

FORMAT FOR
PRINTING
sponsored by

July 24, 2006

Managers of Drug Benefits Agree To More Transparency in Pricing

By VANESSA FUHRMANS

July 24, 2006; Page B6

Responding to pressure from some of their biggest corporate clients, two big pharmacy benefit managers agreed to provide more information to employers about the way they price and administer employee drug purchases.

The two PBMs, **Medco Health Solutions Inc.** and **Caremark Rx Inc.**, each handles the drug benefits for tens of millions of Americans. They have agreed to participate with eight smaller PBMs in a purchasing model that would require them to pass on to clients their own costs for acquiring retail and mail-order prescriptions. They also have agreed to pass along the price rebates, rarely disclosed in the past, that they receive from drug manufacturers.

The more transparent purchasing model is the brainchild of a coalition of 56 large employers, including **Caterpillar Inc.**, **International Business Machines Corp.**, **Starbucks Corp.** and **Ford Motor Co.** With more than \$4.9 billion in collective pharmaceutical costs last year, they say the complex financial arrangements PBMs have with drug makers make it difficult for them to know if they're getting the best price for their employees' medicines. The idea is to certify PBMs that are willing to follow the group's criteria for transparency, giving employers an alternative that puts pressure on their own PBMs to change.

Sidney Banwart, vice president of human services at Caterpillar and chairman of the drug-purchasing coalition, said he thought the PBMs "outside the circle who haven't bought into this will be doing everything they can to hold on to market share."


Express Scripts Inc., a third large PBM, hasn't signed up to follow the employer coalition's guidelines. It declined to comment on the initiative and why it hasn't joined.

Medco and Caremark both started the coalition's process to become certified when it launched last year, but dropped out along the way. A big sticking point for them, according to some people working with the coalition, was the demand for full transparency and acquisition-cost pricing on generics ordered through the mail. PBMs enjoy some of their steepest markups and profits on mail-order generic drugs.

But more than 20 of Medco's biggest customers are in the employer coalition; Caremark said it wouldn't disclose how many of its clients belong to the group.

Originally, "we weren't sure our clients were committed to" the coalition, says Chris Wilson, vice

DOW JONES REPRINTS

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit: www.djreprints.com.

- [See a sample reprint in PDF format.](#)
- [Order a reprint of this article now.](#)

president of market development for Medco. "But as we spoke to them, it was clear they wanted us to become certified."

IBM, a client of Medco, says it will seek multiple bids from PBMs after its current contract expires in 2007, and require them to comply with the coalition's transparency criteria. "We are aggressively discussing this with the PBMs in the marketplace," said Paul Grundy, IBM health-care director.

To what extent the PBM giants will have to switch to the coalition's business model remains to be seen. Many employers are locked into multiyear contracts. Some employers may prefer not to pay the administration fees charged under the new model.

This year, the initiative's first, only two employers have contracted with a PBM through the coalition's model. One is Starbucks and the other company has declined to identify itself. Seventeen more employers are now looking at making a similar switch, which coalition organizers say will be easier now that the PBMs responsible for nearly 80% of the market are certified.

Besides Medco and Caremark, other PBMs that have signed on for 2007 include Catalyst Rx, a unit of **HealthExtras** Inc.; HealthTrans LLC; RESTAT, a unit of F. Dohmen Co.; and the PBM units of **Cigna** Corp. and BlueCross BlueShield Alabama. They join **Aetna** Inc.'s PBM unit; Walgreens Health Initiatives, a unit of drugstore chain **Walgreen** Co.; and MedImpact Healthcare Systems Inc. The coalition and bidding process was organized by HR Policy Association, a public policy group that represents more than 250 employers.

Write to Vanessa Fuhrmans at vanessa.fuhrmans@wsj.com¹

URL for this article:

<http://online.wsj.com/article/SB115370667051415024.html>

Hyperlinks in this Article:

(1) <mailto:vanessa.fuhrmans@wsj.com>

Copyright 2006 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com.