

# Alliance Alert

## CVS/Caremark Combination Merge could lead to more consolidation in Pharmacy Benefit Management Sector

On November 1, 2006, Caremark and CVS Corporate announced their intention to merge operations, creating a premier integrated pharmacy services provider in the US. Once the merger is completed (within the next six to twelve months), Caremark states that you they will continue to operate under the Caremark name, same management team structure and provide access to the same pharmacy retail and mail service benefits.

The merger will result in a new business framework that should provide significant benefits for employers and health plans through more effective cost management and innovative programs, improved technology, purchasing efficiency, convenience, choice and possibly face-to-face personal assistance through the minute clinic model. Possibly, Caremark members may be able to obtain additional services at CVS stores, such as using onsite health care clinics. The merger that may benefit employers and their employees is the ability of the combined companies to cross-promote services offered by the previously separate organizations.

A concern arising from the merger is the potential loss of one check and balance system in the revenue transparency from the pharmacy, the pharmacy benefit manager and the drug manufacturer. Caremark has been driving lower pricing from retail and now CVS may not have an incentive to continue their deep discount structure through the Caremark relationship pharmacy.

Consumer Compliance is an area of focus for the new organization. Industry standards state 22.9% of the healthcare consumers are unaware of a medical condition that should be treated while 30% of the consumers being treated are non-compliant with their prescription treatment plan.

As a reminder, the Public Employee Benefits Alliance (PEBA) met on June 7, 2006. The PEBA Board made the decision to execute a PEBA Alliance agreement with Caremark for the Pharmacy Benefit Manager services effective 10/1/06. The contract will be executed for a three-year term. The Caremark Alliance agreement will be available to all Active PEBA member groups who are current with their annual membership and proposal fees. If a political subdivision did not join PEBA and/or participate in the PEBA Pharmacy Benefit Management Proposal access to the PEBA Alliance agreement with Caremark is possible once the Annual Membership Fees, Proposal Costs, Late Fee and Interlocal Agreement have been executed.

### Fee Sheet

Annual Membership Fees	2006
Employer	
0-100 Lives \$150.00	\$150
101-500 Lives \$300.00	\$300
500-1000 Lives \$500.00	\$500
>1,000 lives	\$700

Proposal Costs	
2006	
Pharmacy Benefit Manager:	\$2,000/\$2500 late fee
Retiree Benefits	\$200
Disease Management	\$100
Late Fee Addition	Future late fees will be discussed at the next board meeting.

### OPTIONS FOR CONTRACT-HOLDERS:

#### The PEBA Alliance Agreement Pricing Options include:

1. Rebate Sharing with 80% going to contract-holder
  - a. Two-tiered copay guarantee
  - b. Three-tiered copay guarantee

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2. Non-Rebate sharing with an increase in –AWP discounts and a decrease in administrative and dispensing fixed costs

**The PEBA Alliance Agreement Network Options include:**

1. National Network (Includes over 61,000 Pharmacies)
  2. CareChoice Network (National Network without CVS and a few local pharmacies.)
- At your request, we can prepare a network list for your area to compare the two networks.

**The PEBA Plan Design Parameters will include these options:**

1. Two-tiered, three-tiered and four-tiered Copay Options
2. Benefit Percentage Options
3. Over the Counter Prescription Options
4. Biotech Copay Options
5. Maintenance Dispensing Options
6. Health Savings Account Preventative Drug List Options
7. Front-end Deductible on any of the above.

**For more information, please contact PEBA directly: (800) 348-2879 ext. 6768**