



Navigating ERISA Fiduciary Responsibilities in Pharmacy Benefits Management



Supporting Your ERISA Fiduciary Duties in Pharmacy Benefits

As an HR professional, you manage a wide range of responsibilities that are vital to your organization's success and your employees' well-being. One of the most significant, yet often complex areas is overseeing employee benefits according to the Employee Retirement Income Security Act of 1974 (ERISA). This law establishes a framework of fiduciary duties to ensure you act in the best interest of plan participants. With pharmacy benefits becoming one of the largest and fastest-growing expenses, understanding these duties is more critical than ever.

This guide will break down your core ERISA fiduciary responsibilities and explore how a pharmacy benefits partner like Illuminate Rx® can help you meet these obligations, reduce risks, and better serve your employees.



Understanding Your Core Fiduciary Duties

ERISA outlines four key duties for plan sponsors. Think of them as the pillars supporting your benefits administration.

Let's look at what each one means in the context of your pharmacy benefits plan.

1 Duty of Undivided Loyalty to Plan Participants

ERISA requires fiduciaries to act solely in the interest of participants and beneficiaries. This means you must prioritize providing benefits to participants and beneficiaries and pay plan expenses that are reasonable and relate only to plan activities.

How Illuminate Rx® supports this duty:

A fiduciary-aligned model directly supports your duty of loyalty. Illuminate Rx® operates on a foundation of transparency that eliminates these structural conflicts. We do this by:

- **Passing through 100% of rebates.** This ensures all savings go directly back to your plan, lowering costs for you and your employees.
- **Using a fixed fee.** Our compensation is a straightforward per-member-per-month (PMPM) fee. It is not influenced by drug selection, list prices, or utilization.
- **Avoiding financial incentives.** Our model eliminates misaligned incentives potentially driving up costs, such as formulary placement or manufacturer relationships.

Illuminate Rx® **reduces structural conflicts of interest** that could otherwise place PBM financial incentives ahead of participant interests.

2 Duty of Prudence

The duty of prudence means you must act with the care, skill, and diligence that a prudent expert would use in a similar situation. You don't have to be a pharmacy expert, but you are expected to make informed decisions by gathering the right information and monitoring your plan's performance.

How Illuminate Rx® supports this duty:

Prudent decision-making requires clear, actionable data. Illuminate Rx® empowers you with the information you need to fulfill this duty. We provide:

- **Comprehensive financial analysis and quarterly reviews.** We deliver robust reports that show exactly where your money is going, highlighting pharmacy spend and utilization data.
- **Identification of major cost drivers.** Our data pinpoints the specific factors impacting your budget, such as specialty drugs, GLP-1s, or high-cost claims.
- **Clear performance metrics.** Data that allows you to evaluate plan performance over time and make data-driven decisions.

Our robust reporting enables **reasoned decision-making** and **ongoing oversight**.

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Duty to Diversify Plan Investments (as Applied to Pharmacy Benefits)

While pharmacy benefits are not “investments” in the traditional ERISA sense, the principle is relevant to managing pharmacy benefits. You are expected to avoid undue concentration of risk and reliance on a single cost or revenue source that could expose the plan to large losses.

How Illuminate Rx® supports this duty:

A PBM should help you identify and manage these concentration risks. Illuminate Rx® helps you build a more resilient and diversified pharmacy benefits strategy by:

- **Facilitating partnerships.** We work with manufacturer copay assistance programs (e.g., Paydhealth) and ensure transparent data sharing.
- **Supporting a mix of strategies.** We help you implement a plan design that includes brand, generic, and biosimilar strategies focused on clinical appropriateness and cost effectiveness.
- **Providing visibility into utilization patterns.** We use your data to uncover insights that may indicate concentration risk (e.g., specialty or single-drug dependency).

Our approach helps fiduciaries **identify and manage pharmacy-related financial concentration risk** within the plan.

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Duty to Administer the Plan in Accordance with Plan Documents

You must operate the plan in accordance with governing documents. This includes plan documents inclusive of Summary Plan Descriptions (SPDs), Summary of Benefits and Coverage (SBC), and Administrative Services Agreements.

How Illuminate Rx® supports this duty:

Alignment is key to compliance. Illuminate Rx® ensures seamless administration that matches your plan documents. We achieve this through:

- **Administering according to plan design.** Our team ensures your pharmacy benefit is consistent with plan design and confirms that through a robust quality assurance team.
- **Clear documentation.** We provide the necessary documentation to support alignment between Illuminate Rx® and plan terms.
- **High-touch member services.** Our dedicated team is available to address member concerns quickly and accurately.

Operational alignment **reduces the risk** of claim errors, member disputes, and compliance failures.

Reasonable Plan Expenses and Compensation Transparency

Across all fiduciary duties, ERISA requires that plan expenses be reasonable.

How Illuminate Rx® supports this requirement:



Using predictable
PMPM admin fees



Separating vendor
compensation from
drug cost



Enabling independent
benchmarking

Benefits Advisor Enablement

We support benefits consultants by providing:



Transparent PBM
economics suitable for
fiduciary requirements



Documentation to
support benefits design
recommendations



A PBM model aligned
with heightened
Department of Labor
(DOL) scrutiny and
ERISA litigation trends

Your Partner in Fiduciary Excellence

Meeting your ERISA fiduciary duties doesn't have to be stressful. The key is working with a partner that operates with transparency and aligns their success with yours. By removing conflicts of interest, providing clear data, and ensuring operational excellence, a fiduciary-focused PBM acts as a powerful ally for you and your benefits advisor.

Illuminate Rx® supports you in meeting ERISA's core fiduciary duties while reducing structural conflicts common in traditional PBM models. That means you can focus on what you do best:

supporting your people.



Key Takeaways

It's important to remember that managing employee pharmacy benefits under ERISA is not just a responsibility, it's a critical commitment to employees' well-being and an organization's success.

Here's a quick overview of the four essential fiduciary duties every plan sponsor should know:



Duty of Loyalty

Act solely in the best interest of plan participants and beneficiaries.



Duty of Prudence

Make informed decisions with care, skill, and diligence, supported by clear data and ongoing plan monitoring.



Duty to Diversity

Avoid undue concentration of risk in pharmacy benefits, ensuring a balanced and resilient strategy.



Duty to Follow Plan Documents

Administer the plan in accordance with governing documents to ensure compliance and reduce errors.

Disclaimer

The information contained in this pamphlet is for educational purposes only and does not constitute legal advice. Please consult with a qualified legal professional for specific guidance tailored to your situation.



Illuminate Rx® is redefining pharmacy benefits management with unprecedented clarity and a member-first philosophy while driving to the lowest net cost. Designed by pharmacists and powered by data, we focus on delivering better care and better outcomes.

From optimizing biosimilar usage to delivering tailored solutions, we empower benefits advisors, employers, and members to make informed decisions while maintaining the lowest possible net cost. Our commitment to clarity, control, and collaboration ensures we remain a trusted partner for sustainable, high-quality pharmacy benefits solutions. For more information, visit www.illuminate-rx.com.

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