President Signs Significant PBM Reform into Law with CAA 2026

February 11, 2026

Action Required:

- Employers should review current PBM and PBM Consulting Agreements.
- Employers and plan sponsors should also review their Plan's process for plan vendor compensation assessment.
- Large, self-insured employers should submit comments on the Proposed Rule to clarify potential compliance gaps.

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On February 3, 2026, President Trump signed into law the Consolidated Appropriations Act, 2026 ("CAA 26"), which will implement significant reforms to PBM compensation structures, as well as broad and sweeping transparency requirements for PBMs and other plan service providers. CAA 26 is effective for plan years beginning on or after 30 months from Feb. 3, 2026, which is August 3, 2028 (or January 1, 2029 for calendar year plans).

Additionally, just days earlier, on January 29, 2026, the U.S. Department of Labor (DOL) issued a proposed regulation ("Proposed Rule") aimed at requiring greater price transparency in group health plan contracts with PBMs and other plan vendors providing "pharmacy benefit management services," including PBM consultants and affiliated brokers and consultants. If the Proposed Rule is finalized as written, it would significantly expand ERISA fee disclosure requirements for these plan service providers. The Proposed Rule, if finalized, would apply to plan years beginning on or after July 1, 2026.

What Should Employers and Plan Sponsors Do Next?

Although no immediate actions are required and many provisions of the new law remain dependent on future rulemaking, preparatory steps can be taken at this time. Existing PBM and PBM consulting agreements should be reviewed to ensure alignment with anticipated requirements as significant restructuring may be required. In addition, plan sponsors should confirm that fiduciary processes for reviewing and assessing plan vendor compensation are established, documented, and aligned with plan documents and related policies.■

↓ Full Explanation Follows ↓

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Background on CAA 26 and the Proposed Rule

For years, and from both sides of the aisle, plan transparency and cost reduction advocates have been urging Congress to implement expanded PBM reforms, particularly in the areas of PBM compensation structures and fee disclosure. While many states have adopted PBM reform legislation in recent years, at the federal level, these new rules represent the largest reforms in this area to date.

How do CAA 26 and the Proposed Rule Change the Law?

CAA 26 changes the law by reforming existing transparency and compensation rules for PBMs and other plan service providers, including PBM consultants, third party administrators (TPAs) and affiliated brokers and consultants. The new rules in CAA 26 also change the rights of plan sponsors, allowing them to access and audit this important economic data.

Under the Proposed Rule, plan service providers must make compensation disclosures, including an initial disclosure that is made reasonably in advance of the date on which the service contract or arrangement is entered, extended or renewed. The initial disclosure must identify the compensation the service provider reasonably expects to receive under the agreement. Service providers must also make a semi-annual disclosure that provides information regarding the actual compensation received under the contract or arrangement, including an explanation where the actual compensation materially exceeds the applicable compensation estimate.

As a result, CAA 26 and the Proposed Rule's new requirements are likely to significantly alter the economic relationship between plan sponsors and their service providers and give sponsors more leverage in negotiating these contracts.

CAA 2026 – Key Provisions:

What follows is a brief overview of CAA 26's key provisions pertaining to group health plans[1]:

A. 100% Pass-Through of Rebates:

CAA 26 amends ERISA to require PBMs and other entities providing pharmacy benefit management services to pass through 100% of all rebates, fees, alternative discounts, price concessions and other remuneration received from drug manufacturers, group purchasing organizations (GPOs) and rebate aggregators in connection with the plan's drug utilization or drug spending (collectively, "Rebates") to the group health plan for self-insured plans (or to the insurer for fully insured plans). However, PBMs will still retain the ability to charge fees for bona fide services using any fee structure not specified in the new law, and nothing in the new law requires PBMs to pass Rebates on to plan participants at the point of sale (i.e., the Rebates would be passed to the plan sponsor or employer sponsoring the plan). It should be noted that CAA 26 does not define "pharmacy benefit management services" or "remuneration," and these will likely be defined in future rulemaking[2].

Enforcement: Non-compliance renders the service contract not "reasonable" under ERISA § 408(b)(2), triggering prohibited transaction excise taxes and potential fiduciary breach claims.

Rebate Remittance: CAA 26 requires PBMs to remit Rebates to their plan clients on a quarterly basis, no later than 90 days after the end of each quarter. In addition, the new law requires PBMs to structure their agreements with upstream entities (e.g., GPO and rebate aggregator contracts) to require them to pass through 100% of Rebates to the PBM within 45 days of each quarter, enabling the PBM to meet its 90-day remittance obligations.

Disclosure of Rebates to Plans: CAA 26 requires PBMs to fully disclose all Rebates to their plan clients.

Audits: At least once per plan year, PBMs are required to make Rebate records, including Rebate contracts, available to their plan clients for audit. The Secretary of Labor is tasked with establishing reasonable confidentiality requirements for audited Rebate contracts. The new law also sets new boundaries to avoid conflicts of interest, including a requirement for the plan fiduciary to select

1. It should be noted that this summary does not address CAA 26's new rules governing PBMs' services for Medicare Part D plans.
2. CAA 26 directs the Secretary of Labor to issue regulations governing the procedures for Rebate remittance, audits and disclosures.

the auditor, and a rule prohibiting the PBM from paying for the auditor, whether directly or indirectly. Consistent with this requirement, plans cannot use PBM credits or allowances to pay for a Rebate audit.

Effective Elimination of Spread Pricing? It should be noted that this "rebate pass-through" provision does not expressly prohibit "spread pricing"[3] arrangements. However, future rulemaking could change this, as CAA 26 gives broad regulatory authority to the Department of Labor (DOL) to define key terms in the new rule. In addition, other reporting/transparency provisions in the new law will require PBMs to disclose their fees in relation to their acquisition costs, effectively giving plan sponsors enhanced visibility into PBM compensation which could, in turn, give such sponsors greater ability to negotiate to prohibit retention of any such "spread."

B. Expanded PBM Reporting to Plans

PBMs must furnish group health plans (and insurers) with semi-annual reports (quarterly upon request) detailing gross and net drug spending, Rebates received and passed through, administrative fees, spread pricing arrangements with network pharmacies (if any), formulary placement rationale, and steering to affiliated pharmacies. PBMs must also provide plans with summary documents suitable for participant disclosure. Large, self-insured plans will receive more granular claims-level data. We expect more detailed information to come out soon in future rulemaking, as the Secretaries of Health and Human Services (HHS), Labor, and Treasury are tasked with establishing a standard reporting format in forthcoming regulations.

C. Expanded Compensation Disclosure/Transparency Requirements

Consistent with the requirements of the Proposed Rule (discussed below), CAA 26 expands the definition of "covered service provider" under ERISA § 408(b)(2), as amended by the Consolidated Appropriations Act of 2021 ("CAA 21") to capture additional entities, i.e., in addition to PBMs. PBM consultants and other affiliated service providers receiving indirect PBM compensation must disclose it clearly before contract execution, extension or renewal consistent with the CAA 21 requirements.

Proposed Rule – Key Provisions:

What follows is a brief overview of the key provisions of the Proposed Rule:

- **Expanded Definition of Covered Service Provider:** The Proposed Rule expands prior fee disclosure rules issued under Section 408 (b)(2) of ERISA, as amended by CAA, 2021, to expressly include (as "covered service providers" subject to its fee disclosure/ transparency requirements) PBMs, as well as any entity that provides advice, recommendations or referrals regarding PBM services under an arrangement with an ERISA-covered self-insured group health plan (e.g., PBM consultants, TPAs and affiliated brokers and consultants).
- **Detailed Compensation Disclosure Requirements:** Before entering, extending or renewing a contract, the covered service provider must disclose all direct and indirect compensation expected to be received in connection with the services for such plan, including:
    - Rebates, fees, discounts or other remuneration from drug manufacturers.
    - Spread pricing revenue.
    - Payments recouped from pharmacies in connection with prescription drugs dispensed to the plan.
    - Any compensation paid by the PBM to any affiliated consultant or broker (e.g., rebate-sharing arrangements).
- **Audit Rights:** The Proposed Rule gives plan fiduciaries express authority to audit the accuracy of these fee disclosures.
- **Enforcement Mechanism:** If disclosures are inadequate, the contract would fail to satisfy the ERISA § 408(b)(2) "reasonable compensation" exemption, triggering prohibited transaction liability exposure. Plan fiduciaries would be required to take corrective action and potentially report non-compliance to the DOL.
- **Applicability and Timing:** Notably, the Proposed Rule would apply only to self-insured ERISA group health plans (not to fully insured, governmental or church plans). If finalized as proposed, it would apply to plan years beginning on or after July 1, 2026 (significantly earlier than the CAA 2026's effective date).

When do CAA 26 and the Proposed Rule Go into Effect?

CAA 2026 is effective for plan years beginning on or after 30 months from Feb. 3, 2026, which is August 3, 2028 (or January 1, 2029 for calendar year plans). The Proposed Rule's comment period will be over on March 31, 2026, and if finalized as proposed, it would apply to plan years beginning on or after July 1, 2026 .

What are the Penalties for Non-compliance with CAA 26 and the Proposed Rule?

While CAA 26's statutory penalties only apply to PBMs, a plan fiduciary that fails to monitor the compensation being paid to PBMs, or the reporting that PBMs will be providing to the plans, could face civil lawsuits under ERISA for failing to prudently manage plan vendors. Additionally, the Secretary of Labor could assess civil penalties against plan fiduciaries for mismanagement of the plan.

3. Generally defined as the "spread" or the difference between amounts PBMs have charged to the plan and amounts paid to pharmacies.

What should Employers and Plan Sponsors do to Prepare for these Changes?

While there are no specific action items that employers and plan sponsors need to complete right now, and while many of the new law's provisions depend on future rulemaking, there are several steps that can be taken to prepare for these changes, including:

- **Review Current PBM and PBM Consulting Agreements:** Ensure that your group health plan service agreements with PBMs and PBM consultants properly take into account the new rules explained above. Many PBM and PBM-related agreements will require substantial restructuring, especially surrounding definitions of compensation, reporting and audit rights.
- **Review your Plan's Process:** Ensure that your organization's plan fiduciaries or fiduciary committee have a process in place for reviewing and assessing plan vendor compensation that is consistent and compliant with these new rules, and that such processes are memorialized and consistent with your organization's plan document and other relevant policies.
- **Submit Comments on the Proposed Rule:** As noted above, CAA 26 constitutes the most comprehensive federal effort to regulate the PBM industry to date. To the extent that your organization sponsors a large, self-insured plan, it would make sense to make comments on the Proposed Rule to gain valuable clarification and/or potentially avoid compliance gaps or areas of ambiguity.

Finally, and perhaps most importantly, given that there are still several undefined terms and processes in CAA 26 and given that the Proposed Rule has yet to be finalized, it's important to stay tuned to future rulemaking and guidance developments in this area. CSG's Compliance and Account Management Teams are here to assist. ■

If you have any additional questions, please call your Corporate Synergies Account Manager or 866.CSG.1719.