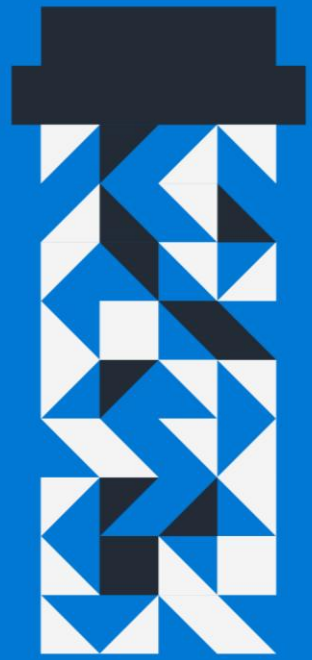
Consolidated Appropriations Act and PBM Reform:

Implications for Actuaries

Sarah Hellems, FSA, MAAA, CERA
Life Sciences Consulting Actuary

Southeastern Actuaries Conference



Milliman
Solutions for a world at risk™

Discussion Agenda

Consolidated Appropriations Act and PBM Reform

01 Overview & Background

02 Shifting PBM Landscape

03 Stakeholder Implications

Overview & Background

Overview

Key Changes

1. 100% manufacturer value pass through
2. Drug level reporting
3. Net-cost pricing
4. Reduced POS costs
5. Delinked compensation

PBM Economics

1. Profit pools will shift, not disappear
2. Less rebate retention and spread
3. More admin fees / PMPM fees, trend management & clinical fees
4. Increased emphasis on specialty pharmacy economics
5. Reduction in the use of rebate guarantees

Manufacturer Impacts

1. Rebate contracting models face structural pressure and reduced durability as value shifts to BFSFs
2. More requests tied to net cost and low WAC alternatives
3. POS rebate funding / value
4. Emphasis on outcomes / value, product specific economics

PBM reform is not one law; it is a convergence of federal law, FTC enforcement, DOL fiduciary scrutiny, state PBM laws, and employer litigation. Manufacturers must adapt commercial strategy to a rapidly evolving PBM operating model.

POS – point of sale
BFSFs – Bonafide service fees
WAC – Wholesale acquisition cost

What is a PBM?

A pharmacy benefit manager is the intermediary that administers prescription drug benefits on behalf of health plans and employers.

It decides what is covered, what pharmacies are paid, and what manufacturers pay.



Formulary

- Builds the covered drug list and tier structure
- Sets member cost sharing by tier
- Applies prior authorization and step therapy



Pharmacy network

- Contracts retail, mail order, and specialty pharmacies
- Negotiates pharmacy reimbursement rates
- Determines where members can fill



Manufacturer negotiation

- Negotiates rebates and discounts off list price
- Trades formulary placement for price concessions
- Drives the gap between list and net cost



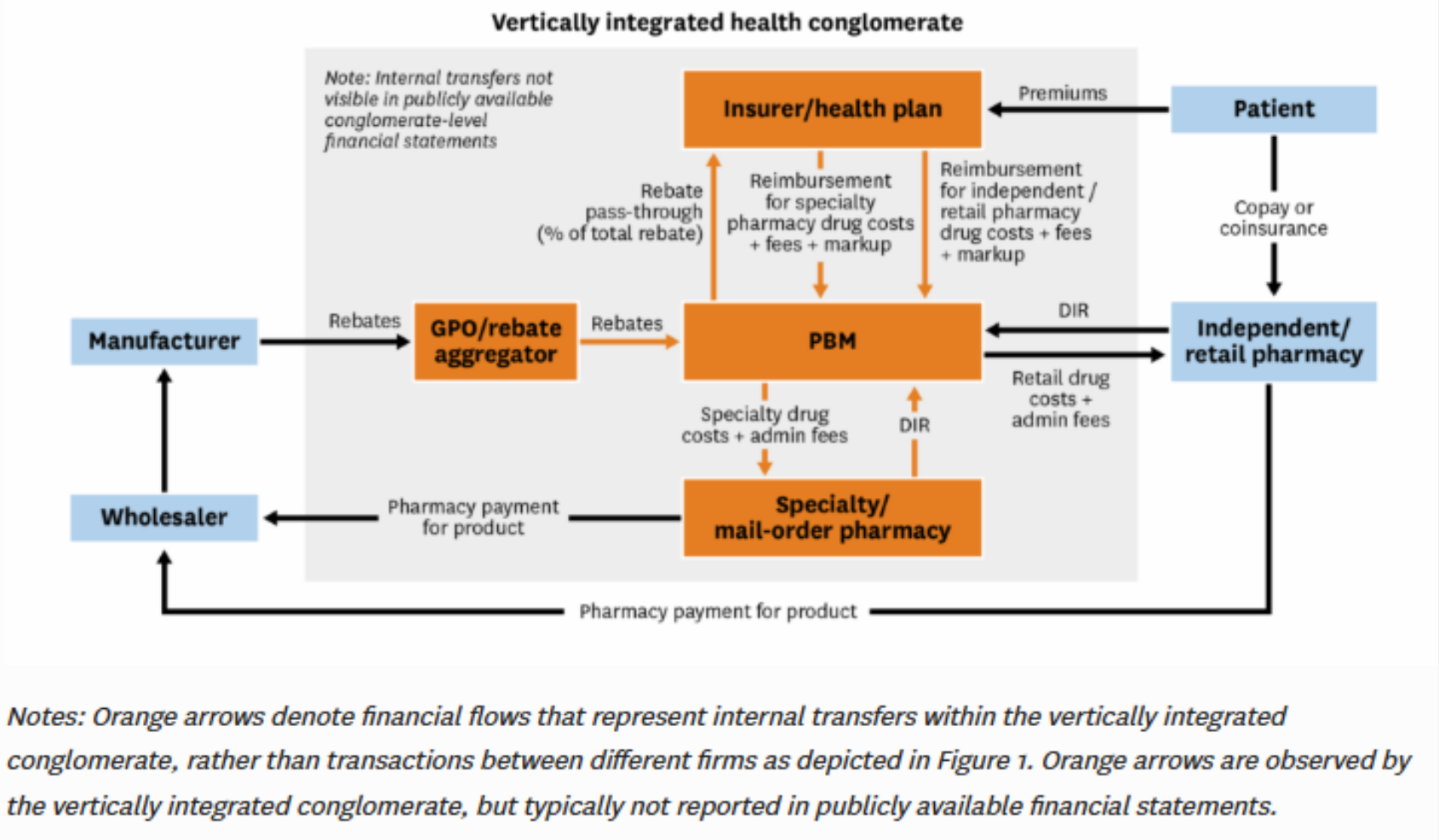
Claims and administration

- Adjudicates pharmacy claims at the point of sale
- Applies benefit design in real time
- Reports utilization and trend to the plan sponsor

The (convoluted) flow of $

Why the flow matters:

- Dollars change hands several times between manufacturer and patient, and value is retained at each step.
- Rebates and fees flow back upstream, so list price and net cost diverge and patient cost sharing can still be set off the higher number.
- Vertical integration keeps PBM, plan, specialty pharmacy, and GPO economics inside the same corporate family.



Notes: Orange arrows denote financial flows that represent internal transfers within the vertically integrated conglomerate, rather than transactions between different firms as depicted in Figure 1. Orange arrows are observed by the vertically integrated conglomerate, but typically not reported in publicly available financial statements.

Source: Hidden Profits? How Accounting Conventions and Vertical Consolidation Can Obscure PBM Profitability - January 22, 2026 - USC Schaeffer

Why PBMs are being called out for questionable business practices

Four structural criticisms drive today's regulatory, legislative, and litigation pressure



Rebate-driven formulary decisions

- High-list, high-rebate drugs can win preferred placement over lower net-cost alternatives
- Member cost sharing is often calculated off list price, so patients do not see the rebate



Opaque pricing and retained spread

- Spread pricing lets the PBM bill the plan more than it pays the pharmacy and keep the difference
- Fee income migrated into categories outside the contractual definition of a rebate



Vertical integration and self-dealing

- The largest PBMs sit inside the same company as the insurer, specialty pharmacy, and rebate aggregator
- Steering to affiliated pharmacies raises questions about independent pharmacy reimbursement



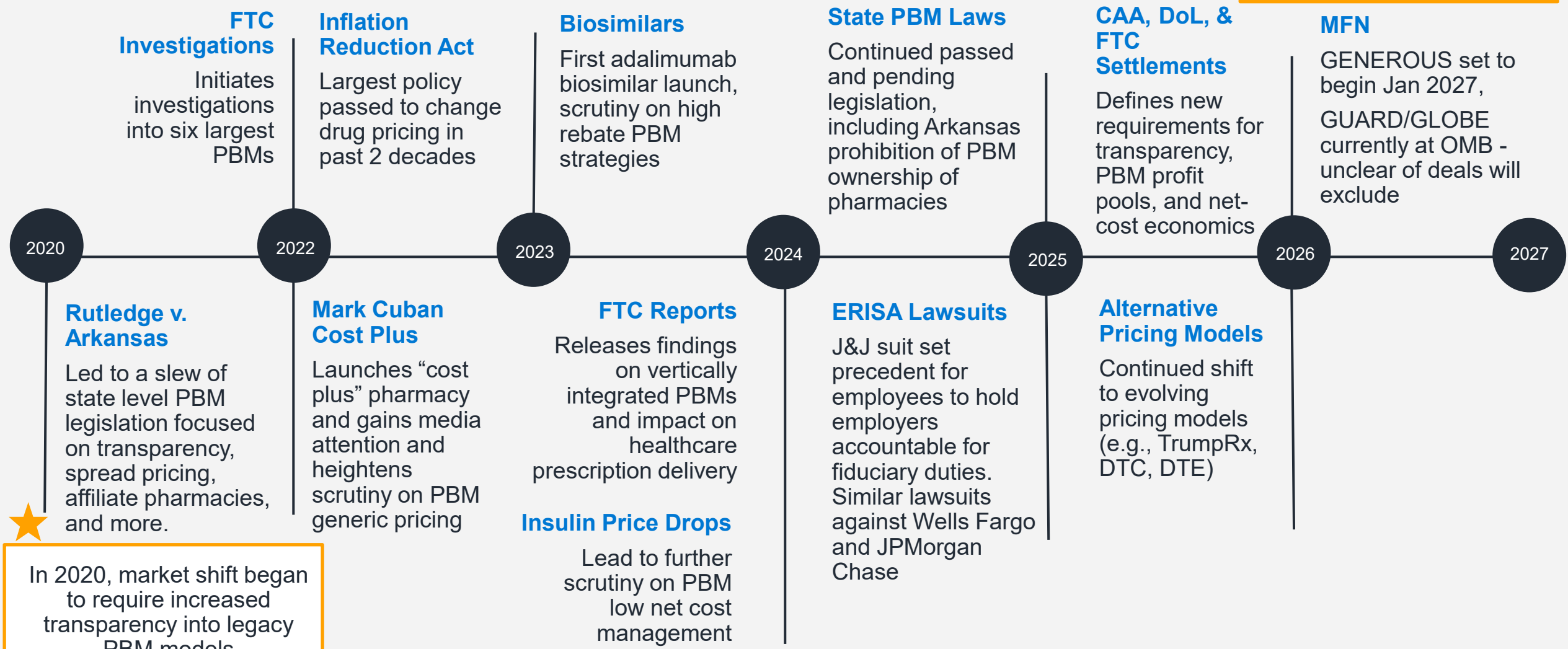
Plan sponsors left without visibility

- Limited audit rights and claim-level data made contracted economics hard to verify
- Employers still carry the fiduciary duty, which is now being tested in ERISA litigation

Shifting PBM Landscape

Shift in PBM Landscape | Why Now?

2026 is an inflection point, not an isolated settlement or market event



Rutledge v. Arkansas

Led to a slew of state level PBM legislation focused on transparency, spread pricing, affiliate pharmacies, and more.

In 2020, market shift began to require increased transparency into legacy PBM models

FTC Investigations

Initiates investigations into six largest PBMs

Mark Cuban Cost Plus

Launches “cost plus” pharmacy and gains media attention and heightens scrutiny on PBM generic pricing

Inflation Reduction Act

Largest policy passed to change drug pricing in past 2 decades

Biosimilars

First adalimumab biosimilar launch, scrutiny on high rebate PBM strategies

FTC Reports

Releases findings on vertically integrated PBMs and impact on healthcare prescription delivery

Insulin Price Drops

Lead to further scrutiny on PBM low net cost management

State PBM Laws

Continued passed and pending legislation, including Arkansas prohibition of PBM ownership of pharmacies

ERISA Lawsuits

J&J suit set precedent for employees to hold employers accountable for fiduciary duties. Similar lawsuits against Wells Fargo and JPMorgan Chase

CAA, DoL, & FTC Settlements

Defines new requirements for transparency, PBM profit pools, and net-cost economics

Alternative Pricing Models

Continued shift to evolving pricing models (e.g., TrumpRx, DTC, DTE)

MFN

GENEROUS set to begin Jan 2027,

GUARD/GLOBE currently at OMB - unclear of deals will exclude

PBM Profit Pools

Spread Margin

Gap between what plans pay and pharmacies receive

Rebate Retention

Retain portion of rebates and price protection instead of passing all the value through

Fees & GPO

Collect fees for administrative services, data, reporting, clinical services, GPO services, etc.

Specialty Pharmacy

Captures dispensing margin, program fees, discounts and channel control

Mail Pharmacy

Captures mail dispensing spread, acquisition-cost leverage, and invoice discounts

Distributor

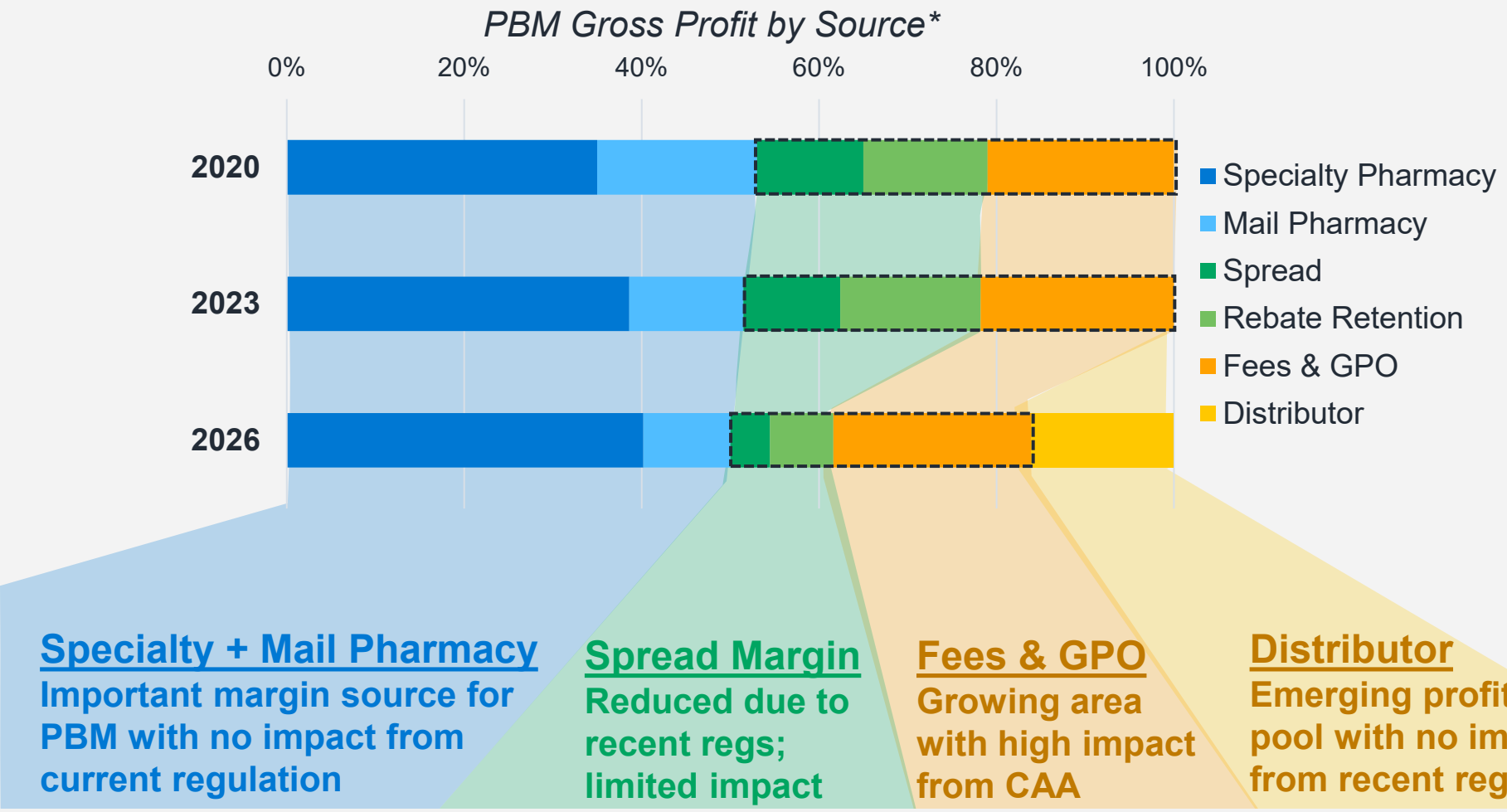
Earn margin through purchasing, acquisition cost and internal transfer economics

Margin has migrated into less transparent - affiliated channels

- Traditional **rebate retention and spread** have been becoming a smaller share of PBM gross profit, while growth has moved towards specialty dispensing and GPO fee streams
- Legacy pools like spread and retained rebates are easier to identify and regulate, while **growing pools are less visible** to plan sponsors
- **Rebate retention fell** from nearly 50% of profit in 2012 to 13% in 2023
- Specialty pharmacy increased from 16% of profit in 2012 to nearly 40% in 2023 and becoming the **largest source of profit for PBMs**

https://nephronresearch.com/trends-in-profitability-and-compensation-of-pbms-and-pbm-contracting-entities

Shifting PBM Profit Pools



Historically, rebates, spread, and fees drove PBM profits.

Specialty pharmacy purchasing discounts, owned-channel economics, clinical and admin fees will become the durable profit pools.

*2026 estimated based on publicly available information and Milliman commercial claims data set
https://nephronresearch.com/trends-in-profitability-and-compensation-of-pbms-and-pbm-contracting-entities

2026 Policy Activity Challenging PBM Economic Behaviors

Recent major regulations materially impact the traditional PBM model, profit pools, and how value is negotiated and transferred between stakeholders

PASSED

CAA of 2026

COM CARE

- Rebate Retention: 100% pass-through of all rebates and GPO fees (BFSFs excluded)
- Spread Pricing: Drug-level reporting on spread margin and net costs (among other variables)
- De-linking: Removes PBM compensation tied to list price in Part D

SETTLED

ESI / CVS FTC Settlement

COM

- De-linking: Removes manufacturer compensation to ESI tied to list prices
- POS rebates, limitations on rebate guarantees
- Cost plus reimbursement at independent retail pharmacies

*Optum is close to a settlement as of July 2026

FINALIZED

DoL Rule

COM

- PBM Compensation: Required to disclose detailed compensation (including all manufacturer compensation) to self-insured plan fiduciaries under ERISA
- Disclosures and Rationale: Includes rebates, spread pricing, formulary rationale, and pharmacy chargebacks
- Annual Audit Rights: On all details above

https://www.congress.gov/119/bills/hr7148/BILLS-119hr7148enr.pdf
https://www.ftc.gov/news-events/news/press-releases/2026/02/ftc-secures-landmark-settlement-express-scripts-lower-drug-costs-american-patients
https://public-inspection.federalregister.gov/2026-01907.pdf

Stakeholder Implications

Reform Basics | What Actually Changes



Discounts Move to the Counter

- Today a rebate reaches the plan months after the prescription is filled.
- Reform moves that value to the pharmacy counter.
- Someone must front the cash: PBM, plan, or manufacturer.



PBMs Get Paid Differently

- Rebate retention and spread pricing shrink as sources of PBM margin.
- Revenue shifts to admin fees and bona fide service fees.
- Those fees must be flat and at fair market value.



More Disclosure, Less Mystery

- CAA and DOL rules force disclosure of fees and affiliate payments.
- Employers must act on the data they receive.
- Rebate guarantee comparisons lose meaning once guarantees go away.

Three shifts: where discounts land, how PBMs are paid, and what gets disclosed

Downstream Impact | Patients, Plans, and Employers

The buying side sees lower prescription costs, less predictable budgets, and more accountability

Patients

- Out-of-pocket cost drops at the counter for rebated and high-cost specialty drugs.
- Better affordability means fewer abandoned prescriptions and more patients starting therapy.
- The trade-off: plans no longer collect rebate checks, so premiums or benefit designs may change.
- Copay cards and patient assistance programs get redesigned around the new, lower net price.

Health Plans and IDNs

- The next PBM contract looks very different: higher admin fees, few or no rebate guarantees.
- ASO strategy needs a rebuild once rebate retention and spread revenue leave the margin.
- Plans must invest in drug-level forecasting to replace the certainty guarantees used to provide.
- This applies to both fully insured and self-funded business.

Employers

- PBM oversight becomes an ongoing fiduciary duty, not a procurement event every few years.
- Rebate dollars used to offset budgets get smaller, arrive later, or change form entirely.
- Rebate guarantees may be replaced by net-cost, PMPM, or total-cost-of-care guarantees.
- Expect harder questions: why this formulary, what are the alternatives, and who is paid what.

Downstream Impact | Manufacturers and Pharmacies

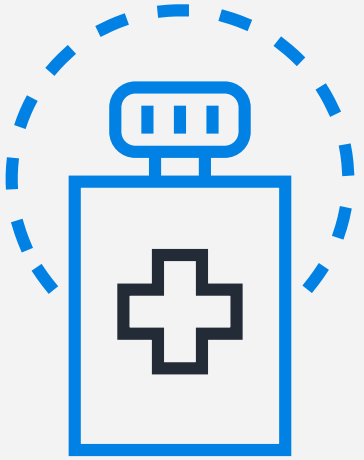
The supply side must prove value differently and watch closely where margin migrates

Manufacturers

- The pitch shifts from rebate size to defensible net cost
- Bring evidence: adherence, outcomes, and medical offset
- Model performance under net-cost and PMPM guarantees
- Document fair market value for every PBM service fee
- Track IRA, 340B, biosimilar, and state PBM exposure

Pharmacies

- PBM-owned mail, specialty, and private-label units are not regulated
- Owners will move margin into affiliated businesses
- Independents push for cost-plus and minimum dispensing fees
- Anti-steering rules may widen access but raise payer cost
- Affiliate compensation must be disclosed



Everyone is renegotiating who captures value once rebates stop being the currency

Watchlist for 2026 - 2028



ORX AND CVS

Understand differences in FTC settlements for ESI, Orx, and CVS and when those requirements will be implemented.

NEW CHANGES

Adoption rate of new PBM models (e.g., ESI standard offering) across large employers and health plans.

STATE LEVEL

State-level restrictions on spread pricing, affiliate steering, mandatory mail, specialty networks, and rebate retention.

CONTRACTING

Manufacturer contracting asks by class: whether requests differ for high-rebate brands, specialty products, biosimilars, low-WAC products, and 340B-sensitive drugs.

ERISA LAWSUITS

Employer litigation and fiduciary case law that changes sponsor appetite for legacy rebate-driven arrangements.

Questions?