Rebates and Retrospective Discounts in Pharmacy Benefit Management

THE RISK TO EMPLOYERS/PURCHASERS—AND WHAT TO DO ABOUT IT



ACTION STEPS FOR EMPLOYERS/ PURCHASERS

1. Move pricing upstream where possible.
2. Shorten the reconciliation window.
3. Strengthen audit rights.
4. Tighten contract definitions.
5. Focus on net outcomes.
6. Analyze group purchasing organizations (GPOs) and rebate aggregator arrangements.

SEE MORE DETAILS ABOUT THESE ACTION STEPS **ON PAGE 3.**

Most PBM contracts rely on rebates and other retrospective pricing mechanisms — including discounts, guarantees, and reconciliation processes that determine the final net cost of drugs — only after claims have already been processed.

These tools are often framed as cost-saving features, but for employers and plan sponsors, they also create a less visible problem: They shift financial risk away from the intermediary and onto the purchaser.

Plan sponsors often pay a higher price upfront, while the true net price is sorted out later through rebates, exclusions, reconciliations, and other calculations they do not fully control. What may look like savings on paper is often delayed and of conditional value. This matters for employers working to effectively manage benefits because it makes pharmacy spending less predictable and less transparent.

Employers/purchasers are unlikely to view something as a cost-control measure when the final price is determined months after the purchase through opaque calculations controlled by a conflicted third party. When net drug costs depend on rebates, exclusions, and reconciliations controlled by others (who directly benefit from the decisions being made), costs become less certain, accountability is weaker, and expected savings may not be fully realized.

This summary highlights why this matters for employers/purchasers and outlines practical steps they can take to reduce exposure.

THIS IS A HIGH-LEVEL SUMMARY OF A COMPREHENSIVE WHITE PAPER WRITTEN BY BEN LINK, MATT WINE, AND ANTONIO CIACCIA OF 3 AXIS ADVISORS ON BEHALF OF THE NATIONAL ALLIANCE. The full report examines the systemic financial risk embedded in retrospective pricing and rebate guarantees that dominate PBM contracts across commercial, Medicare, and Medicaid markets.

National Alliance of Healthcare Purchaser Coalitions
Driving Health, Equity and Value

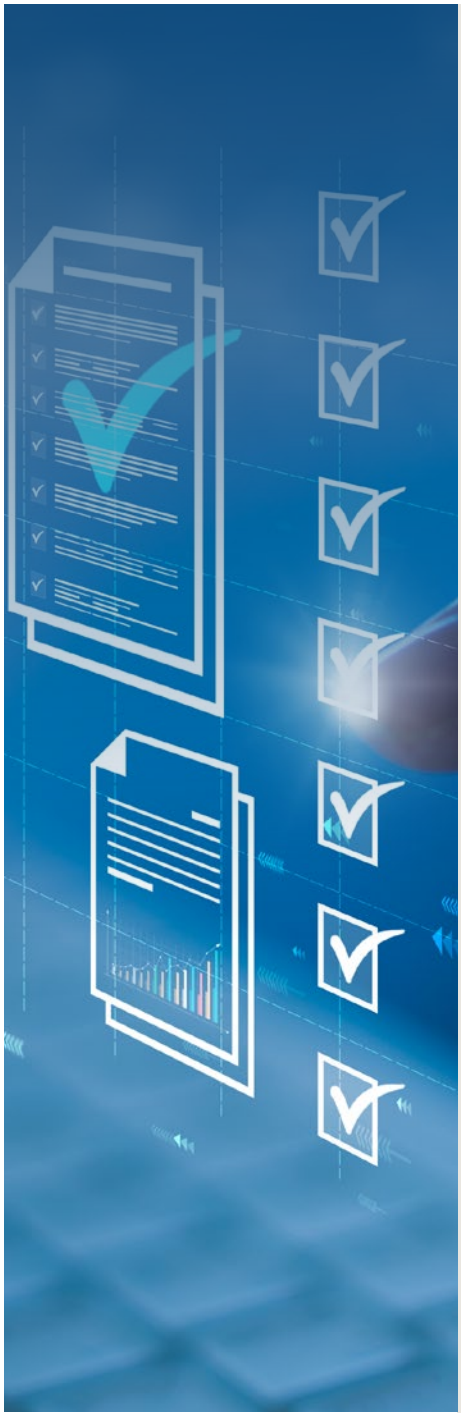
HOW RETROSPECTIVE DISCOUNTS INCREASE RISK AND COSTS

Retrospective pricing arrangements can create risk in several ways because they do not make the true cost of a prescription clear at the time of purchase.

Instead, they delay part of the value; rely on benchmarks and exclusions that can shift over time; and leave plan sponsors dependent on definitions, calculations, and reconciliation processes that are largely controlled by others.

The table below highlights five common ways this structure can create added uncertainty and financial exposure for employers/purchasers.

RISK AREA	WHAT IT MEANS	EXAMPLE	WHY IT MATTERS	WHAT TO ASK YOUR PBM
TIMING RISK 	Plan sponsors pay upfront, while some value comes back later through rebates or other retrospective adjustments.	A plan pays the full price at the pharmacy counter, then waits months for rebate dollars to be reconciled and paid back.	Employers are effectively financing the system upfront, creating cash flow strain and budget uncertainty.	Can we implement point-of-sale rebates or move to a pass-through pricing model to realize value at the time of purchase?
COST VOLATILITY 	Small changes in pricing benchmarks can create much larger swings in actual plan costs.	A 1% change in average wholesale price (AWP) can translate into a 2%–3% change in total plan costs, with even greater effects for generics.	What looks like a minor pricing variance can become a meaningful financial swing for the employer.	How can we shift away from AWP/WAC-based methods toward acquisition-based benchmarks (like NADAC or AAC) to reduce reliance on inflated list prices?
CONDITIONAL VALUE 	Rebates are often treated as guaranteed savings, but they depend on eligibility, utilization, and contract terms.	A claim may be excluded from rebate eligibility because of 340B status or other contractual exclusions.	Expected savings may never fully materialize, leaving the plan sponsor with higher net costs than anticipated.	Will you provide full disclosure of all retained fees and clarify how exclusions like 340B status will impact our realized savings?
DATA GAP 	PBMs often control the definitions, classifications, reporting, and reconciliation process.	Terms such as “brand,” “specialty,” or “rebate-eligible” can determine whether value is passed through.	When one party controls the data and the rules, the purchaser has limited ability to verify performance.	Do our audit rights extend to your affiliated entities, rebate aggregators, and GPOs, and will you provide claims-level data for verification?
HIDDEN COST OF UNCERTAINTY 	The cost of uncertainty may already be built into the pricing structure.	A PBM presents an arrangement as offering predictability, but that “protection” is priced to favor the PBM, not the plan.	Risk is not removed from the system; it is monetized, and the employer pays for it.	Can we shorten the reconciliation window, and are you willing to pay penalties and interest for delayed rebate payments?



ACTION STEPS: What Employers/Purchasers Can Do Now

While broader structural reform is still needed, employers/purchasers do not have to wait for the market to change on its own. Below are practical steps that will reduce exposure and improve accountability.

1. **Move pricing upstream where possible:** Make prices clear at purchase through point-of-sale rebates, pass-through pricing, or acquisition-based benchmarks. The more value built in upfront, the less risk of delays, distortions, and reconciliation later.
2. **Shorten the reconciliation window:** Do not let value languish for months. More frequent rebate payments, tighter timelines, and penalties or interest for delays can help reduce cash flow strain and limit how much money is "floating" in the system.
3. **Strengthen audit rights:** Make sure audit rights go beyond the PBM itself and include affiliated entities, rebate aggregators, and GPOs. Employers must be able to review claims-level data and follow the flow of funds to verify that promised value is being passed through.
4. **Tighten contract definitions:** Spell out key terms clearly, including what counts as brand, generic, specialty, and rebate-eligible, as well as how exclusions like 340B will be handled. The less ambiguity there is in the contract, the less room there is for later reclassification that weakens guarantees and inflates costs.
5. **Focus on net outcomes:** Instead of putting too much weight on individual pricing components, focus on what the plan pays. Measures like net cost per prescription or per-member-per-month cost can give a clearer picture of whether the arrangement is delivering value.
6. **Analyze GPO and rebate aggregator arrangements:** GPOs were created by PBMs to hide rebates and avoid regulatory scrutiny. Ask direct questions about retained fees and require full disclosure of where dollars are going. If there is a pass-through promise, it should hold up in practice, not just sound good in the contract.

WHAT LEGISLATIVE CHANGES COULD MEAN FOR THE NEXT CONTRACT RENEWAL

Congress enacted the Consolidated Appropriations Act of 2026 in February 2026. The new law mandates full pass through of manufacturer rebates and significantly stronger transparency requirements for PBMs. The Department of Labor has simultaneously mandated strong new PBM fee disclosures to plan sponsors.

These policies do not, however, change the underlying role of rebates in the drug channel and PBM pricing models. Retrospective rebates, opaque pricing benchmarks, and delayed reconciliation processes create uncertainty that purchasers can work to manage, but cannot fully eliminate on their own, which is why meaningful policy change is needed.



An audit by the U.S. Office of Personnel Management Office of Inspector General (OPM-OIG) of the American Postal Workers Union Health Plan's Pharmacy Operation in 2024 reported that its PBM failed to provide pass-through transparent pricing, resulting in over $14 million in overcharges due to unpassed retail discounts and purchasing concessions."

It's time to move away from a system where the real price is sorted out months after purchase and toward one where pricing is clearer at the time of purchase.

Applying rebates at the pharmacy counter will reduce timing risk and make the true price immediately visible. Additionally, shifting away from AWP- or wholesale acquisition cost (WAC)-based methods and toward acquisition-based benchmarks such as national average drug acquisition cost (NADAC) or actual acquisition cost (AAC) will reduce reliance on inflated list-price constructs and lessen some of the volatility that retrospective discounting creates.

Banning spread pricing only in public programs does not solve the broader problem if the same incentives still exist in the commercial market. Purchasers need a reconciliation process that is more consistent and timelier so they can verify whether contractual value was delivered.

BOTTOM LINE

Retrospective discounts do not eliminate cost, but they do turn a known price into a less certain outcome. For employers and other plan sponsors, that means pharmacy spending can look more controlled on paper than it is, while a meaningful share of the value remains delayed, conditional, and difficult to verify.

Employers can reduce some of that exposure through stronger contracts, better audit rights, clearer definitions, and more attention to net cost. The time to address this is at the contract table before the next renewal cycle begins. Plan sponsors who act now are better positioned to demand transparency, reduce float, and hold intermediaries accountable to the value they promise.

VIEW NATIONAL ALLIANCE MEDICAL AND PHARMACY DRUG RESOURCES

- 340B Program
- Biosimilars Toolkit
- PBM Misalignment
- Medical and Pharmacy Drug Management

ACKNOWLEDGEMENT

The National Alliance gratefully acknowledges support from 3 Axis Advisors for researching and writing, "A Model of Financial Risk to Payers from Retrospective Price Concessions."

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MAY 2026