What is a PBM?
Pharmacy Benefit Managers (PBMs) are companies hired by health plans to manage prescription drug benefits. They negotiate drug prices and rebates, create formularies, and determine which pharmacies and drugs are included in a plan. In other words, PBMs are the middlemen connecting the companies that make prescription drugs, the pharmacies that dispense them, and the health plans that pay for them.

Problem
PBMs and health plans can select contracts based heavily on the size of rebates (discounts given after the fact, like a tax return) rather than the total cost of providing prescription drugs. Because rebates and other PBM compensation can increase with a drug's list price, this can create incentives to favor higher-priced drugs over lower-cost generics and biosimilars.

The Result
Employers, government programs, and patients may pay more even when lower-cost options are available. Existing transparency rules can show payors what a PBM earned after a contract is chosen, but do not necessarily tell them whether they chose the lowest-cost PBM bid in the first place.

Previous Actions
Congress has already taken significant steps to increase PBM transparency. Most recently, the Consolidated Appropriations Act, 2026 requires greater disclosure of PBM pricing, rebates, fees, and other compensation and requires 100% pass-through of rebates and other remuneration to employer health plans, subject to limited exceptions for bona fide service fees. It also strengthened federal oversight of PBM practices in Medicare Part D.

These reforms give payors more information about what PBMs are doing, but they primarily address transparency and compensation after or within the contracting relationship.

What's Missing
Payors still need a way to compare competing PBM offers based on the actual total cost of the pharmacy benefit before selecting a PBM.

In other words, transparency tells a plan "What are we paying and what is the PBM receiving?" This bill asks the more basic question: "Which PBM can provide this benefit at the lowest overall cost?"

The Bill: Net Effective Cost Transparency and Prescription Drug Affordability Act of 2026

The bill requires Medicare Part D plans, beginning in 2028, to conduct a standardized annual bidding process for PBM services. PBMs would submit bids using standardized information that includes rebates and other discounts, drug costs, pharmacy payments, patient cost-sharing, and the plan's projected net effective cost.

The bill would, in Medicare:

- Make PBMs compete on total net cost, rather than simply the size of rebates or other compensation.
- Require standardized bids, allowing plans to make an apples-to-apples comparison of competing PBMs.
- Require plans to consider the lowest-cost bid. A plan that selects a more expensive bid would have to demonstrate that doing so serves an important programmatic interest, such as protecting beneficiary access or continuity of care.
- Make plan sponsor procurement of PBM services more transparent to the Medicare program by allowing CMS to view all bids received by the plan sponsor in net effective cost format.
- Hold PBMs and plans accountable for dispensing drugs in the approved bid, including comparing projected costs with actual costs and requiring corrective action when dispensing and costs deviate substantially from accepted bid values.
- Protect beneficiaries from unexpected cost increases, including monitoring for formulary changes that effectively increase costs or steer patients toward particular drugs or PBM-affiliated pharmacies.

It would also:

- Extend the net-cost transparency concept to employer health plans, requiring PBM bids to disclose projected net effective costs under ERISA.

Bottom Line:
Congress has taken steps to make PBM compensation and rebates more transparent. This bill goes one step further by making the procurement process itself transparent and competitive. This ensures the PBM offering the lowest overall cost, while meeting the plan's needs, has a stronger chance of winning the contract.

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