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FOR IMMEDIATE RELEASE
8:00 A.M., August 10, 2005
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Employer Coalition Gains Transparency in Drug Pricing

Three Vendors Committed to New, Open Contracting Platform

WASHINGTON, DC—The HR Policy Association’s Pharmaceutical Purchasing Coalition has made substantial progress in its mission to reveal the true cost of prescription drugs. The Coalition has successfully recruited three major corporate pharmacy benefit managers (PBMs) – Aetna Pharmacy Management, MedImpact Healthcare Systems, Inc., and Walgreens Health Initiatives, Inc. – to certify that they meet new principles outlined in the Transparency in Pharmaceutical Purchasing Solutions (TIPPS) platform. TIPPS was created by the Coalition and requires full commitment to an extraordinarily high set of transparency requirements in the way pharmacy benefits are purchased by large employers and administered on behalf of their employees and dependents. Preliminary estimates show Coalition members could collectively save up to nine percent of drug costs using the participating certified vendors while simultaneously propelling the market toward transparency.

The Pharmaceutical Purchasing Coalition is made up of 52 Association member companies representing 5 million lives whose drug spend in 2003 exceeded \$3.7 billion. It was formed in 2004 to develop an entirely new model of purchasing that would give employers, employees and consumers more information about the true cost of prescription drugs.

Sidney C. Banwart, vice president with responsibility for the human services division at Caterpillar Inc., and chairman of the Coalition said, “Large employers, like Caterpillar, must address costs in every way to support the long-term sustainability of health care benefits that provide security to millions of employees. The Coalition wants to work with pharmacy benefit managers and pharmaceutical companies to create an open system that employers and employees need in order to be good health care consumers.”

“If our efforts move the market toward our principles of transparency, we have helped employees and employers, as well as all health care consumers. Through the Coalition we are working toward lowering health care costs while improving the quality of care that patients receive,” said J. Randall MacDonald, senior vice president of human resources for IBM, and chairman of HR Policy’s Health Care Policy Roundtable.

Jeffrey C. McGuiness, president of HR Policy Association said, “Through the Coalition’s new TIPPS platform, employers have established the necessary foundation for employers to begin to communicate quality and cost about pharmaceuticals to employees.”

Specifically, the certified vendors have agreed to:

- charge employers the exact same amount that the PBM paid at the dispensing pharmacy for brand and generic drugs delivered at retail;
- provide acquisition cost of brand and generic drugs delivered via mail order;

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- pass-through of any and all pharmaceutical manufacturer revenues that are associated with an employer's drug utilization, including rebate dollars and revenue garnered by PBMs for data sales and marketing studies;
- an audit of contracts to verify compliance;
- provide point-of-sale rebates to employers and/or employees;
- design programs and services to manage chronic conditions to meet individual employer needs; and
- promote greater use of appropriate cost effective medications.

According to the Organization for Economic Co-operation and Development, spending on drugs grew more than twice as fast as total health expenditures in the United States between 1998 and 2003. This occurs against a backdrop in which the predominant contracting model between PBMs and employers can provide incentives for patients to use the most expensive drug available when more affordable alternatives are equally appropriate. As many employers consider consumer-driven health care where patients are supposed to be empowered to behave in economically efficient ways, the current system is confusing for consumers and employers alike. While no single entity or stakeholder is at fault in the creation of this system, adopting innovative ideas is necessary if significant reform is to occur.

The Coalition commissioned Hewitt Associates to issue a request for proposals from vendors willing to do business in a more open way. The Coalition members sought a restructured pharmacy benefit purchasing model in which financial incentives would shift from maximizing rebates from pharmaceutical manufacturers to promoting appropriate cost effective therapies, and one in which PBMs are paid for the services that they provide their clients. Most importantly, the Coalition and TIPPS vendors have proven that this can be achieved without employers having to spend more money on pharmacy benefit services.

Each Coalition company now has the option of evaluating whether working with a TIPPS vendor is right for them. The Coalition applauds the TIPPS vendors for embracing true market reform, and the Coalition looks forward to working with each of them to transform the pharmaceutical marketplace into one in which all individuals can select the best value for pharmaceuticals.

HR Policy Association is a public policy advocacy organization representing the senior human resource executives of over 250 leading employers doing business in the United States. Collectively, our members employ over 12 percent of the U.S. private sector workforce or some 19 million Americans. Due to extreme concern over the state of our nation's health care system, HR Policy formed the Health Care Policy Roundtable to address the deficiencies in our nation's health care system in 2003.

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