

Employee Benefit ■ Plan Review

Smarter Rebate Management: A Modern Governance Strategy for Health Plan Fiduciaries

BY LORI DAUGHERTY

Pharmacy benefit costs have entered a new era of scrutiny. They have become a critical area of risk, accountability and governance for health plan fiduciaries. Hidden fees, opaque rebate structures and escalating drug prices are more than financial burdens, they create serious governance challenges with direct fiduciary implications.

In this environment, fiduciaries of employer-sponsored and government health plans must control costs and show clear, responsible oversight of plan assets. As prescription costs continue to climb and regulators increase oversight, fiduciaries must rethink how pharmacy benefits are managed, not just to control expenses but to fulfill their core duty of financial stewardship.

To meet these demands, fiduciaries must reimagine rebate management not as a technical or administrative function but as a core governance responsibility. Smarter, transparent rebate management offers more than financial benefits, it provides a foundation for audit-readiness, regulatory alignment and trust with plan participants.

LEGACY PBM MODELS: A BREACH OF FINANCIAL INTEGRITY

For years, the dominant PBM pricing models have created significant information asymmetry between those managing benefits and those who use or fund them. Rebate opacity and

multi-layered contracts can obscure the true cost of medications and hide how dollars flow through the supply chain.

Rebate-driven formularies often reward PBMs for prioritizing high-cost drugs that offer large manufacturer rebates, rather than more clinically or economically appropriate options. This points to the importance of clarity and control of rebates in benefit management. Plan sponsors need a platform that offers real-time, claim-level information and end-to-end visibility into the rebate lifecycle. Empowered with this information, health plans can reduce net drug costs, improve formulary strategy and ensure that rebate dollars reach their intended destination.

RECOMMENDED COMPONENTS OF A REBATE PLATFORM

- *Pass-Through Rebate Data:* Includes any data including submissions, receipt, rejection, payment etc. – tracked, stamped and logged to reduce administrative workloads and ensure the entire rebate journey from submission to payment is as transparent as possible.
- *Multi-Vendor Integration:* Opportunities to leverage partnerships with leading rebate vendors while remaining vendor-agnostic and aligning each plan with the solution that best fits its needs.

- **Comprehensive Audit-Ready Reporting:** Enables plan sponsors to meet fiduciary responsibilities by verifying that the claims adjudicate accurately, according to the plan's summary plan description and contractual agreements.
- **Flexible Financial Models:** Includes smart financial solutions with each approach designed to evolve with health plan needs and align with their financial strategy and risk tolerance.

REFRAMING REBATE MANAGEMENT: FROM ADMINISTRATIVE TASK TO FIDUCIARY PRIORITY

Modern pharmacy benefit governance requires new tools and standards. Transparent rebate management, when implemented with the right technology and policy guardrails, allows fiduciaries to exercise meaningful oversight and maintain financial accountability.

REAL-TIME ADJUDICATION AND PRICING

Locking in the drug cost at the point of sale gives fiduciaries contemporaneous, verifiable financial data. This eliminates retroactive adjustments, spread markups and pricing surprises that cloud financial records.

DYNAMIC MARKET PRICING ACCESS

By integrating multiple pharmacy networks and manufacturer-direct pricing agreements, plan sponsors can move toward a value-based purchasing approach that prioritizes the best available price, not just the best rebate. Smarter platforms should also support vendor-agnostic rebate models, allowing plan sponsors to align with multiple partners and avoid being locked into restrictive or proprietary networks.

AUDIT-GRADE DATA TRANSPARENCY

Claims and rebate flows must be fully traceable from point of adjudication through rebate reconciliation.

This level of documentation supports plan audits and also reflects a core aspect of fiduciary prudence by ensuring there is a clear understanding of what is being paid for and the reasons behind it.

To meet evolving oversight standards, rebate platforms should also provide audit-ready documentation that verifies each claim aligns with the plan's summary plan description (SPD) and contractual obligations.

Technology-enabled benefit platforms can analyze drug utilization trends and suggest lower-cost therapeutic alternatives.

In addition, leading rebate systems often include modular, interoperable tools that integrate benefit design, financial reconciliation and real-time analytics into a cohesive workflow. This infrastructure supports faster, smarter decision-making across pharmacy benefit operations.

REDEFINING PHARMACY BENEFIT SUCCESS: LOWERING NET DRUG SPEND WITH SMART TOOLS

Achieving cost savings is no longer about chasing the largest rebate, it is about net value, data intelligence and control.

Formulary Optimization Powered by AI

Technology-enabled benefit platforms can analyze drug utilization trends and suggest lower-cost therapeutic alternatives. This neutralizes the bias introduced by rebate-incentivized formularies and ensures plan design aligns with both clinical and financial best practices.

Strategic Specialty Drug Management

Specialty medications account for nearly 50% of total drug spend. As

the FTC has noted, vertical integration in PBMs can make it difficult for plan sponsors to monitor specialty drug pricing. Targeted management, including site-of-care optimization, value-based contracting and utilization controls, is critical.

Competitive Network Design

Restrictive networks that benefit PBM-owned pharmacies often eliminate competition and inflate costs. By supporting fair reimbursement and including independent pharmacies, sponsors can preserve pricing competition and ensure participant access.

EVIDENCE FROM REFORM STATES

Several states offer compelling, real-world evidence of how transparency in pharmacy benefit management can drive meaningful change. In Pennsylvania, for example, PBM-related costs more than doubled, from \$1.41 billion to \$2.86 billion over a four-year period, largely due to a lack of visibility into pricing and contract terms.

In contrast, West Virginia took a more transparent approach by carving pharmacy benefits out of managed care and transitioning to state-managed contracts. As a result, the state achieved \$54.4 million in annual savings. These are not abstract policy ideas. They are concrete examples of how greater transparency and smarter contracting can produce measurable financial outcomes.

Modern financial models can also support these efforts by offering pass-through rebate structures, minimum guarantees or underwriting tools that align with a sponsor's financial risk profile and budgeting needs.

RESTORING CONFIDENCE IN PLAN MANAGEMENT THROUGH TRANSPARENT PRACTICES

For fiduciaries, the effects of rebate opacity extend well beyond financial reporting. They directly shape how participants view the value and fairness of their benefits.

When plan members lack clear insight into drug pricing or begin to question whether their health plan truly serves their best interests, there is a breakdown in trust.

Rebuilding that trust requires empowering participants with greater transparency. Tools that allow members to compare real-time drug prices across pharmacies improve both financial understanding and decision-making. When individuals can clearly see pricing differences, they are more likely to make informed choices and feel confident that their plan supports those choices.

Transparency must also apply to vendor relationships. Removing gag clauses and eliminating hidden administrative fees gives fiduciaries full visibility into how contracts are structured and how rebate dollars flow. This visibility restores the ability to negotiate effectively and helps ensure that vendor incentives align with the financial and clinical goals of the plan.

Systems that provide claim-level tracking across the entire rebate process, from submission through

payment, offer additional assurance that rebate dollars are accurately recorded and applied.

Regulatory attention to PBM practices continues to increase. The interim report from the Federal Trade Commission, along with delayed federal legislation and expanding state-level audits, all point to an environment of growing oversight. Plans that adopt transparent practices now will be better prepared to respond to future requirements and can reduce their exposure to audit risk.

Transparent rebate management is not only a financial strategy. It is a signal to plan members that their benefit program is being managed with integrity and with their well-being in mind. When participants believe that their plan is designed to support access, affordability and accountability, trust can be reestablished and sustained.

LEADING THE NEXT ERA OF PHARMACY BENEFIT GOVERNANCE

The pharmacy benefit landscape is evolving and with it, the expectations

for exemplary fiduciary performance. No longer can plan sponsors treat rebate management as a back-office function handled by third parties.

The financial and legal risks are too high and the opportunity for smarter oversight too great.

Transparent rebate management is more than a procurement choice. It is a strategic governance move, one that aligns with fiduciary principles, protects plan assets and builds trust with participants.

By adopting real-time, audit-ready, participant-focused tools, fiduciaries can lead the shift toward pharmacy benefit models that are not only compliant but competitive. In doing so, they set a new standard for integrity, accountability and value in health-care management. 🌐

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