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FREE DRUGS?

Some of the nation's largest retailers are battling it out with cheap and even some free prescription drugs to capture consumer market share. Plan sponsors that offer pharmacy benefits may be able to take advantage of the slugfest and capture some savings as well.

The new prescription drug programs began in May, when Kmart announced a $15 flat cost for a 90-day supply on 184 generic drugs in all of its 1,100 pharmacies. Wal-Mart responded on September 21st by announcing a $4 flat cost of a 30-day supply on 291 generic drugs beginning in Florida, and eventually expanding nationwide. Wall Street applauded the move, driving Wal-Mart's stock to its highest point in the last year. Wal-Mart continues to expand the number of drugs and locations covered by the program, keeping them in the news regularly as others announce their programs. Meanwhile, Target Corp., within hours, announced it would match Wal-Mart's prices in Florida, as did the national grocery retailer Publix Super Markets Inc. Wall Street also rewarded Target and Kmart's moves, pushing up those stocks as well. Not surprisingly, CVS, which did not jump into the generic drug discounting frenzy, watched its stock drop.

Following the retailers' announcements, many pharmacy benefit management (PBMs) companies scurried to put out the word to clients that their pricing structures are still competitive. However, other PBMs have begun to compete more aggressively. For example, AmeriHealth, a BlueCross BlueShield PBM in New Jersey, announced on October 11th it will give some generics away for free in the first quarter of 2007 – but only for new clients.

On October 12th, America's largest PBM, Medco Health Solutions, which distributes prescription drugs through 55,000 drug stores, announced a $10 copay on a 90-day supply via mail order for nearly 2,000 generic drugs. This new program, Generics First, will be available in 31 states and the District of Columbia for employers with less than 2,000 employees. This move suggests a direct counter-attack to both the mega-retailers and the purchasing coalitions, all rolled into one announcement. Interestingly, Medco's stock only moved up slightly following the announcement then dropped back on October 25th. Some experts anticipate since Medco has stepped up to the plate, other PBMs will have to become more aggressive.

Other forces for change:

1) Department of Justice investigations and litigation targeting of PBM pricing policies.
2) CMS's push for transparency and publishing some drug prices on Medicare's website.
3) Local healthcare purchasing coalitions publishing drug cost data within their geographic areas.
4) Plan sponsors focusing on drug costs, demanding PBM performance guarantees and publishing articles to educate plan participants on drug topics.
5) Purchasing coalition developed to get the "best" deal from a PBM.
6) Plan sponsors pushed PBMs to come up with more effective methods of managing drugs, e.g., requiring plan members' physicians be on call to explain any script written for a number of days exceeding FDA recommendations.
7) Drug plan designs increasing incentives for generics over brand name drugs.
8) Use of cheaper Canadian drugs by some plan sponsors.

The most recent development, as of late October, was an announcement from Meijer Inc, a privately owned Midwest mega-retailer, which announced plans to literally give away seven generic prescription antibiotics, with one from each major antibiotic classification.

Some analysts have argued that, while these developments are welcomed from the perspective of drug buyers, so far only a relatively limited number of generics are actually covered. However, this may be only the beginning. Given that nearly 75% of all drugs have a generic counterpart there is great potential for further expansion, which should add up to savings for both plan sponsors and patients. Others have argued that this may lead to higher prices on brand name drugs as the retailers and PBMs attempt to offset lower profits on generics. While we believe that plan sponsors can save some money as a result of the new discounts on generics, at a minimum, these new generic drug programs are raising public awareness of the availability and economical nature of generics.

We recommend that plan sponsors take advantage of these developments. To do so, plan sponsors need to make sure that both their prescription drug benefit levels and their PBM contracts still make sense in light of the recent developments. Specifically, Cheiron recommends that plan sponsors:

1) Check your plan's **benefit levels.** Do your plan's prescription copays or coinsurance still align incentives appropriately?
2) Ask your **PBM** for its **response** or position on the new prescription drug marketplace.
3) Determine whether your PBM or Health Plan (insurance company) is **positioned** to maximize the benefits out of this shift in the marketplace?
4) Find out from your PBM or Health Plan how these recent market developments **impact your performance guarantees.** (For example, some PBMs may be using aggregate pricing of guarantees instead of individual pricing, and could actually make a larger profit off of these recent announcements, instead of passing savings on to your plan and participants.)
5) If your plan is part of a purchasing coalition, it may be time to use the muscle the coalition was set up to have to get the same deal as a smaller employer.

In conclusion, the new generic drug programs are not the final answer to healthcare costs or trends, but they are an intermediate step in the right direction.

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