

Estimating the Potential Federal Budgetary Impact of PBM Reform in the Commercial Insurance Market

Pharmacy Benefit Managers (PBMs) act as intermediaries in the pharmaceutical supply chain, facilitating negotiations between drug manufacturers, insurers, pharmacies, and pharmacy services administrative organizations (PSAOs), while managing formularies and administering prescription drug benefits for more than 289 million Americans on behalf of health plans, employers, and unions.ⁱ They are compensated primarily through administrative fees from these stakeholders.

Given their central role in negotiating drug costs and reimbursement structures, PBMs have been at the center of debates over U.S. drug prices. While the Inflation Reduction Act (IRA) reshaped the Medicare Part D benefit and the new Medicare drug price negotiation program—Congress has since introduced additional legislation aimed at regulating PBM practices and increasing transparency in both Medicare and commercial markets.

One notable PBM reform proposal is H.R. 2214, the DRUG Act, which targets PBM practices in group and individual (commercial) health coverage through two key provisions:ⁱⁱ

- Limiting PBM compensation to flat service fees rather than percentage-based fees
- Requiring PBMs to pass through 100% of negotiated rebates and discounts to health plans

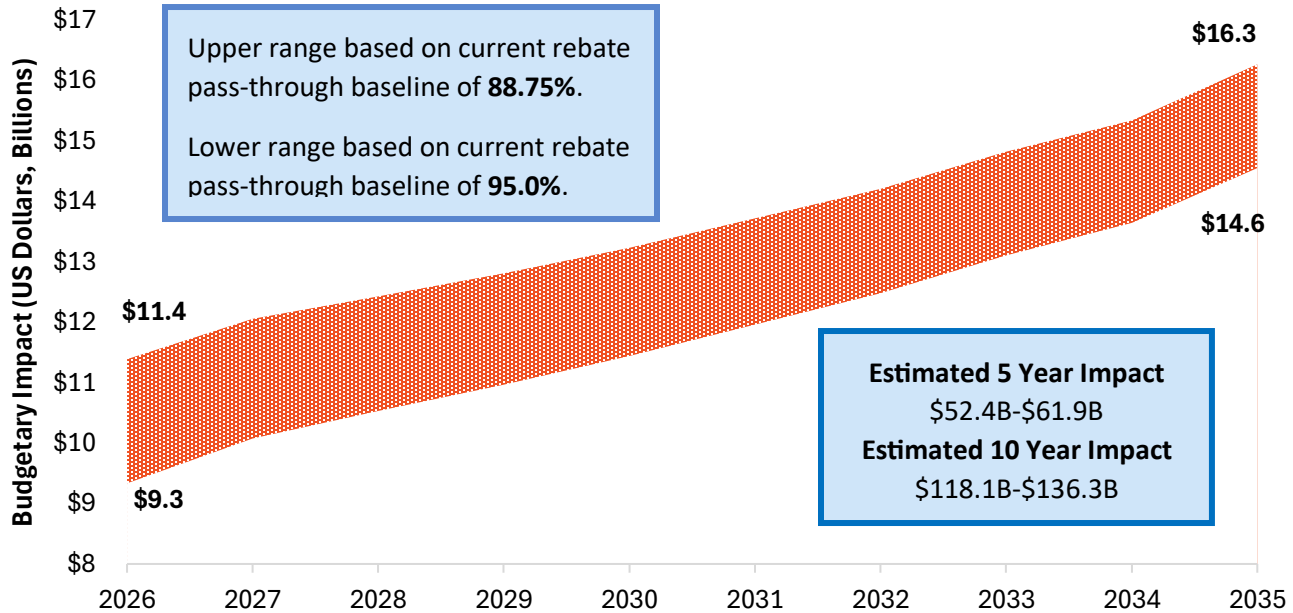
PBM stakeholders argue that these changes would eliminate revenue streams that cannot be replaced through other mechanisms, potentially leading to increased commercial premiums and reduced federal tax revenues.

Magnolia Market Access was engaged by a healthcare company to evaluate the proposed legislation and its potential effect on federal spending. Our analysis relied on claims data on drug utilization and expenditures as well as CBO and public reporting on rebates, supplemented with client- and actuary-provided data. In accordance with our regular practice, the client also asked us to incorporate broader market dynamics beyond the legislation to reflect the rapidly evolving environment and the PBM perspective—specifically, how shifts in rebate structures, spillover effects from the Inflation Reduction Act into the commercial market, and other drug pricing pressures may reduce rebates and reshape the value PBMs deliver to plan sponsors, employers, unions and patients.

Based on these dynamic assumptions, eliminating performance-based discounts and mandating a 100% pass-through without alternatives to recoup lost revenue could result in increased costs and higher premiums for employers, plan sponsors, and employees. Since those premiums are tax-deductible, higher costs would reduce federal taxable income. Taking all these assumptions and factors into account, the estimated impact on Federal spending could range from \$118.1 to \$136.3 billion over a 10-year period.

Methodology: Estimates were calculated using data from the Congressional Budget Office and public reports on PBM rebates.^{iii,iv,v} Magnolia Market Access assumed that current percentage-based fees average 4.5%, and that a new flat fee would be set at \$6.25. The premium effect (assuming no additional methods are set to recoup revenue) were calculated using commercial claims data, and the associated reduction in federal revenue from taxable wages were calculated by applying contribution shares and tax rates to additional premium payments.^{vi}

H.R. 2214: Estimated Impact on Federal Spending, Using Dynamic Market Assumptions 2026-2035, US Dollars, Billions



Magnolia Market Access is an independent organization that provides budget score estimates derived from publicly available information and client-provided data. These estimates are prepared to highlight potential considerations for the Congressional Budget Office (CBO) as it develops official legislative scores. Magnolia Market Access does not engage in advocacy and does not take policy positions. Our role is to assist clients in developing estimates that they may use in presenting and discussing their own perspectives on legislation.

ⁱ Pharmaceutical Care Management Association (PCMA). The Value of PBMs. 2024. Accessed September 16th, 2025:

<https://www.pcmanet.org/value-of-pbms/>

ⁱⁱ Miller-Meeks, Mariannette. H.R. 2214, the Delinking Revenue from Unfair Gouging (DRUG) Act. March 2025. Accessed September 16th, 2025: <https://www.congress.gov/bill/119th-congress/house-bill/2214/text>

ⁱⁱⁱ Congressional Budget Office. Baseline Projections – Federal Subsidies for Health Insurance. June 2024. Accessed September 16th, 2025: <https://www.cbo.gov/data/baseline-projections-selected-programs#6>

^{iv} CVS Caremark® defines future of pharmacy benefit management. July 2024. Accessed September 16th, 2025:

<https://www.cvshealth.com/news/pbm/cvs-caremark-defines-future-of-pharmacy-benefit-management.html>

^v Various industry reports provide estimates of current rebate and discount pass-throughs. To define the range in this score, Magnolia Market Access used two benchmarks: PhRMA's Follow the Dollar Report 2025 (87.5%, published February 2025, accessed September 16, 2025: <https://phrma.org/resources/follow-the-dollar-report-2025>) and Compass Lexicon's PBMs and Prescription Drug Distribution: An Economic Consideration of Criticisms Levied Against Pharmacy Benefit Managers (95%, published October 2024, accessed September 16, 2025: <https://compass-lexecon.files.svdcn.com/production/files/documents/PBMs-and-Prescription-Drug-Distribution-An-Economic-Consideration-of-Criticisms-Levied-Against-Pharmacy-Benefit-Managers.pdf?dm=1728503869>).

^{vi} Magnolia Market Access data on file.