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U.S. Senate Special Committee on Aging Hearing:
Modernizing Health Care: How Shoppable Services Improve
Outcomes and Lower Costs

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My Shark Tank companies hate selling on Amazon — but most don't have a choice. About 162 million Americans shop there, and if you want to reach them, you have to play by Amazon's rules.

Amazon knows this and takes full advantage — adding new fees, raising old ones, forcing sellers to buy ads, and even launching copycat products that compete directly with them. They get away with it because they control the marketplace — and because 167 million people pay \$139 a year for Prime, which makes Amazon incredibly “sticky.”

So what does that have to do with healthcare?

Insurance companies work the same way. More than 300 million Americans have some kind of coverage — commercial, Medicare, or Medicaid. Every one of those plans hires a Pharmacy Benefit Manager, or PBM, to run their drug benefits.

Three giant PBMs — all owned by the biggest insurance companies — control pharmacy benefits for about 270 million Americans. That's 70% more people than Amazon reaches.

Like Amazon, PBMs control the “store shelves.” Their shelves are called formularies — the lists of drugs your insurance will cover. If a drug isn't on the formulary, it's basically invisible to patients.

Here's the kicker: unlike Amazon or Walmart, which want lower prices, PBMs actually prefer higher ones.

They say they negotiate lower costs — but they don't. They auction off access to their formularies to the highest bidder. Drug companies pay whatever rebates and fees PBMs demand so their drugs can be covered and prescribed. If they don't pay, they don't get access to patients.

Those rebates and fees are based on a percentage of a drug's list price — called WAC, or Wholesale Acquisition Cost. So the higher the list price, the more money PBMs make.

Because PBMs are so powerful, that inflated list price becomes the reference point for the entire drug supply chain.

Take a hypothetical drug — Brand A. The PBM tells the manufacturer to set the list price at \$600, with a 50% rebate and another 10% in fees, leaving the manufacturer with \$240 net.

Now, what does the patient pay?

- If they're uninsured: \$600.

- If they're insured — through an employer, the ACA, Medicare Advantage, or Part D — they still pay the full \$600 until they meet their deductible.

And yes, the PBM still gets its rebate on that sale. PBMs and the insurance companies that own them love high deductibles because they keep collecting rebates while patients pay full price. Insurance carriers love it even more when patients can't afford their deductibles — because then they never have to pay out from premiums.

So patients end up paying the highest prices of anyone — all because PBMs insist on using inflated list prices instead of transparent net prices.

Meanwhile, wholesalers buy the drug from the manufacturer for \$600. The three major wholesalers all use the same list price, so there's zero price competition. And because their fees are also based on WAC, they profit more when prices rise.

Pharmacies buy from wholesalers at around a 5% discount — about \$570 in this case. But when they fill a brand prescription for an insured patient, they're often reimbursed less than what they paid. They literally lose money on most brand-name drugs. And if they don't fill enough of those money-losing prescriptions, PBMs and wholesalers hit them with even more penalties. No wonder independent pharmacies are being crushed.

Make it make sense. It doesn't.

Because the whole system is built around list prices, everyone — PBMs, wholesalers, and insurers — has an incentive to keep WAC going up. And it almost always does. Patients are the ones who pay the price.

And here's the saddest part: self-insured employers, states, and anyone contracting with the big PBMs are signing off on this system. They approve plans that force patients to pay list price without realizing how badly their members are getting ripped off. We blame PBMs — but the real problem is the people and governments who keep signing these contracts without a clue

And big brand pharma is part of the problem too. They hate the big PBMs, but they let themselves get trapped in this mess with formularies and WAC based pricing.

If they moved to all net pricing, out of pocket prices to patients would drop immediately.

There is a reason the USA has the highest brand pricing in the world and it's because we are the only country that uses PBMs.

Coincidence. I think not /)

What to do?

- Require that all cash pays are counted against deductibles
- Require that patient out of pocket costs are based exclusively on net pricing not WAC
- Separate formularies from PBMs
- Use administration leverage to require manufacturers to use net prices and margins rather than list prices and rebate/fees
- Get rid of GCRs and DIRs