Who’s Joining Consumer-Directed Health Plans? (And why you should ask...)

A reported one million or more employees are now enrolled in consumer-directed health (CDH) plans. That’s double the 2003 numbers, but still only a tiny portion of the 160 million commercially insured Americans.1 CDH plans are generally understood to include a healthcare reimbursement arrangement (such as tax-preferred plan funding), a deductible, and traditional coverage that steps in when the consumer spends a threshold amount on healthcare—sometimes referred to as catastrophic coverage, or maximum out-of-pocket expense.

CONTINUED ON PAGE 4
Complementary strengths

Historically, the two companies focused on different areas of pharmacy benefits management. AdvancePCS built a strong base of health plan customers while Caremark focused on the employer marketplace. These diverse business interests bring complementary strengths and a range of expertise to the combined entity. Integrating the best practices of each organization will result in improved efficiencies and care that will benefit all our clients.

Service – As separate entities, both AdvancePCS and Caremark have strong reputations for delivering exceptional customer and plan participant service, having received top ratings from the Pharmacy Benefits Management Institute (PBMI). We are committed to maintaining that level of service without interruption throughout the period of integration.

Trend management – The number one issue for our clients continues to be trend management. Both organizations bring a repertoire of proven trend management tools and programs such as promoting use of cost-effective mail service and generics. Such strategies have helped clients of both organizations maintain pharmacy benefit trends below national averages. (See our combined trend update for the first quarter on page 5.)

Delivery systems – Our mail service programs offer clients a number of benefits in addition to advantageous pricing and trend management, including higher rates of generic substitution and industry-leading, cost-effective clinical pharmacy programs. Plan participants using mail service also enjoy savings and the convenience of mail. The combination of Caremark and AdvancePCS mail service pharmacy operations positions us well to fully support continued growth of mail services.

Specialty pharmaceuticals and disease management – The integration of the two companies will significantly enhance the depth and breadth of the specialty pharmacy and disease management services provided to our clients. The combination provides increased focus on costly complex chronic conditions by uniting Caremark CarePatterns® disease management programs with Accordant Health Services, the widely recognized specialty disease management programs offered by AdvancePCS. These programs emphasize a proactive patient care model that can minimize the occurrence of costly medical events and improve quality of life.
Marketplace volume – With a combined volume of over 575 million claims annually, Caremark has significant scale in the pharmaceutical marketplace, ensuring continued competitive pricing for our clients.

Enhanced resources – With the combined resources of the integrated organization, we will continue to invest heavily in systems as well as product and service improvements such as:

- Physician connectivity – an innovation expected to enhance clinical pharmacy management programs and support improved patient outcomes
- Analytics – research and analysis to identify as well as verify systems and programs for healthcare delivery that are both cost-effective and clinically sound
- Consultative care – comprehensive programs designed to engage plan participants and physicians with pharmacists and other clinicians in direct dialogue about pharmaceutical care
- New product development – ongoing development of benefit design solution sets and strategies tailored to the specific needs of our individual clients

The integration of Caremark and AdvancePCS has strengthened and enhanced our capabilities, enabling us to provide you even greater value and service as we fulfill our mission to be the premier health management solution provider in the country. We look forward to sharing with you new and enhanced programs in the months ahead.

More Resources To Help You Manage Drug Trend and Improve Outcomes

The New Caremark

By the numbers:

- 575+ million claims processed in the 12 months ended 12/31/03
- Over 55,000 participating pharmacies
- 7 mail service pharmacies
- 6 Customer Service Call Centers
- A national network of JCAHO*-accredited specialty pharmacies
- Industry’s only FDA-regulated re-packaging facility
- NCQA**-accredited disease management programs addressing more than 19 chronic conditions

*Joint Commission on Accreditation of Healthcare Organizations
**National Committee for Quality Assurance
With this relatively small enrollment, there’s little data to validate or disprove the value of CDH as a cost-control strategy. Analysts question whether CDH plans will attract a representative cross-section of participants, thereby spreading the risk across a population. It's an important question. If CDH-enrolled participants are predominantly younger and/or healthier, any cost “savings” could be deceiving. That population is likely to have lower costs regardless. Meanwhile, with the high-risk population concentrated in the more traditional plan, those premiums and prescription trends are likely to continue, or even accelerate, their upward track.

One way to evaluate the profile of a population enrolled in CDH is to look at health risk, utilization patterns and spending before, as well as after, their enrollment. Caremark was able to perform such an evaluation with a small number of clients who offered an opt-in CDH plan for 2004. Our analysis revealed significant differences between participants in a more traditional plan and those in the CDH plan. CDH participants were, on average, younger, used fewer prescriptions, and had a substantially lower prescription spend the year before they joined the consumer-directed plan. (See table.) In our sample, CDH participants also tended to have higher incomes and a lower prevalence of chronic conditions.

One recent study concluded that the healthy are most likely to save on their out-of-pocket expenditures on a CDH plan, assuming an appropriately-sized reimbursement or funding account.3

**What do you want to accomplish?**

Plan sponsors who are considering a CDH option may have a range of goals—to reduce overall healthcare trend, to lower spending, to raise awareness of healthcare costs, or simply to support their plan participants in becoming informed healthcare consumers. Caremark offers a similarly broad range of strategies to achieve consumerist goals through our plan participant engagement strategies and initiatives.

Our strategies and initiatives focus on engaging, encouraging and empowering all plan participants, actually shifting the way they experience their benefits. You can use these strategies to help your plan participants learn practical, relevant ways to keep costs down and make better healthcare choices.

For more information on Caremark participant engagement programs, contact your account representative. Or visit www.trendsrxseries.caremark.com.

1. Inside Consumer Directed Care, January 9, 2004

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**Population Characteristics**

<table>
<thead>
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<th>Population Characteristics</th>
<th>Opt in CDH</th>
<th>Traditional Plan</th>
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</tbody>
</table>

PPPY – Per Participant Per Year

PUPPY – Per Utilizing Participant Per Year

*Health Risk Index HRISM – one of the Caremark suite of assessment tools, the Health Risk Index HRISM provides an objective benchmark of your organization’s health risk. Contact your Caremark account representative for more information on the Caremark Health Risk Index HRISM or visit www.trendsrxseries.caremark.com.

Caremark Analytics and Outcomes data, based on Book of Business

**Evaluate spending before, as well as after, CDH enrollment**

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**TrendsRx® Quarterly is a publication of Caremark and was developed as an informational resource providing an overview of events and developments in the pharmacy benefit and pharmaceutical industries. Please contact a Caremark representative to discuss possible impact on your specific pharmacy benefit program. If you are not a Caremark client and would like to receive TrendsRx® Quarterly or to learn more about Caremark services, please contact David Joyner, Executive Vice President, Sales and Account Services, at 800-749-6199.**

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www.caremark.com
Gross Trend: 12.9%*

Our Q1 trend of 12.9% is in line with our predicted 13 to 15% trend in 2004. Biotech products continue to be a dominant factor in increasing drug spend. New biologic introductions and higher biotech utilization had a significant impact in Q1. Biotech products accounted for 6.3% of overall spend, compared to 5.9% in 2003. New biotech products such as Avastin™, Erbitux™, and Plenaxis™ contributed 0.8% of overall spend in Q1. In contrast, in Q1 2003, new biotech products accounted for .06% of overall spend.

Overall utilization is tracking considerably higher than Q1 last year—6.1% this year compared to 4.1% last year. Utilization of antihistamines and hormone replacement therapy continues to decrease. Increases in the utilization of cholesterol drugs are due to the introduction of new statins—Crestor® and Zetia®—and stricter recommendations concerning cholesterol levels.

Both generic dispensing and generic substitution rates are up, as more participants learn to Count on GenericsSM. Newly available generic equivalents for blockbuster drugs helped to increase our generic numbers. (See the Pharmaceutical Pipeline Update, page 7.)

At 2.4%, average wholesale price (AWP) increases are higher than a year ago (1.9%), but not as high as 2002 (3.8%).

*Trend – the annual increase in the cost of providing prescription benefits to plan participants – is calculated as gross cost per employee per month in the Caremark Book of Business.

Do you have a plan in place for specialty pharmaceuticals?

As you know, we expect utilization of specialty products to increase. More specialty drugs are being introduced, and more of those drugs are indicated for the treatment of relatively common conditions such as psoriasis. Under the new Medicare drug benefit, seniors will have 95% coverage of drug expenses over $5,100—further widening the market for these expensive products. Moreover, manufacturers are considering direct-to-consumer advertising for certain specialty products, which is likely to further increase demand and utilization. Ask your Caremark account representative about strategies for managing specialty pharmaceuticals—it’s a crucial part of your pharmacy benefit planning.

Visit www.trendsrxseries.caremark.com to learn more about Caremark trend management tools and Caremark programs and services. You can also download TrendsRx® Quarterly, and the 2004 Trend Report. The TrendsRx® Series Web site will grow and develop throughout the year, bringing you additional tools and resources to support your pharmacy benefit needs.
LEGISLATIVE AND REGULATORY UPDATES
Q2 2004

Medicare drug discount cards launched

The first phase of the Medicare drug benefit signed into law late last year was launched in April with a government-sponsored Web site designed to help seniors compare various drug discount cards. The site, at www.medicare.gov, provided the first look at prices available with the various discount cards—more than 70 cards are offered in all. (See below for information about the drug discount program available from Caremark.)

The cards went into effect June 1. The federal government projects that more than seven million seniors without other drug coverage will sign up for the cards, which are expected to provide savings of 10 to 25%.

Over the long term, the federal government anticipates that the drug benefit along with the overall reform package will have substantial impact on healthcare in America. According to Tom Scully, former head of the Centers for Medicare and Medicaid Services, it will increase volume in the prescription drug market and apply pressure to pharmaceutical pricing. With expected wider usage of the three-tier formularies standard in the pharmacy benefit management (PBM) industry, the reform package in some ways will extend the benefits of PBM administration to more Americans.

Importation on the agenda – One way seniors—and other consumers—reportedly can get lower prices is through importation of drugs. After many months of public debate, proposals for the legalization of drug importation have achieved some political momentum. A number of bills on importation have been introduced in the Senate, and Health and Human Services Secretary Tommy Thompson has conceded that the legalization of drug imports seems inevitable. Passage of some form of legalization may occur as early as this year. The Caremark Government Relations team has been carefully monitoring the issue, and we are evaluating the possible impact of the various bills on our clients. Please watch TrendsRx® Quarterly for updates.

Benefit costs continue to rise – The cost of providing benefits rose 2.4% from December 2003 to March 2004. Consumerist strategies continue to arouse interest among employers hoping to curtail the rise and make workers more cost conscious (see story this issue).

Health Savings Accounts (HSA), created as part of the Medicare reform package, have met with particular acceptance. More than half of employers in a Mercer Human Resources Consulting survey said they were somewhat likely to offer an HSA coupled with a high deductible by 2006.

In a move designed to ensure that all retirees have some access to healthcare coverage, the Equal Employment Opportunity Commission (EEOC) voted to allow employers to reduce or eliminate benefits for retirees when they become eligible for Medicare.

RxSavingsSM
Medicare-approved discount drug card program now available from Caremark

The RxSavings discount drug card offers Medicare recipients savings that average more than 20 percent off normal retail prices and more than 30 percent on home-delivered brand and generic prescriptions. All drugs approved by the Centers for Medicare and Medicaid Services (CMS) are available. RxSavings features the largest retail network among Medicare-approved programs, and home delivery includes free standard shipping and handling in the United States with easy refill ordering options. More information and online enrollment is available at www.RxSavings.com.
High-cost specialty products continue to dominate the pharmaceutical pipeline. As anticipated, the Food and Drug Administration (FDA) granted approval to Apokyn™ (apomorphine), an injectable indicated for “off” periods of Parkinson’s disease, when patients’ symptoms are not adequately controlled by drug therapy and they experience sudden and debilitating immobility. Sensipar™ (cinacalcet HCl), for hyperparathyroidism, and Octagam®, for immune deficiency, also gained approval. The FDA added Plenaxis™ and Alimta® to the fast-growing biotech arsenal of cancer treatments. Plenaxis is indicated for advanced prostate cancer; Alimta, for use in combination with another chemotherapy agent to treat asbestos-related cancer of the lining of the chest cavity. Enbrel®, already approved for rheumatoid and psoriatic arthritis received an additional indication for chronic, moderate to severe, plaque psoriasis.

Among brand medications, the FDA approved Ketek™, the first in a new class of antibiotics. Spiriva®, for chronic obstructive pulmonary disease, and Fazaclo™, for severe schizophrenia, also gained approval. Fazaclo is a new orally disintegrating form of the drug Clozaril® (clozapine).

Generics continue to enter the market at a rapid rate. In recent months, generic versions of the antidepressant Wellbutrin® SR, antihypertensive Lotensin®, hepatitis C agent Rebetol®, and diabetes drugs Glucophage® XR, Glucotrol® XL, and Glucovance® have become available.

Ciprofloxacin, generic for the antibiotic Cipro®, and the ophthalmic product Ciloxan®, and ofloxacin, generic for Ocuflox®, another ophthalmic anti-infective, received FDA approval and also entered the market.

Market trend to watch: Under Hatch-Waxman legislation, some generic versions of brand name products enter the market with a 180-day generic marketing exclusivity provision. This exclusivity is given to the first generic company that initiates and ultimately wins a patent challenge against a specific branded drug. During this 180-day period, the FDA cannot approve any other generic drug application for that product. However, increasingly, some brand manufacturers are launching their own “authorized distributor” generic version of the brand product simultaneously with the launch of the newly approved generic product. In such cases, prices for the generic version may be lower because two products are competing for sales. While reduced prices may be welcome in the short term, over the long term reduced returns may discourage generic manufacturers from initiating costly patent challenges, thereby delaying the availability of lower-priced generics. The marketing of these authorized distributor generic products during the 180-day exclusivity period has been reviewed by the FDA. The agency recently declined to intervene with such marketing, calling it a “pro-competitive business practice.”
Healthcare Management: Achieving the Best Health Outcomes for the Cost

Here in the United States, we spend more on healthcare than any other country in the world. Nonetheless, studies repeatedly fail to validate either superior outcomes or better patient experiences in the U.S. health system.¹ A recent Rand study, for example, concluded that U.S. seniors with health problems fail to receive recommended medication and/or medical care for age-related conditions about two thirds of the time.²

It’s important to note that recommended care is not necessarily expensive care. Frequently cited examples of recommended care include cancer screenings, influenza vaccinations for vulnerable populations, control of blood pressure and cholesterol levels, and eye exams for people with diabetes. Such services have repeatedly been shown to be effective in preventing costly complications, emergency room visits, hospitalizations, disability, even death. Unfortunately, for a wide variety of reasons, many of those individuals who would most benefit from such services aren’t receiving them.

Healthcare management programs can help bridge such gaps in care. These programs aim to reduce overall healthcare costs by keeping high-risk individuals healthier and delaying or preventing the need for costly treatments. Caremark healthcare management programs target plan participants with chronic, high impact conditions—the 20% of a population that is typically responsible for 75% of a plan’s total healthcare costs. These include: plan participants with chronic illnesses; those who require specialty pharmacy services; and those with conditions that could lead to higher healthcare utilization in the future.

Our healthcare management programs involve four essential steps.

- Identifying potential candidates through analysis of pharmacy and (when available) medical claims
- Assessing risk of targeted individuals to identify appropriate support measures
- Targeted interventions depending on individual risk assessment; interventions could range from the simple provision of educational material to personalized interventions with a clinician
- Outcomes measurement to evaluate medical utilization, productivity and other relevant indicators

Disease management programs are a crucial component in the overall healthcare management continuum, offering the most intensive support for plan participants with high-impact conditions such as asthma, diabetes, hemophilia, cystic fibrosis and systemic lupus. Combining the AdvancePCS focus on rare diseases (through Accordant Health programs) with the Caremark focus on high-frequency, chronic conditions (through CarePatterns® programs) has created a comprehensive set of disease management solutions addressing more than 20 chronic medical conditions—some of which are sure to contribute substantially to your pharmacy and medical spend. To learn more about how healthcare management and disease management programs could help control your overall healthcare spend, contact your Caremark account representative.

2. “Quality of Medical Care Provided to Vulnerable Community Dwelling Older Patients,” RAND Health.