The Impending Spread Cliff: A Shift to Fully Transparent Pricing

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Introduction

The pharmacy benefits market is undergoing a transformation. For decades, PBMs and health plans have relied on spread pricing and rebate retention to subsidize costs and smooth volatility. That model is now under repeated and constant attack.

A combination of regulatory pressure – coming from both federal activity through the Consolidated Appropriations Act of 2026 (CAA) as well as intense pressures from states - and shifting buyer expectations is accelerating an already shifting market dynamic. As a result, margin sources that once quietly supported pharmacy economics are disappearing. As the industry moves toward increased transparency to align with the CAA, health plans will face mounting pressure to earn their revenue the same way their clients expect value to be delivered—through clearly defined services, priced explicitly and transparently.

Within the next three years, pharmacy margin will be generated primarily—if not exclusively—through administrative and service fees. This change is not incremental. It fundamentally alters how pharmacy benefits are priced, sold, and managed, and it will separate organizations that adapt early from those forced to react under pressure.

Health Plan Pharmacy Revenue – Historical Perspective

Historically, pharmacy revenue for health plans has been primarily derived from three sources:

- Discount Margin (Spread): The difference between the contracted discounts and the guaranteed discounts to client populations.
- Rebate Retention: Retaining a portion of manufacturer rebates or sharing only a fixed guaranteed amount, while keeping upside.
- Administrative Fees: Explicit fees including base administrative fees and ancillary charges, such as clinical programs or enhanced services.

Health Plan Pharmacy Revenue – Future State

Multiple forces are now converging to compress or eliminate spread and rebate retention as sustainable revenue sources:

- Laws prohibiting pharmacy spread and contract requirements around mandatory reporting requirements.
- Increased regulatory scrutiny and enforcement actions.
- New market offerings, including rebate-free and cost-plus models.
- Growing complexity from biosimilars, IRA implementation and government pricing interaction.

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While contracts may not require immediate changes, the direction is clear. By plan year 2029, it is entirely possible that reliance on pharmacy spread and rebate retention will be neither operationally viable nor commercially defensible.

Health plans that delay rethinking their pricing methodology and go-to-market strategy risk being forced into unfavorable changes—under consultant pressure, client ultimatums, or regulatory mandates—rather than controlling the transition on their own terms.

What Should You Do Now?

The time horizon still allows for proactive planning—but not complacency. Organizations should begin developing and testing alternative pricing structures now, so they are prepared to deploy them no later than plan year 2029, with planning and bid development occurring now through 2028.

Engaging early with growth and strategy resources is a critical first step to ensure the transition is deliberate, staged, and aligned across the organization. The path forward centers on four intentional actions:

1. **Reduce reliance on pharmacy cross-subsidization.** Proactively rebalance financials with the assumption that pharmacy will be less likely to fully subsidize your MLR or other lines of business.

2. **Create a deliberate transition away from drug-based margin.** With the spread cliff estimated to fully take form by 2029, there is time to shift expectations, pricing structures, and client messaging before change is required. We encourage a slow migration – or a "tapping of the brakes" - from traditional revenue sources into one focused more on administrative excellence and alternate program delivery. Test and learn with trusted clients and early adopters.

3. **Build a robust administrative and ancillary fee strategy.** Develop clear, defensible pricing for core administrative services – focused on the actual costs incurred to deliver a high-quality pharmacy benefit, in addition to a robust offering of clinical programs, reporting, analytics, and other value-added services that directly support lower net drug spend and better outcomes.

4. **Strengthen value articulation and market education.** Clearly explain to consultants and clients why pricing is changing, what they get in return, and how this creates more predictable, aligned economics. Creating a strong value proposition of how you are positioned to deliver a more effective benefit to your clients will be paramount.

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Organizational Readiness: Where to Focus

Successfully navigating the spread cliff requires coordinated action across key functions:

- **Finance – Financial Planning & Transition Management**

Model the impact across lines of business, prioritize key clients, and thoughtfully phase changes into the existing book.

- **Operations – Systems and Process Enablement**

Invest in systems capable of supporting transparent pricing, reporting, and contracting—using this transition as an opportunity to simplify and modernize.

- **Sales & Account Management – Broker and Client Preparedness**

Equip teams with a clear, confident message that positions the organization as prepared—not reactive—while proactively educating brokers and key clients.

Final Perspective

There is little doubt these changes will be disruptive to the status quo; however, delaying the adoption of a viable solution will likely produce a more fragmented, rushed, and strenuous outcome later.

Organizations that act now will emerge with simpler contracts, clearer economics, and stronger alignment between value delivered and value paid for. Those that delay may find themselves renegotiating under duress, managing internal dislocation, and explaining decisions they no longer control.

The spread cliff is not just a threat—it is a forcing function. Moving early will best position your health plan to lead the way as the market resets, and we are here to support that evolution.