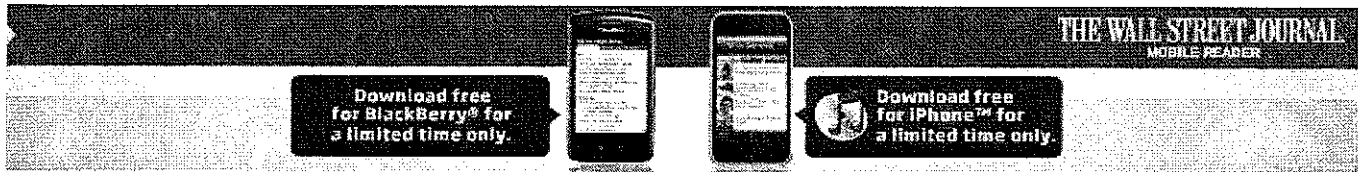


Attachment D



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Battle Erupts Over Disclosure on Drug Prices

By JANE ZHANG

Some Democratic lawmakers looking for ways to overhaul the nation's health-care system are targeting the companies that handle drug benefits for more than 210 million Americans, setting off a lobbying battle over how much pricing information the companies should disclose.

One version of the health legislation passed by the House Energy and Commerce Committee last month includes provisions that could overhaul how pharmacy-benefit managers -- middlemen hired by insurers to administer prescription-drug benefits -- operate. It would require them to inform the government or federally approved health plans about differences between the average cost of drugs to the PBM and what the PBM charges insurers. It would also require PBMs to disclose rebates they receive from drug makers for pushing certain pills and say whether those rebates are passed on to insurers.

The goal of the provisions is to drive into the open any cases in which PBMs are earning improper profit margins or rebates, said Rep. Anthony Weiner (D., N.Y.), the lead sponsor of the provisions. He said his legislation will "cut down on inside deals that benefit only the PBMs and the drug companies."

PBMs use their buying power to wring lower prices from drug makers and say they save money for employers, the government and others who pay for health care. Most health-insurance companies, including those running Medicare's drug plans, hire PBMs to manage drug benefits.

Typically, pharmacy-benefit managers have carried out pricing negotiations behind closed doors, leaving insurers and other outsiders little idea of the actual prices PBMs negotiate for drugs or their profit margin.

The PBMs argue such secrecy is necessary to negotiate lower prices, but critics say it only helps PBMs pocket more money at the expense of others.

The president of the pharmacy-benefit managers' trade group called the provisions a bad idea. "One of the great services PBMs provide is to play drug companies off one another and get big discounts on drugs," said Mark Merritt of the Pharmaceutical Care Management Association. "The thing that drives prices down is competition, not this kind of transparency which tends to help suppliers keep prices higher."

Greater transparency could result in drug makers giving smaller discounts to PBMs, which could lead to higher drug costs for insurers and consumers, according to analyses by the Congressional Budget Office of previous legislative proposals.

The Weiner provisions aren't in versions of the health-care bill passed by other House committees. In the Senate, Maria

Cantwell (D., Wash.), a member of the Finance Committee, said she wanted her committee's health-care bill to include similar disclosure requirements for PBMs.

Some companies that offer drug benefits to employees are taking action on their own. Nearly 60 large employers accounting for more than \$4.9 billion in annual drug spending, including McDonald's Corp. and International Business Machines Corp., have banded together to demand greater transparency from pharmacy-benefit managers.

They have signed on 15 PBMs, including industry leaders Medco Health Solutions Inc. and CVS Caremark Corp., that are willing to disclose to the companies their acquisition costs for drugs and pass along any additional discounts they get.

One of the companies, Caterpillar Co., also negotiated prices for the drugs its employees buy from Wal-Mart Stores Inc., although it still uses a PBM to handle claims.

Troy Filipek, an actuary at consulting firm Milliman Inc., predicted that more companies will seek alternatives to traditional PBMs. "I think in general, plans just want to have an understanding of where PBMs are making their money," he said.

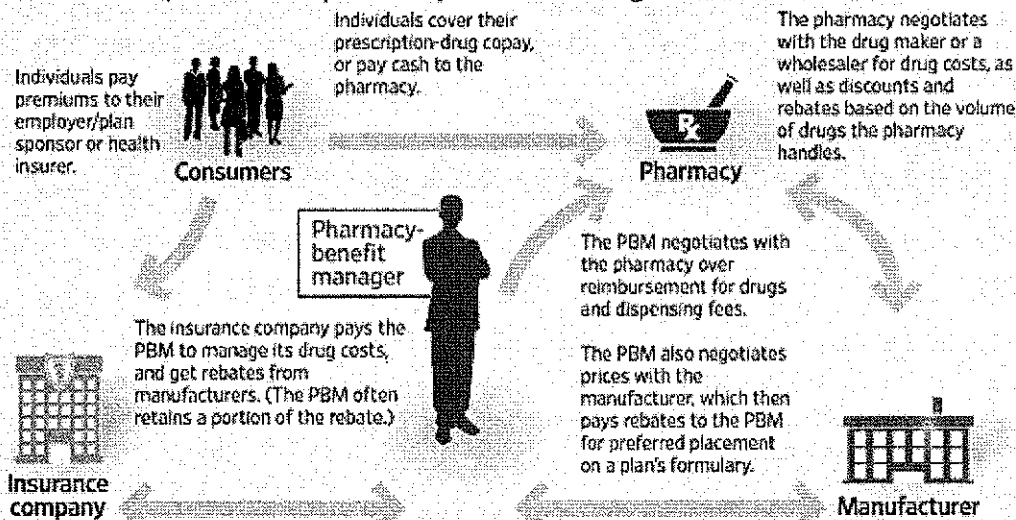
Independent pharmacies, which have lost money as PBMs expanded into Medicare's drug benefit in recent years, said secretive pricing techniques benefit PBMs more than employers and consumers. A prescription, for example, costs the pharmacies more under a PBM system because they often have to hire other middlemen to make sure PBMs aren't underpaying them.

The National Community Pharmacists Association, an industry group, has beefed up lobbying against PBMs, hiring outside lawyers and increasing political contributions, said spokesman Kevin Schweers.

The group's lobbyists are talking to Sen. Cantwell and are trying to persuade leading Democrats to include the PBM provision in the House's final health-care legislation, said John Coster, the group's senior vice president for government affairs.

Write to Jane Zhang at

Middlemen | The role of pharmacy-benefit managers



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