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## ALL LICENSEE LETTER

**DATE:** May 26, 2026

**TO:** All Pharmacy Benefit Managers

**FROM:** Jenny Phillips  
Deputy Director  
Office of Plan Licensing

**SUBJECT:** ALL 26-010 – Pharmacy Benefit Manager Licensure

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The Department of Managed Health Care (DMHC) issues this All Licensee Letter (ALL) to inform pharmacy benefit managers (PBMs)<sup>1</sup> of the requirements of Assembly Bill 116 (Committee on Budget, Ch. 21, Stats. 2025) and Senate Bill 41 (Wiener, Ch. 605, Stats. 2025).<sup>2</sup> Specifically, this ALL addresses the licensure requirements of PBMs in Article 6.1, including the requirements that all PBMs be licensed by **January 1, 2027**. Plans are requested to disseminate this ALL to contracted PBMs.

### I. BACKGROUND

Assembly Bill 116 (AB 116) and Senate Bill 41 (SB 41) added and amended various sections of Article 6.1 of the Knox-Keene Act. Specifically, section 1385.002(b) allows the DMHC to implement, interpret, or make specific Article 6.1 by means of all plan letters or similar instructions to plans and pharmacy benefit managers, without taking regulatory action, until such time as regulations are adopted. Pursuant to this authority, the DMHC issues this All Licensee Letter.

#### A. Licensure of PBMs

Section 1385.008 prohibits a person from engaging in business as a PBM for a plan<sup>3</sup> in this state unless that person has first secured a license from the DMHC. PBMs acting as a price negotiator, group purchaser, or managing the prescription drug coverage for

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<sup>1</sup> Pharmacy benefit manager as defined under Health and Safety Code section 1385.001(t).

<sup>2</sup> All further statutory references (unless otherwise noted) are to sections of the California Health and Safety Code, and all regulatory references (unless otherwise noted) are to sections of California Code of Regulations, title 28.

<sup>3</sup> References to “plan” in this ALL have the same meaning as “payer” defined in Health and Safety Code section 1385.001(m).

a health care service plan licensed by the DMHC or health insurer licensed by the Department of Insurance will need to be a licensed PBM by January 1, 2027. Section 1385.009 further clarifies the process and requirements to obtain licensure to lawfully operate as a PBM. Section 1385.009 requires, in part, PBMs submit to the DMHC organizational documents; documents related to the internal affairs of the PBM; names and addresses of persons responsible for the conduct of the PBM; financial statements; and a list of all supply chain entities, providers, and plans contracted with the PBM. Additionally, a fee is required to accompany the PBMs' application as prescribed by section 1385.0016.

Instructions outlining the application process and required exhibits for licensure can be found in Section II below.

## **B. Operation of PBMs**

AB 116 and SB 41 impose additional operational requirements and restrictions on PBMs and plans contracting with PBMs. Section 1367.2075 prohibits health plan contracts providing prescription drug coverage from calculating an enrollee's cost share at an amount exceeding the actual rate paid by the plan for the prescription drug.

Sections 1385.0022 and 1385.0026 impose a fiduciary duty on a PBM to its plan client and prohibit a PBM from imposing any requirements, conditions, or exclusions that discriminate against a nonaffiliated pharmacy in connection with dispensing drugs.

Section 1385.0027 prohibits, in part, a PBM from requiring a plan participant use only an affiliated pharmacy if there are nonaffiliated pharmacies in the network and financially inducing a plan participant to transfer a prescription only to an affiliated pharmacy if there are nonaffiliated pharmacies in the network.

Section 1385.0028 requires contracts between nonaffiliated pharmacies and PBMs, on or after January 1, 2026, not prohibit the pharmacy from offering either of the following as an ancillary service of the pharmacy: 1) the delivery of a prescription drug by mail or common carrier to a patient or personal representative at the request of the patient or personal representative if the request is made before the drug is delivered, or 2) the delivery of a prescription to a patient or personal representative by an employee or contractor of the pharmacy.

Section 1385.0029 prohibits, in part, a PBM from deriving income from PBM services provided to a plan except for income derived from a PBM management fee for PBM services provided. Section 1385.0029(b) and (c) also require PBMs to use a passthrough pricing model and mandate all rebates to be directed to the plan for the purpose of offsetting plan participant contributions.

Section 1385.0031 prohibits PBMs from conducting spread pricing on or after January 1, 2026. Note: Spread pricing is permissible pursuant to SB 41 until the earlier of: 1) when a contract between a PBM and a plan is amended or renewed, or 2) January 1,

2029. This means any contract amendments or renewals after January 1, 2026, between a PBM and a plan, including revisions being made to comply with SB 41, would prohibit these contracts from authorizing spread pricing.

Lastly, section 1385.0032 prohibits PBMs, on or after January 1, 2026, from entering into, amending, enforcing, or renewing a contract with manufacturers that implement implicit or express exclusivity for those manufacturers' drugs, unless the PBM can demonstrate the extent to which exclusivity results in the lowest cost to plan, and the lowest cost sharing for the plan participant. Section 1385.0032(b) further prohibits PBMs from entering into, amending, enforcing, or renewing a contract with pharmacies or pharmacy services administration organizations that expressly or implicitly restrict, or impose implicit or express exclusivity on, nonaffiliated pharmacies' ability to contract with employers and plans.

### **C. Reporting Requirements of PBMs**

Section 1385.004(b) requires contracts between a health plan and a PBM to require the PBM to submit certain information to the Department of Health Care Access and Information (HCAI).

Section 1385.0011 requires, in part, a PBM submit to the DMHC financial statements prepared as of the close of its fiscal year within 120 days after the close of the fiscal year. These financial statements shall be accompanied by a report, certificate, or opinion of an independent certified public accountant or independent public accountant. Section 1385.0011(b) further requires a PBM submit quarterly unaudited financial statements within 45 days after the close of each quarter of the fiscal year.

Section 1385.0012 requires PBMs to submit certain information to HCAI pursuant to Chapter 8.5 of Part 2 of Division 107.

Section 1385.0016(b)(3) requires PBMs to file with the DMHC a report stating the total number of claims it adjudicated for drugs in this state for the preceding calendar year by January 31 of each year.

**Note: Guidance regarding PBM financial reporting requirements will be forthcoming in a separate ALL.**

## **II. PBM APPLICATION REQUIREMENTS**

Applicants must submit an application for licensure on **July 1, 2026**. All applications for licensure shall be submitted via eFiling Webportal.<sup>4</sup> Each application shall be accompanied by a complete and accurate Conditional PBM License Application Form and application fee. Upon receipt of a complete and accurate Conditional PBM License Application Form, the applicant will be granted a Conditional License to operate as a

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<sup>4</sup> More information on the filing and reporting process can be found on the [DMHC's public website](#).

PBM. Failure to timely submit a complete and accurate filing may result in delay or denial in obtaining a Conditional License to operate as a PBM on **January 1, 2027**.

A PBM Conditional License will be valid until December 31, 2027, or until superseded. To obtain a Nonconditional License, PBMs must provide all additional information required by the PBM Licensure Application Checklist, including any additional information requested by the DMHC. For more information on conditional licensure and nonconditional licensure, see Sections C and D below.

### **A. Informational eFiling Webinar**

The DMHC will conduct an informational webinar via Zoom. The purpose of the webinar is to provide applicants with an overview of the eFiling system and information required by the DMHC to process PBM license applications. Information regarding the upcoming webinar will be posted to the Department's website on the [PBM Licensing Webpage](#).

### **B. Application Fee**

Section 1385.0016(a) requires PBMs applying for licensure reimburse the DMHC for the actual cost of processing the application, including overhead, up to an amount not to exceed twenty-five thousand (\$25,000). The cost shall be billed not more frequently than monthly and shall be remitted by the PBM to the DMHC within 30 days of the date of billing.<sup>5</sup> Applicants will not be issued a license before receiving payment in full from the applicant for all amounts charged.

The Electronic Fund Transfer (EFT) program is a method that allows PBMs to make an Automated Clearing House (ACH) Debit transaction to pay DMHC invoices. This program allows a PBM to electronically transfer funds from its bank account to the DMHC bank account. The PBM will maintain total control to initiate a transaction by specifying the amount and date of its withdrawal.

If your PBM administrator has authorized you to make payments for your PBM, log into the Web Portal to make payments.

### **C. Conditional PBM License Application Form**

The Conditional PBM License Application Form is intended to provide a streamlined process to facilitate the licensure of PBMs currently operating in California. PBMs shall submit supporting exhibits required in the Conditional PBM License Application Form.

The Conditional License Application process will be phased out on January 1, 2027. All applicants submitting new applications on or after January 1, 2027, will be required to submit a PBM License Application and obtain licensure prior to operating as a PBM in California. Effective January 1, 2027, conditional PBM licenses will no longer be issued.

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<sup>5</sup> Once licensed, PBMs will be required to pay additional fees outlined in section 1385.0016(b).

#### **D. PBM Licensure Application Exhibits Checklist**

To operate as a lawful PBM, PBMs conditionally licensed will need to be nonconditionally licensed prior to expiration of their DMHC issued Conditional PBM License on December 31, 2027. The objective of the PBM Licensure Application Checklist is to achieve an application filing providing the full scope of information and documentation necessary for the DMHC's evaluation and Knox-Keene Act compliance for a PBM License. PBMs should review the PBM Licensure Application Checklist provided for statutory requirements and filing expectations. Please see the PBM Licensure Application Checklist hyperlinked on the PBM Licensure page on the DMHC's website and attached to this ALL. Please note, the duration of DMHC review of the application will vary and may be affected by the quality of the documents and information provided by the PBM.

#### **E. eFiling Application for PBM License**

PBM's shall submit one single application under filing type "Original Application for a PBM License." Application descriptions shall be titled "[PBM name] Application for Pharmacy Benefit Manager License."

Prior to January 1, 2027, each application shall include a complete Conditional PBM License Application Form and exhibits identified in the PBM Licensure Application Checklist. Applicants are encouraged to prioritize submission of a complete Conditional PBM License Application Form to allow time for DMHC review and follow up requests if necessary. A PBM Conditional License will be issued upon receipt and review of a complete Conditional PBM License Application Form. The DMHC will continue to review all other exhibits for a PBM Nonconditional License in the applicant's filing. If the applicant has provided sufficient information to demonstrate full compliance, the applicant's Conditional License will be revoked, and a Nonconditional License will be granted to the PBM.

Pursuant to section 1385.0013, PBMs are expected to file an amendment with the DMHC after a change in the information contained in its application. If the PBM's change is a material modification of its operations, the PBM shall give advance notice of the change prior to the modification. All amendments and material modifications shall be submitted in the DMHC's eFiling system. Refer to the eFile Guide on the DMHC's public website for amendment and material modification filings.

### **III. RESOURCES AND FAQ**

The DMHC has prepared responses to frequently asked questions (FAQ) pertinent to licensure of PBMs. FAQs were compiled in response to stakeholder feedback and inquiries. Additionally, the DMHC maintains a [PBM Licensure page](#) where information regarding PBMs can be found.

Questions or concerns regarding this ALL from PBMs should be directed to the Office of Plan Licensing at 916-324-9046 or at [pbm.licensing@dmhc.ca.gov](mailto:pbm.licensing@dmhc.ca.gov).