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Medco agrees to more financial transparency

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Two of the largest U.S. pharmacy benefit managers, including Franklin Lakes-based Medco Health Solutions Inc., have agreed to conduct their business more openly.

For years, PBMs, which serve as middlemen between health insurance plans and drug makers, have been criticized for withholding important financial information from their clients.

That concern prompted HR Policy Association, a Washington, D.C.-based advocacy group, to establish a certification process for PBMs that seeks more transparency.

In order to be certified by the HR Policy Association, PBMs must agree to disclose to their clients the price they pay for drugs, as well as the amount in rebates they receive from drug makers that want the PBMs to recommend their products to health-care programs. The certification process is voluntary, however, and PBMs remain under no legal obligation to disclose more information than they have in the past.

Medco spokeswoman Jennifer Luddy said HRP certification is tantamount to "the Good Housekeeping Seal of Approval -- it means that Medco is the largest PBM that has been recognized for meeting the standards that were developed and approved by HRP members."

Many states, including New Jersey, are considering legislation that would require more transparency from PBMs. Supporters of such legislation say HRP certification is not enough.

"It's a step in the right direction, but it doesn't supersede the need for legislation," said Laurie Clark, director of government affairs for the New Jersey Pharmacists Association.

"These companies need to be scrutinized closely. When it comes to the issue of pharmaceutical pricing, it's too easy to be deceptive."

"Philosophically, it sounds like a great idea. But I don't see that there's any teeth to this," added Derek Brandt, an Illinois attorney who represents health plans in cases against PBMs.

The certification process, according to HRP spokeswoman Marisa Milton, is designed to be an incentive to push the entire industry toward a set of uniform standards of transparency.

For years, consumer advocates have argued that by leveraging their strategic position in the health-care chain, the PBMs have reaped huge profits at the expense of clients and consumers.

An estimated 95 percent of U.S. patients with prescription drug insurance coverage receive their benefits through a PBM, according to the Federal Trade Commission.

Medco, which covers 65 million members and generated \$38 billion in sales in 2005, was HRP-certified last month, and is the largest PBM to participate.

The PBM industry is dominated by three players -- Medco; Caremark RX of Nashville, Tenn., and Express Scripts of Maryland Heights, Mo. Caremark also has been certified; Express Scripts has not. Eight smaller PBMs also have agreed to the more transparent method.

The 10 certified PBMs represent nearly 50 percent of patients covered by PBM benefit programs, said the HRPAs, which comprises human resource executives from more than 250 companies with operations in the United States.

A coalition of 56 HRPAs members, including IBM Corp., Starbucks Corp., Ford Motor Co. and Caterpillar Inc., developed the new, more open method for negotiating contracts with PBMs.

"We are very pleased to see that our efforts to bring clarity to the confusing world of pharmaceutical pricing are working and that a growing number of PBMs are willing to do business in a fully transparent manner," Sidney C. Banwart, vice president of Caterpillar's human services division, said in a statement.

Milton said HRPAs members were concerned that PBMs are not required to disclose the prices they pay to drug makers, nor are they required to disclose the rebates they receive from the makers.

Lacking that information, employee benefit programs are at a disadvantage when negotiating drug prices with PBMs, she said.

Milton said the purpose of creating a certification process was to help ensure that employees who receive their prescription drugs from PBMs actually receive "the most cost-effective and clinically appropriate drug available."

Employee health programs "can't do that if there are mechanisms in place that prevent" them from knowing how much the PBMs paid for the drug, Milton noted.

"The whole goal was to increase transparency and open the process so employees and, ultimately, their employees can have a good understanding of the price they pay for drugs," she said.

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