

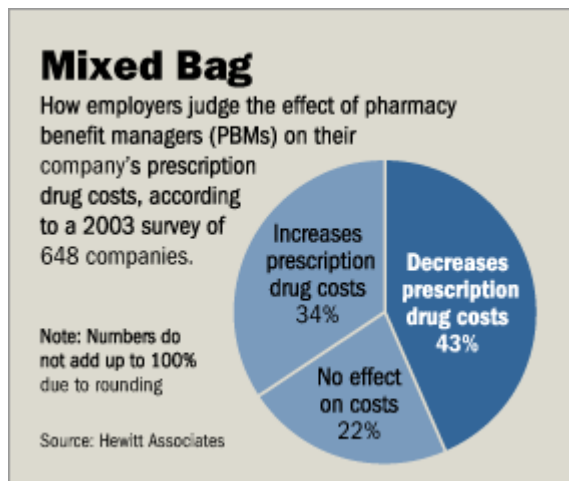
# Employers Join to Push Drug Managers for Full Disclosure

By VANESSA FUHRMANS  
Staff Reporter of THE WALL STREET JOURNAL  
August 10, 2005

Tired of rising drug prices, 52 large employers are using their combined clout to pressure pharmacy-benefit managers to change the way they administer employee drug purchases.

The group, including **Caterpillar Inc.**, **International Business Machines Corp.**, **Starbucks Corp.** and **Verizon Communications Corp.**, collectively spends \$3.7 billion a year on drugs. The companies plan to announce today that they are endorsing a new purchasing model that would require pharmacy-benefit managers, or PBMs, to disclose and pass on to their clients their acquisition costs for retail and mail-order prescriptions. Moreover, the group wants PBMs to pass along the rebates, rarely disclosed, that they receive from drug manufacturers.

The employers say their coalition has certified three smaller PBMs that are willing to play ball under a new, more-transparent model. The companies say they individually will consider switching their business from their current PBMs unless they provide more disclosure.



"If it were just one company demanding this, it would be easy for them to ignore," said Sidney Banwart, vice president of human services at Caterpillar and chairman of the drug-purchasing coalition. "But 52 companies with five million lives singing the same verse -- that's a little harder to ignore."

This isn't the first time employers have tried nudging PBMs toward more disclosure. Smaller regional groups of employers have banded together -- in Ohio and Georgia, for example -- to buy drugs and demand more openness in their PBM contracts. Last year, another large employer group, including **Eastman Chemical Co.**, **Mattel Inc.** and **ING Group's** Americas operations, adopted a similar purchasing model.

This effort is potentially the biggest to date, as well as the most ambitious -- particularly because it seeks to hold PBMs to a standard of full transparency for both mail-order and generic prescriptions, two of PBMs' most profitable areas.

The country's biggest PBMs -- **Medco Health Solutions Inc.**, **Caremark Rx Inc.** and **Express Scripts Inc.** -- have become powerful players in managed care because of their ability to buy drugs for millions of consumers. Acting as intermediaries on behalf of their employer-customers, PBMs create large networks of participating pharmacies and use their purchasing clout to drive down drug prices. Some PBMs also own their own mail-order pharmacies and, by offering lower costs for drugs, encourage employers to get their employees to fill long-term prescriptions through the mail.

But as drug costs continue to soar, more employers are wondering whether their PBM is always acting in their own best interests. Many employers say the complex and opaque financial arrangements PBMs have with drug makers make it difficult to know whether they are always getting the best price. And many employers say hidden rebates from the drug industry can create conflicts of interest for PBMs, which may not always steer employees to the most cost-effective drug.

Under the new purchasing model, instead of relying on drug makers for revenue, PBMs would charge employers a straight administration fee. The PBMs, the coalition hopes, would compete on fees and on clinical management

services they provide for employees with chronic diseases, such as diabetes.

The coalition was organized by the HR Policy Association, a public policy group that represents 250 employers. It put together the model and list of transparency criteria earlier this year, then opened the bidding process to interested PBMs. Although a couple dozen PBMs submitted proposals initially, in the end only three agreed to meet all of the group's demands: Aetna Pharmacy Management, a unit of insurer **Aetna Inc.**; MedImpact Healthcare Systems Inc., an independent PBM; and Walgreens Health Initiatives, a unit of drugstore chain **Walgreen Co.** These three say they had already been practicing some of the coalition's disclosure requirements.

Based on the employers' 2003 drug-spending data, the coalition says it estimates it could collectively save as much as 9% by contracting with one of the three certified PBMs. Its organizers say they plan to open the bidding to new PBMs every year in the hope that more will join the system.

Medco, Express Scripts and Caremark together handle the drug benefits for more than 100 million Americans through the cards that many people present at the drugstore when they fill a prescription. The three competed in the coalition's bidding process but dropped out along the way.

"It's not surprising," says Matthew Gibbs, head of pharmacy consulting services at employee-benefits consultancy Hewitt Associates, which helped the coalition assemble the model. "This really challenges their core revenue streams."

Medco declined to say which of the coalition's requirements it wouldn't meet. "There were a few that we didn't feel were in the best interest of our clients and prospects in the coalition," a spokeswoman said. Express Scripts declined to comment. Caremark didn't return phone calls.

As the 52 employers decide whether it makes sense to switch to one of the three certified PBMs, "their existing PBMs are going to get very active in trying to retain their business, and that's probably a good thing," says Caterpillar's Mr. Banwart. Caterpillar had already persuaded its own PBM, **RESTAT**, of West Bend, Wis., to disclose and pass on its drug-maker rebates and discounts and move to an administration-fee model earlier this year. IBM, which currently contracts with Medco, didn't have an immediate comment.

"There is going to be a lot of pressure on even the big three to come around to this business model," says Jeffrey McGuinness, president of HR Policy Association. "In the end, it's going to be hard for anyone to say, 'Total transparency? No, we're not going to give you that.'"

PBMs enjoy some of their steepest markups in mail-order sales of generic drugs, making it an area they are particularly reluctant to open up to the full view of their employer-customers.

Currently, PBMs often sell generic drugs in mail programs at a discount to the so-called average wholesale price, an inflated list price that wholesalers don't actually pay. For example, the average wholesale price for 100 20mg fluoxetine pills, the generic form of Prozac, is about \$266. A PBM might give an employer a 50% discount off that price. But the actual cost to the PBM and to pharmacies is usually only several dollars for 100 pills. The price to a retail customer without a pharmacy benefit plan might be as low as \$11.29. PBMs say they lower overall costs, particularly for expensive brand-name drugs.

Last year, Towers Perrin, another employee-benefits consultancy, and a small employer group launched a similar model, called Rx Collaborative. It selected Medco to administer it. Medco agreed to some of the terms that are in the HR Policy Association model. But when it came to mail-order generic prescriptions, Medco in many cases won the right to retain a large margin on the price.

Paul Schott, a principal at Towers Perrin, said Rx Collaborative believes it still made sense to work with a bigger PBM, despite the compromise. "We could have gotten everything we wanted with a second- or third-tier PBM" -- but perhaps not the same overall cost-savings, he said.

The companies in the Rx Collaborative, which has grown to 50 from an initial five, are saving an estimated \$70 million annually in drug spending, he said. However, he added, Rx Collaborative may eventually require more stringent disclosure criteria for mail-order drugs, too.