



Corporate**United**
Achieve More.

Pharmacy Benefits Management:
A Corporate United Sourcing Initiative

Sourcing Pharmacy Benefits Management



Corporate United is engaged in a pharmacy benefits management (PBM) agreement with Medco Health Solutions until the end of 2010. In an effort to ensure its members have access to the most competitively sourced PBM agreement possible, the organization is going to market for a new contract. This initiative represents a significant opportunity for our member companies and the nearly four million covered lives they represent. Among all the contracts in the Corporate United portfolio, few have the ability to impact an organization's bottom line as dramatically as PBM.

Prescription drug coverage is one of the most highly valued employer-sponsored benefits used to attract and retain employees, yet it is one of the most elusive and complex purchasing responsibilities of self-insured employers. Few corporate human resource departments have in-house subject matter expertise to evaluate competing vendors. And few in-house corporate counsel possess the substantive and practical knowledge to avoid contractual mistakes when executing multi-year contracts with savvy PBM providers.

While still viewed by many as a service purchased from a health benefits provider, selecting a PBM provider (pharmacy benefits manager) has increasingly become a commodity purchase. Thus, the aggregation of purchasing clout is more important than ever. PBM providers value bigger customers because they bring more lives to the business opportunity, which translates into more prescriptions being dispensed, generating higher profits.

Prescription drug group purchasing organizations, also known as coalitions and collaboratives, began to surface among large self-insured employers in the early to mid 1990s and have yielded demonstrable success.

The following information seeks to provide a brief overview of the benefits of a multi-employer prescription drug purchasing collaborative and serves as a call-to-action among the Corporate United members to participate in an upcoming request for proposal (RFP) for PBM services with a contractual effective date of January 1, 2011 through December 31, 2013.

By representing real, committed volumes to the supply base, Corporate United is able to drive results that cannot be duplicated on an individual basis.

Market Overview and Current Conditions

PBM Industry Overview: What is a PBM Provider?

First and foremost, PBM providers act as third-party administrators (TPAs). They perform the following functions:

- Adjudicate drug claims in real time at the point-of-sale through a network of retail pharmacies
- Contract with a network of pharmacies – retail-based (e.g. Walgreens, CVS and Rite Aid) or mail-based – and negotiate discounts and dispensing fees
- Develop a formulary or preferred drug list (PDL) through a Pharmacy and Therapeutics Committee (usually a committee of practicing physicians that are not employed by the PBM provider)
- Provide benefit design consultation and reporting of cost and utilization trends through strategic account executives
- Contract for manufacturer rebates (e.g. manufacturers such as Merck or Pfizer) in exchange for giving specific drugs “preferred status” on formularies or PDLs through trade or industry relations groups within the PBM companies

Vertically Integrated PBM Providers

Many PBM providers serve solely as TPAs and perform the above referenced functions. Others act as a TPA and a provider of prescription drugs through one or more of the following channels: retail, mail and specialty. PBM providers such as Medco, CVS/Caremark and Express Scripts fall into the vertically integrated model. These providers also own mail and specialty pharmacies (Medco and Express Scripts) or retail, mail and specialty pharmacies (CVS/Caremark).

Mail pharmacies are large commercial pharmacies that dispense a high volume of long-term or maintenance medications, in routinely 90-day quantities, that treat chronic conditions like diabetes or long-term conditions such as high cholesterol. Specialty pharmacies dispense low incident, high cost medications that often require special handling, such as refrigeration, that treat complex, chronic, diseases such as hepatitis C, HIV, rheumatoid arthritis, cancer, cystic fibrosis and others.

Thus, the vertically integrated PBM providers offer TPA services and dispense many of the medications concurrently.

PBM Providers: Who's competing against whom?

The following table is adapted from the Pharmacy Benefits Management Institute's PBM 101 White Paper Series, *The ABCs of Pharmacy Benefit Managers, 2008*. This table contains data from the second quarter of 2007, but includes the acquisitions and mergers that have happened to date with recalculated market share and total prescriptions per year (namely the addition of Rx America and Pharmicare to CVS / Caremark).

Profiles of the "Big 3" PBM Providers

CVS/Caremark Rx, Inc.

This PBM company is a vertically integrated pharmacy provider operating all three channels – mail, retail and specialty pharmacies. Though CVS Caremark provides a network of over 60,000 retail pharmacies, plan participants can utilize a program called Maintenance Choice that allows them to purchase maintenance medications at a CVS retail store for the same discounts and co-payments offered at its mail service pharmacies.

Medco Health Solutions

Medco distinguishes itself from other competitors with its Therapeutic Resource Centers, where clinical pharmacists specialize in chronic disease, such as diabetes, and provide specialized clinical counseling to improve medication adherence and compliance. Medco also provides a network of over 60,000 retail pharmacies, in addition to owning mail and specialty pharmacies.

Express Scripts / CuraScript

This PBM provider, similarly to the aforementioned, provides a network of more than 60,000 retail pharmacies and owns mail and specialty pharmacies. With its recent announcement to buy NextRx from WellPoint, Express Scripts will be the exclusive PBM provider for Anthem/WellPoint Blue Cross Blue Shield for the next 10 years. That deal is expected to close sometime in the fourth quarter 2009.

Top 25 Pharmacy Benefit Management Companies and Market Share by Annual Prescription Volume

Company	Total Rx/Year	Market Share
CVS/Caremark Rx, Inc.	614,695,388	17.13%
Medco Health Solutions, Inc.	553,000,000	15.40%
Express Scripts/CuraScript	519,600,000	14.47%
WellPoint Next Rx	367,000,000	10.22%
ACS, Inc.	250,000,000	6.96%
Argus Health Systems, Inc.	186,000,000	5.18%
MedImpact Healthcare Systems, Inc.	170,400,000	4.75%
First Health Services Corporation	148,500,000	4.14%
Walgreens Health Services Division	143,899,330	4.01%
Aetna Pharmacy Management (APM)	98,047,580	2.73%
HealthTrans	90,000,000	2.51%
Prescription Solutions	89,536,793	2.49%
Prime Therapeutics, LLC	89,000,000	2.48%
CIGNA Pharmacy Management	75,000,000	2.09%
NHMC	44,000,000	1.23%
RESTAT	24,000,000	0.67%
ScriptSave	17,000,000	0.47%
Pharmacy Services Group	15,000,000	0.42%
Catalyst Rx (a HealthExtras Company)	13,500,000	0.38%
CBCA Rx	11,160,000	0.31%
PerformRx/AmeriHealth Mercy	9,771,216	0.27%
Health Resources, Inc.	8,390,000	0.23%
Navitus Health Solutions, LLC	8,000,000	0.22%
32 other PBM companies	44,791,552	1.25%

Source: Atlantic Information Service's exclusive quarterly survey of pharmacy benefit management companies conducted by Drug Benefit News during Q2-2007.

The Industry Beyond the “Big 3”

After the “Big 3,” which together own almost 50% of the total market share by annual prescription volume, there remain many other formidable players. Many of these PBM providers can rival their larger competitors with greater transparency and nimbleness, providing a competitive alternative to traditional PBM services. We anticipate some very viable proposals from this group of providers. These include Catalyst Rx, Prime Therapeutics and MedImpact.

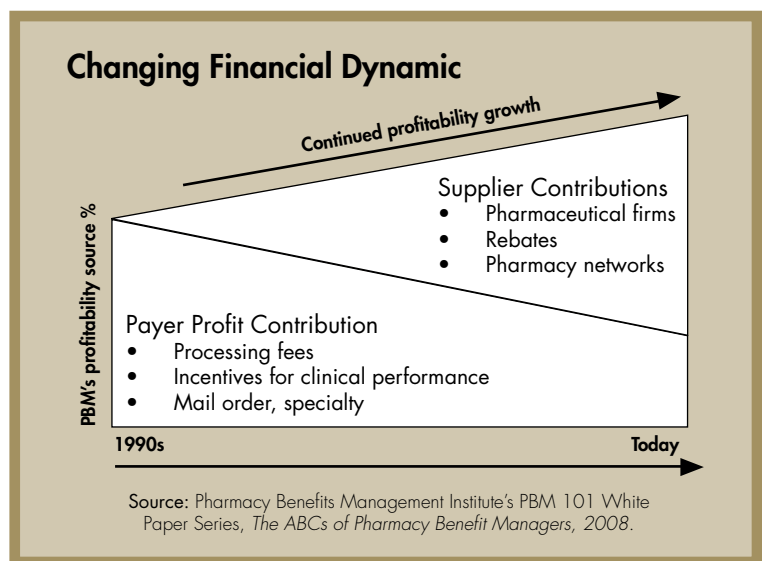
Current Activity in the Market

Now is perhaps one of the best opportunities to collaborate with other employers in a common RFP. Over \$35 billion in brand drugs will lose patent protection during the next three years, which means that PBMs and employers can take advantage of brand-to-generic conversions. Because PBMs make the most profit margin on generic medications when dispensed through PBM-owned facilities, and given many employers are approaching 70% or greater generic dispensing rates, pricing offers are becoming very attractive in the multi-employer PBM purchasing arena. Moreover, AWP (Average Wholesale Price) litigation, albeit economically neutral to employers, will radically change employer-PBM contracting in the near future.

How Do PBM Companies Make Money, and Why Should Employers Care?

When PBM companies began operating in the employee benefit space in the mid 1980s, their two sources of revenue were point-of-sale (POS) transaction administrative fees collected from retail pharmacies and employers and other plan sponsors, such as indemnity insurance companies. Today there is much less reliance on POS administrative fees as PBM providers have sought margin from the following channels:

- Manufacturer rebates and “other program fees” from drug manufacturers;
- Markup or “spread pricing” on retail prescription claims (e.g. bill the employer a higher price than the PBM company pays the retail pharmacy);
- Dispensing fees at mail and specialty pharmacies
- Markup on mail and specialty pharmacy products (e.g. bill the employer for a higher price than the acquisition cost); and
- Clinical program fees charged to employers (e.g. drug utilization review programs, step-therapy and prior authorization edit programs).



Corporate United's Approach to Sourcing

The Committee Sourcing Process

Corporate United approaches the sourcing process in a unique manner, providing tremendous value for our participating members. Due to the collaborative nature of the process, participants go to market with the increased leverage of aggregated lives, as well as the collective knowledge resident within the group.

By conducting a sourcing process led by one of the nation's top PBM consultants and through the collaboration of benefits and contracting professionals across leading organizations, Corporate United is able to leverage literally hundreds of years of combined experience in the category. This results in the most comprehensive approach possible, including best-in-class RFIs, RFPs and negotiation strategies.

Types of Participation

There are several different ways in which a company can take advantage of this opportunity.

Bid Participation: While Corporate United represents millions of covered lives as a group, not all of our member companies participate on this agreement. In the interest of maintaining the integrity of our sourcing process and our credibility with the supply base, the RFP only includes the number of lives to which our members have committed. While the possibility of capturing more members serves as an incentive to drive supplier behavior, the initial leverage represented by the members participating in the bid process is critical.

Members who are willing to commit their volume to the sourcing initiative are not required to serve on the committee. Rather, they must provide Corporate United with the applicable data and service level requirements to ensure their needs will be accurately represented in the bid structure. Organizations who participate in this manner get all of the benefits of the leverage and the newly sourced agreement without having to dedicate any of their own resources to establish the contract.

Committee Participation: For those members willing to commit their business and who also want to be involved with key aspects of the process, we recommend serving on the sourcing committee. The committee works closely with our consultant throughout the sourcing process by doing the following activities:

- Approving the supplier list
- Contributing to and signing off on the RFP
- Advising on the negotiation strategy
- Reviewing supplier submissions
- Acting as the panel for finalist presentations
- Making the award decision

This results in the most comprehensive approach possible, including best-in-class RFIs, RFPs and negotiation strategies.

Committee participation is an important aspect of membership in Corporate United, and we encourage any interested member to serve in this capacity. While this does represent a resource commitment above and beyond strict bid participation, it is a very rewarding experience through which much knowledge is shared. Committee members are expected to review the applicable documents and supplier submissions in accordance with the project timeline, and must be available to travel at least two days at the end of the process to attend finalist presentations and debriefing sessions with their fellow committee members.

Corporate Commitment

Whether a company is contributing its spend or serving on the committee, it is essential they are truly prepared to commit their volume to the effort. In doing so, a member company agrees to pledge its business' spend to the supplier that the committee deems will present the most value to the group by virtue of the evidence gathered in the sourcing process.

This simple point is the key to the success of the sourcing initiative. By representing committed volumes to the supply base, Corporate United is able to drive results that cannot be duplicated on an individual basis; however, the commitment has to be genuine in order to drive competitive behavior in the market.

While this commitment must be unwavering, it is not without an exception. In order for a member to honor its commitment to give their business to the awarded supplier, the results of the sourcing initiative must represent an improvement for that member. For example, if the resulting contract represents a 10% increase for the participant, it would be unreasonable to expect the member to pursue it as an option. For this reason, Corporate United works with each prospective committee member to define their unique key success factors. Each participant outlines those factors which represent a successful outcome for their organization. This qualitative and quantitative information helps to guide the sourcing process and define the path forward for each committee member. So, if the bid results meet or exceed the requirements set forth by the participant, they are expected to award with the group.

The award decision is ultimately made by the sourcing committee, with each participating company receiving one vote. In most instances, the majority of our sourcing initiatives result in unanimous decisions among committee members, but this is not always the case. If the committee votes, for example, 7-2 in favor of Supplier A, and the two dissenting members vote for Supplier B, the dissenting members are still expected to move their business to Supplier A (assuming, of course, that there is value in so doing).

The Process

The strategic sourcing process Corporate United follows is fairly straightforward, accentuated by the participation of our members at key points in the process. While the committee members play a crucial role in this process, all of the "heavy lifting" is conducted by Corporate United. Our team is responsible for assembling all of the applicable documents, managing the supply base, as well as scheduling and facilitating all of the meetings. Through Corporate United's efforts, participants are able to contribute to the decision making process and take advantage of the resulting leveraged agreement, but put forth limited resources to do so.

The Committee Sourcing Process



Christopher V. Goff, J.D., M.A.



Christopher Goff is CEO and General Counsel of Employers Health Coalition of Ohio and its subsidiary, Employers Health Purchasing Corporation of Ohio. Employers Health is a coalition of employers in Ohio and eleven other states, representing over 2 million covered lives nationally. Employers Health is engaged in group purchasing, lobbying, healthcare quality initiatives, community health improvement and education. Prior to 1995, Mr. Goff held management positions in three managed health care organizations.

A consultant and counsel to plan sponsors in the area of employee benefits, Mr. Goff served on the Booz Allen Hamilton consulting team as an expert advisor to the Centers for Medicare and Medicaid Services for Part D pharmacy implementation activities resulting from the Medicare Modernization Act of 2003. He is on the faculty of the College for Advanced Management of Health Benefits, affiliated with Thomas Jefferson Medical College, Department of Health Policy, where he teaches the pharmacy benefits management track. He has served on the URAC PBM Accreditation and Employer Advisory Boards as well as the Pharmacy Benefits Management Institute Advisory Board and currently serves on the Ohio Department of Health's Hospital Measures Advisory Council. Mr. Goff also serves on Daiichi-Sankyo's Center for Health Care Consumerism Advisory Board and Astra Zeneca's US Payer Advisory Board. Additionally, he is a frequent advisor to several large pharmaceutical manufacturers regarding employer and PBM related topics and is the Health Care Sector Chairman for Roulston Buyside Research, where he regularly meets with hedge fund, mutual fund and other financial analysts who cover medical and pharmaceutical related investments.

Mr. Goff holds a Bachelor of Science in Business Administration from Ohio Northern University, a Master of Arts in Political Science from The University of Akron and a Juris Doctor from The University of Akron School of Law. He is a member of the American Bar Association, the American Health Lawyers Association, the Ohio State Bar Association and the Stark County Bar Association.

Mr. Goff serves on the Board of Directors of the Buckeye Council-Boy Scouts of America, the Washington, DC-based National Business Coalition on Health, where he was the organization's interim CEO in 2003, the Health Policy Institute of Ohio and the Health Foundation of Greater Massillon. He is an elected member of the Jackson Local School Board.

Reasons for Going to Market

Over \$35 billion in brand name drugs will lose patent protection during the next three years, which means that PBM providers and employers have the ability to take advantage of brand-to-generic conversions. Because PBM providers make the highest profit margin on generic medications when dispensed through PBM provider-owned facilities, and given many employers are approaching 70% or greater generic dispensing rates, pricing offers are becoming very attractive in the multi-employer PBM purchasing arena. Moreover, average wholesale price (AWP) litigation, albeit economically neutral to employers, will radically change employer-PBM contracting in the near future.

In order to make informed purchasing decisions, employers must be savvy to the shell games that have developed over the last dozen years.

In order to make informed purchasing decisions, employers must be savvy to the shell games that have developed over the last dozen years. PBM financial terms are analogous to a balloon, if you squeeze the left side of the balloon, the right side becomes larger. Thus, what adds to the complexity of PBM pricing is the interactivity of discounts, dispensing fees, generic drug effective rates, POS administrative fees

and manufacturer rebates. A simple tweak to one or more of these moving parts has a material impact on the cost of an employer's prescription drug program. Add in the leverage of a coalition of employers, and PBM providers become very creative with the moving parts, thereby generating greater value to purchasers. This table (left) is a simple approach to benchmarking PBM providers so as to create an apples-to-apples comparison of their relative costs.

Simple Approach to Understanding PBM Pricing

Cost Element	Comparison Data Supplied by Vendors		
	Vendor A	Vendor B	Vendor C
Gross Average Wholesale Price of Drug			
- Network Discounts			
- Rebates			
- Pharmacy Network Fees			
- Cost Share			
+ Administrative Fees			
+ Dispensing Fees			
Estimated Net Cost Per Claim			

Source: Pharmacy Benefits Management Institute's PBM 101 White Paper Series, *The ABCs of Pharmacy Benefit Managers*, 2008.

PBM Sourcing Timeline

Over the course of the next 10-12 months, Corporate United will be preparing for and going to market to develop a best-in-class PBM agreement. The key elements of the timeline are listed below;

July - December, 2009

Generate member participation and education.

July 30th, 2009

Corporate United conducts the first of two webinars hosted by category manager Chris Goff to discuss our strategy, answer questions about our approach, and comment on the state of the pharmacy benefits industry. Both procurement and human resources professionals are encouraged to attend.

September 2nd, 2009

Corporate United conducts the second webinar, again hosted by category manager Chris Goff (repeat of July 30 webinar).

December, 2009

Final data and service requirements collection from members participating in the sourcing project.

January, 2010

Official sourcing project launch and Corporate United committee assembly (conference call).

February, 2010

RFP distributed to provider list approved by member committee.

March, 2010

Finalist presentations and negotiations take place with member committee (live, location TBD).

April 2010

Award and contracting with selected provider.

August - October 2010

Member open enrollment

January 1st, 2011: Contract go-live

Pharmacy Benefits Management is a volume-driven market, and our ability to aggregate the covered lives and expertise resident within our membership is the ultimate determining factor in the success of our program.

We will be spending these five months reaching out to each of our members, meeting with both procurement and human resources, to discuss the value that participation in this project can represent to your organization.

How to Get Involved

Join the Member Sourcing Committee

Corporate United has the potential to create one of the largest pharmacy benefits buying groups in the nation; don't miss your opportunity to take part in this process.

If you are interested in joining the PBM member sourcing committee, learning more, or have questions, please contact Corporate United Vice President David Clevenger at 216.325.0412 or dclevenger@corporateunited.com.

Frequently Asked Questions

Do employers lose their individuality when collectively purchasing PBM services?

The biggest myth in PBM collectives is that employers relinquish autonomy. In reality, employers are agreeing to use a "common" vendor and act in unison to apply market pressures to extract the lowest possible price and the highest level of "guaranteed" service requirements. Employers maintain their autonomy in that they have their own account manager, plan designs, clinical choices, billing functions and reporting. They may benefit from dedicated customer and account management functions, greater exposure to and influence over the PBM provider's senior management, lower prescription drug unit costs, less costly administrative fees for clinical programs and economies of scale when pooling resources together for other activities such as auditing.

Who will be on the member sourcing committee?

The member sourcing committee, or "steering committee," will be a group of Corporate United member organization representatives, comprised of human resource/benefits and procurement professionals whose organizations participate in the RFP process. This committee, with input from Christopher Goff, our subject matter expert, will drive consensus that will ultimately lead to the selected provider. The resulting contract will commence January 1, 2011 for a three-year term.

How long is my commitment to the member sourcing committee?

Collective RFP procedures for PBM services among large, self-insured employers usually require a six month time table and an early consent among a stable of employers willing to participate in the process. Corporate United's sourcing process will begin in mid to late 2009 with the "commitment phase" or Phase 1, followed by five subsequent phases as outlined below:

Phase 1	July–December	Employers Consent to Participate
Phase 2	January	RFP is Drafted/Steering Committee Identified
Phase 3	February	RFP Released to Vendors
Phase 4	March	Finalists Identified
Phase 5	April	Finalist Selected by Steering Committee
Phase 6	May–October	Contracting/Implementation

About Corporate United

Corporate United is the nation's largest group purchasing organization, serving the world's leading companies across every industry sector with sourcing, contract management and networking solutions. Corporate United's more than 140 member companies collaborate for the purposes of enhancing their spend management efforts, sharing best practices and interacting with an unrivaled network of professionals.

For more than a decade, Corporate United has provided its membership with unique solutions to more effectively manage indirect spend across their enterprise. By combining leveraged agreements with ongoing supplier development and implementation support, member organizations realize savings and resource flexibility.

Contact Us to Learn More

To learn more about Corporate United's PBM sourcing initiative, contact David Clevenger at 216.325.0412 or dclevenger@corporateunited.com.

CorporateUnited
Achieve More.

20325 Center Ridge Rd. Suite 527
Cleveland, Ohio 44116
P 440.895.0938 • F 440.895.0939
www.corporateunited.com