, PBMs have a unique ability to influence both cost and access. Through negotiations, network design and benefit strategies, a PBM can either add complexity and opacity or create clarity and measurable value. At Navitus, we use our position to lower medication costs, expand access and remove barriers between members and the care they need. Our model is built for alignment, not ambiguity.

Key takeaway

You don't have to navigate the drug supply chain blindfolded. With the right PBM partner, you can gain the clarity and control you need to manage costs and care effectively.

05 Understanding Transparency

Transparency is one of the PBM industry's most heavily used selling points. Plan sponsors are promised visibility into pricing structures, rebate flows, administrative fees and contract terms, yet that level of "transparency" is rarely delivered.

Many PBMs present themselves as transparent, while still retaining hidden revenue through spread pricing, manufacturer rebates or unclear fees. This kind of opacity creates confusion, obscures true costs and leaves clients with more questions than answers.

So how can you tell whether your PBM partner is truly transparent or just using the language of transparency? These five questions below can help reveal whether transparency is built into their model or simply used as a marketing term.

Five ways to evaluate your PBM's transparency

01 **Do you know exactly how your PBM earns revenue?**
A truly transparent PBM discloses all revenue streams, including any retained rebates, spread pricing or administrative fees. If compensation is not clearly outlined, there's a risk that the PBM's financial incentives conflict with the plan sponsor's best interests.

02 **Are your contract terms fixed, measurable and clearly documented?**
Transparency belongs in your agreement, not just in conversation. Contracts must clearly outline all administrative costs, rebate arrangements and performance guarantees, without vague terms.

03 **Are definitions like "rebate," "discount" and "pass-through" consistent across documents?**
When key financial terms vary between contracts, reports or vendor materials, it becomes difficult to compare PBMs or verify financial outcomes. Consistent language is a baseline requirement for transparency, accountability and trust. Without it, even detailed reports can mask where dollars are actually flowing.

04 **Do you have complete access to your claims data?**
Real transparency goes beyond basic reports. It includes timely access to claims data, so you can audit, view and analyze your plan's information without limitations.

05 **Are audit rights clearly built into your contract?**
A transparent PBM welcomes accountability. Your agreement should give you full audit rights to review pharmacy network terms, rebate arrangements and manufacturer contracts, to ensure everything aligns with what was promised.

If you answered "no" or "not sure" to any of these questions, it may be time to take a closer look at how your PBM operates and whether it's truly acting in your best interest.

Key takeaway

Asking the right questions and demanding clear answers can reveal opportunities to reduce costs, improve outcomes and align pharmacy benefits with your organizational values.

06 Understanding Spread Pricing

Spread pricing is one of the reasons pharmacy benefits cost more than most plan sponsors realize, and it often hides in plain sight. The term "spread" refers to a difference between what a PBM charges a plan sponsor or health plan and what it pays the pharmacy. The PBM keeps that difference as profit, usually without disclosing how much was retained. This practice is common in traditional PBM contracts.

The impact of spread on plan sponsors and members

For consultants and plan sponsors, the challenge isn't just that spread exists, but that it's hard to see. Without a clear line of sight into what pharmacies are paid versus what's billed to the plan, it becomes harder to:

- Judge the effectiveness of savings guarantees
- Understand the true cost of the pharmacy benefit
- Make informed decisions about the plan design and PBM performance

When pharmacy expenses rise faster than expected, plan sponsors may be forced to narrow drug coverage, increase premiums or raise copays to offset rising medication costs. Members feel those decisions immediately. Higher costs or reduced coverage may lead to delayed treatments or poor medication adherence, both of which can negatively affect long-term health outcomes.

Spread pricing in real life

Take a real Navitus member story for example: a cancer medication priced at $8,900 under a traditional PBM model was available for just $57 through Navitus. That's because in pass-through contracts PBMs don't make any spread on prescription claims. What the plan pays is exactly what the pharmacy is paid, with no hidden margin in between.

	Amount Paid to Pharmacy	Claim Billed to Plan Sponsors	PBM Spread Created
Traditional Model	$57	$8,900	$8,843
Pass-through Model	$57	$57	$0

Key takeaway

Big price gaps, as in the example above, don't come from drug costs alone. They happen when a PBM's profit is built on spread. That's why the most effective way to address hidden costs is by partnering with a PBM that prioritizes total drug cost management and provides full transparency into how plan dollars are spent.

07 Understanding Rebates

Rebates sit beneath the surface of pharmacy benefits like an iceberg: the tiny portion everyone can see looks simple enough, but the real mass remains out of view.

On paper, a rebate is a discount on the medication that a pharmaceutical manufacturer gives a PBM in return for agreeing to include its drug on the pharmacy benefit plan formulary. But over the years, that concept has grown increasingly complicated. Today, what gets labeled as a "rebate" can include market share and manufacturer incentives, indication- and outcomes-based arrangements and other types of payments. Most plan sponsors see only a single rebate figure.

Complicating matters further, not all PBMs define or report rebates the same way. Some may disclose only a portion of the total value negotiated with manufacturers, while others may group multiple revenue streams under the "rebate" umbrella.

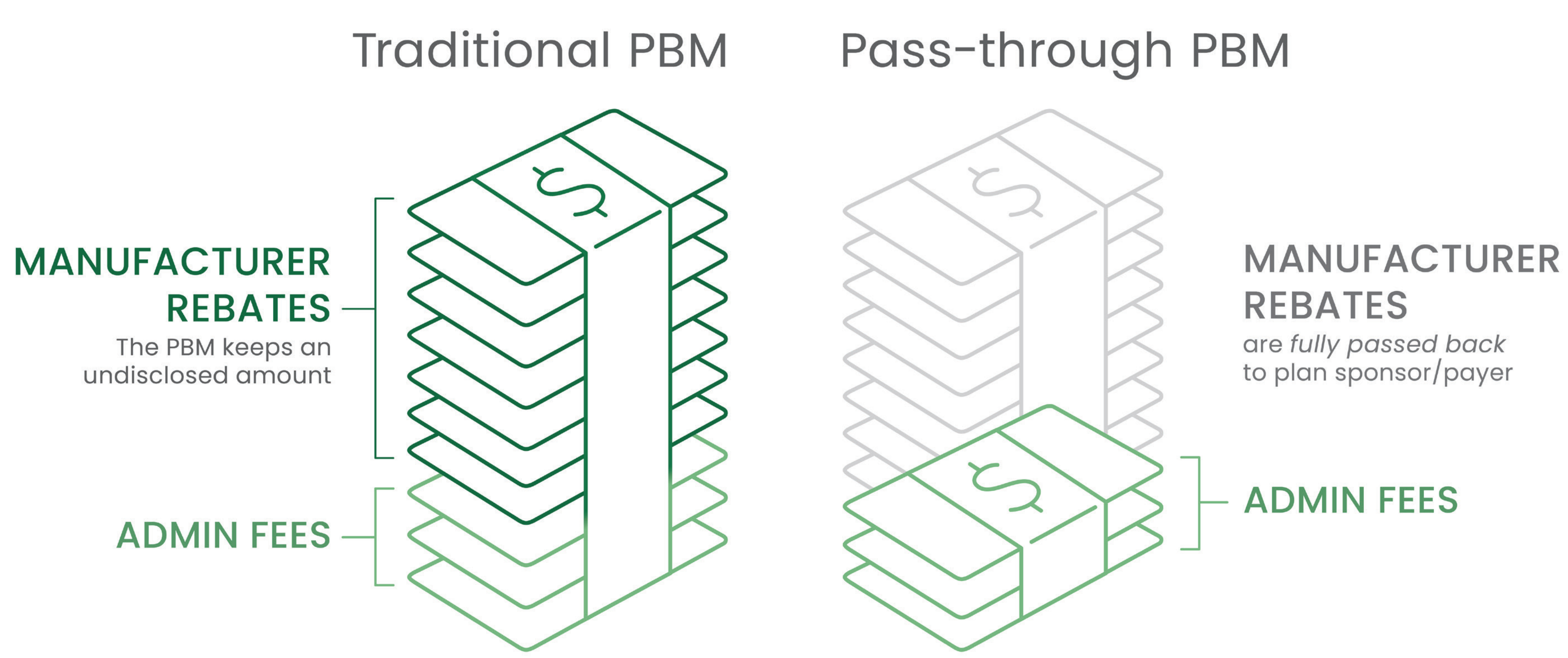
The result is a lack of consistency and transparency that makes it difficult for plan sponsors to evaluate if they're truly benefiting.

Rebates and the illusion of savings

It's a common misconception that higher rebates automatically lead to lower pharmacy costs. While large rebate checks may look appealing, they often require higher upfront spending.

Rebates are usually based on a percentage of a drug's list price, which means the higher the price, the bigger the rebate. That setup gives traditional PBMs a financial incentive to favor more expensive, brand-name medications, even when lower-cost alternatives could reduce total spending. As a result, plans may spend more overall, while members face higher out-of-pocket costs and limited formulary flexibility.

The more you spend, the more *they* keep.



Traditional PBMs are incentivized to promote high-cost drugs to retain more rebates

Pass-through PBMs aim to achieve the lowest net cost by returning all rebates

Increasing scrutiny and regulatory concerns

Regulators have started to take notice of how these dynamics shape the market. The Federal Trade Commission is currently investigating whether rebate practices contribute to inflated drug prices, restricted competition and higher costs for plan sponsors and patients.

This attention has fueled momentum for new transparency measures. For example, proposed regulations would require PBMs to pass a larger share of manufacturer rebates, typically 85% or more, directly to members at the pharmacy counter, reducing out-of-pocket costs at the point of sale.

Key takeaway

The true savings don't come from the size of the rebate, but from reducing the total cost of care. That's why the most effective strategy is not to chase the largest rebates, but to achieve the lowest net cost: what the plan pays after all discounts, incentives and rebates are applied.

08 The Industry Problem and the Navitus Solution

PBMs were originally created with a clear purpose: to improve access to medications and make prescription drugs more affordable. After exploring how they operate, the incentives driving their behavior and the blind spots that often leave plan sponsors at a disadvantage, one theme becomes clear: traditional PBM models were built around complexity, opacity and hidden decisions that don't always put plan sponsors or members first.

But you and your clients don't have to settle for these outdated and deceptive practices.

Navitus has long recognized the negative impact of a traditional PBM model. That's why our PBM was founded as an alternative option, innovating a fully transparent, pass-through structure. For more than 20 years, we've offered a clear line of sight into how our decisions are made, how rebates flow and where incentives are aligned. At a time when new policy regulations are pushing the industry toward greater transparency, this is a standard we've delivered since day one. By eliminating the guesswork, we remove the risks inherent to traditional PBM models and empower our clients to make smarter, cost-effective decisions.

Here's how that commitment shows up in our day-to-day operations:

- **Rebates and discounts go back to plan sponsors** – All rebates and discounts secured from manufacturers are passed entirely to the plan sponsors. Navitus does not retain any portion.
- **Full transparency across the chain** – Plan sponsors receive complete visibility into contract terms, rebate arrangements and claim-level data, enabling better oversight and accountability.
- **No spread pricing** – We do not profit from the difference between what is paid to the pharmacy and what is billed to the plan sponsor. Our pricing is clear and consistent.
- **Aligned incentives** – Our model is built on lowering drug costs and improving access. With no financial gain tied to inflated drug prices or hidden rebates, our interests are aligned with plan performance and member well-being.
- **Shared performance improvements** – Unlike traditional models that manage to minimum guarantees and keep the difference, we pass through all improvements in pricing and performance to plan sponsors.

By upholding the abovementioned principles, we set ourselves apart as a trusted partner in pharmacy benefit management. We proudly serve nearly 18 million members through almost 800 clients, who rely on us to prioritize their best interests, bring greater clarity to every pharmacy dollar spent and improve member outcomes.

08 The Industry Problem and the Navitus Solution

We hold the line

In 2025 while industry-wide drug spending rose by 11.4%, Navitus limited its trend to 8.4% across commercial book of business, helping 62% pay less or no more than 5% of what they spent in 2024.

We achieved this through:

- Clinically appropriate prescribing, utilization and formulary management
- Generic-first strategies and timely adoption of biosimilars
- Revenue from a simple disclosed admin fee, not drug cost markups
- Programs designed to lower net cost and reduce drug trend over time

Your next step

You may feel pressure to choose between cost and care, between today's savings and tomorrow's sustainability. That's a false choice. With the right PBM partner, you can have it all: pharmacy benefits that deliver lasting value and make essential medications more affordable and accessible, without ever compromising the quality of care.

Ready to see how our model delivers all that in real life? Reach out to us to learn how it can work for your clients, organization or members: info@navitus.com.