HEALTH CARE INFLATION

NEW LAW AIMS TO REIN IN PBMS, REDUCE COSTS

THE FEDERAL spending package that President Trump signed into law Feb. 3 includes provisions aimed at reining in pharmacy benefit manager tactics that have drawn fire from employers, insurers and lawmakers for allegedly driving up costs.

The changes in the Consolidated Appropriations Act of 2026 are designed to ensure that manufacturer rebates and other drug-price concessions flow back to plans and self-insured employers, while giving plan fiduciaries better data to evaluate whether PBM contracts are truly lowering costs.

The goal is for health plans to pass those funds back to their employer customers in the form of lower premiums as they have in West Virginia after similar legislation took effect there, according to studies.

PBMs contract with drugmakers, pharmacies and payers, and handle formularies, pharmacy networks and claims processing while negotiating rebates and discounts with manufacturers … all in the state go. Critics across the political spectrum argue that PBMs' incentives can push plans toward higher list-price drugs with bigger rebates, which PBMs have been accused of pocketing. But that also means that employers and employees pay more overall, especially when cost sharing is tied to list price.

Skeptics of the legislation worry that PBMs will adjust to the legislation by replacing lost rebate-related revenue with administrative fees or other contract mechanics

Reforms that matter most to employers

Rebate and discount pass-throughs — The law requires PBMs to pass through 100% of manufacturer rebates, fees, discounts and other remuneration (excluding "bona fide service fees") to ERISA-covered group health plans or plan sponsors.

Practically, it targets business models where PBMs retain a share of rebates or embed revenue in "spread pricing."

The pass-through requirement will apply to PBM contracts that are entered into, renewed or extended for plan years beginning on or after Aug. 3, 2028. For many calendar-year plans, that effectively means Jan. 1, 2029.

Transparency and reporting — PBMs will have to provide detailed reporting to group health plans at least twice per year, with an option for quarterly reporting if the plan requests it.

Reports are expected to include information that helps sponsors understand drug spend and PBM revenue sources such as rebates, fees and spread pricing, plus data tied to formulary decisions. Civil penalties can apply for failures to disclose and for knowingly providing false information.

What's in it for employers

A key reason employers and other payers are hopeful is the experience in West Virginia, where state officials reported that a rebate pass-through approach was associated with materially smaller group premium increases in the state's 2026 small-group and large-group filings.

For example, for 2026, the rebate pass-through mandate cut the average group health plan rate increase to 12.6%, from 19.5%, according to data calculated by the insurers and published in a report compiled by the West Virginia Offices of the Insurance Commissioner. The pass-through mandate caused one insurer to cut its large-group rates by 3%, rather than increasing its premiums by 5%.

That said, state results can be hard to generalize because plan design, market competition and underlying claims trends differ.

For employers that purchase group health insurance, the new PBM rules could eventually help reduce prescription drug costs by ensuring that rebates and discounts negotiated by PBMs flow back to health plans instead of being retained by intermediaries.

However, because the reforms do not take effect for several years and PBMs may adjust their pricing models, employers should not expect immediate savings. Employers should also work with us to monitor how your carriers incorporate the new requirements into future pharmacy benefit arrangements.

If you have questions about your coverage or our products, please reach out to me:

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