

Pharmaceutical Benefit Managers: The State of the Industry

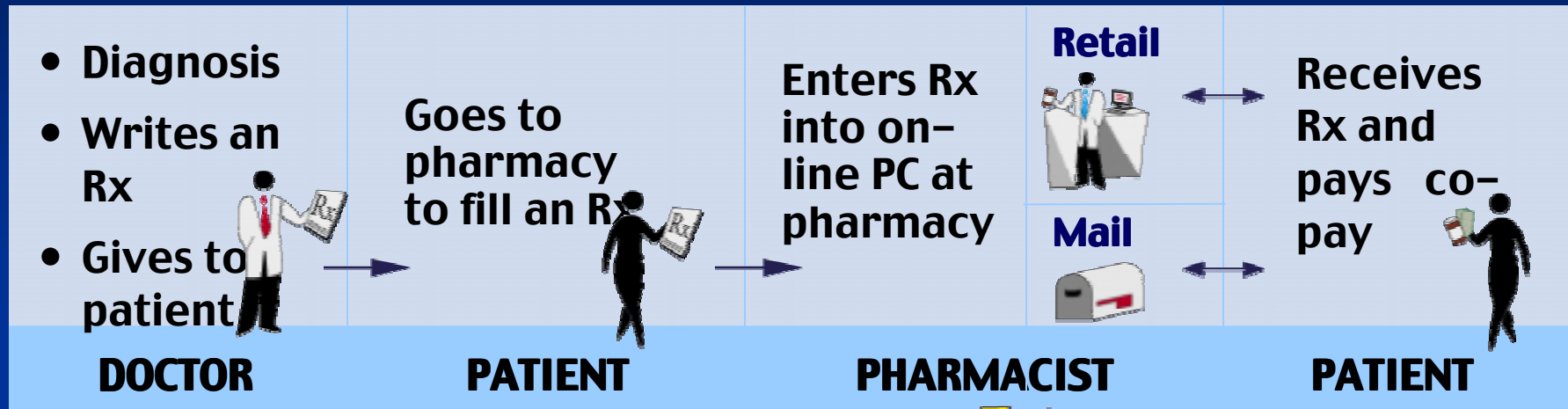
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President and Chief Executive Officer

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EXPRESS SCRIPTS®
Charting the Future of Pharmacy

On-line Pharmacy Claims Process



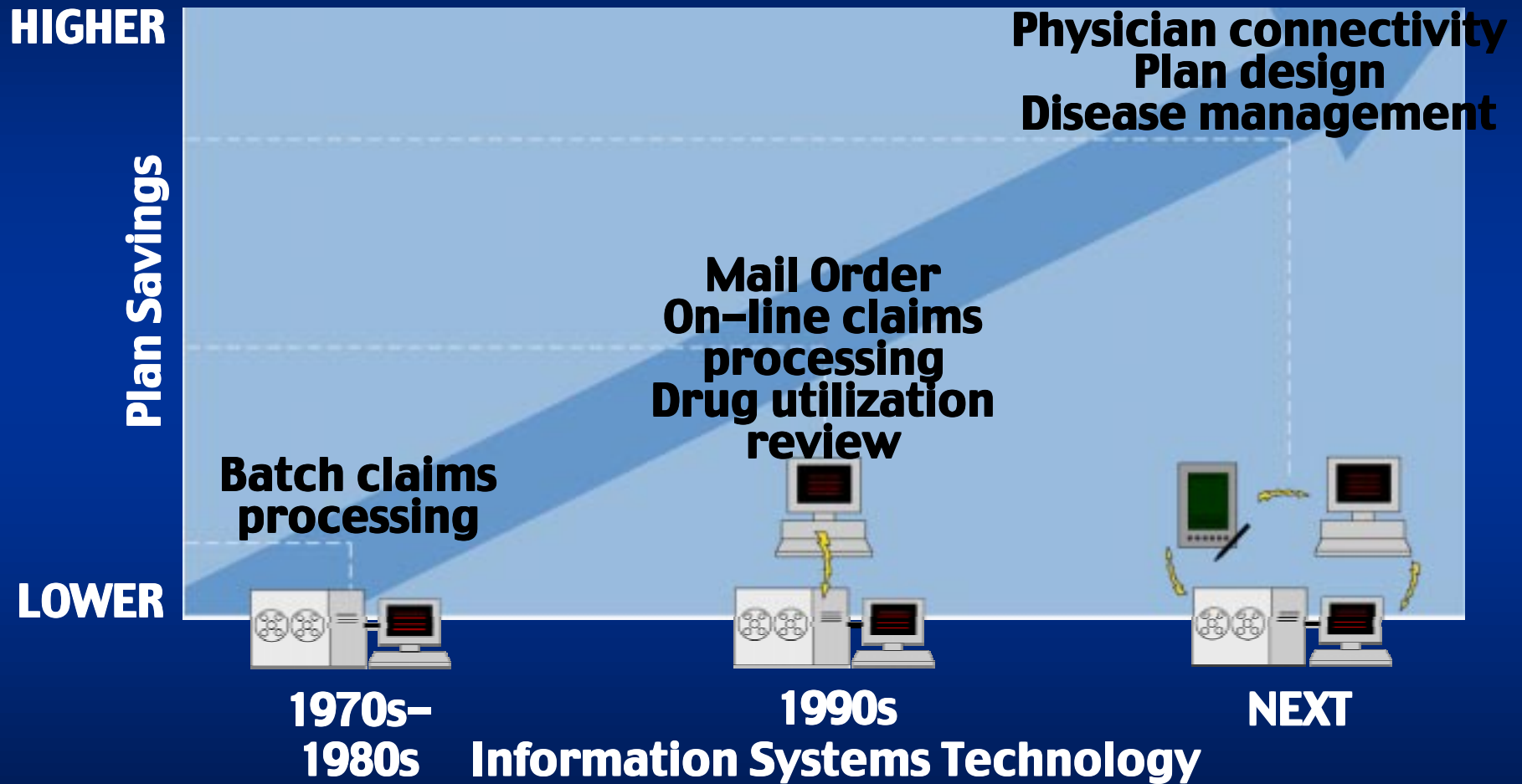
PBM: Pharmacy Benefit Manager

- Submits claim for on-line processing
- Message back authorizing Rx claim payment

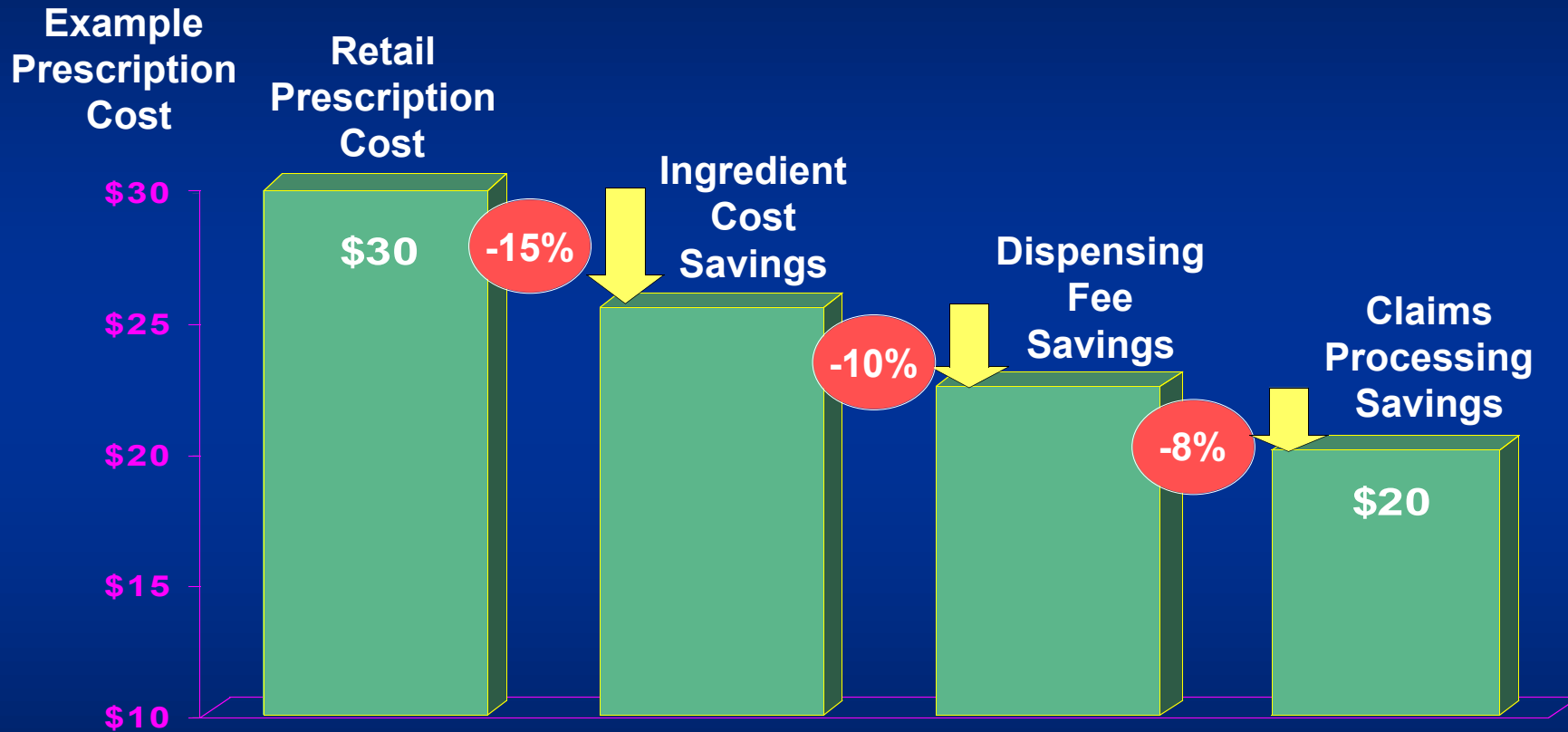
- Clinical messaging



Evolution of PBM Services



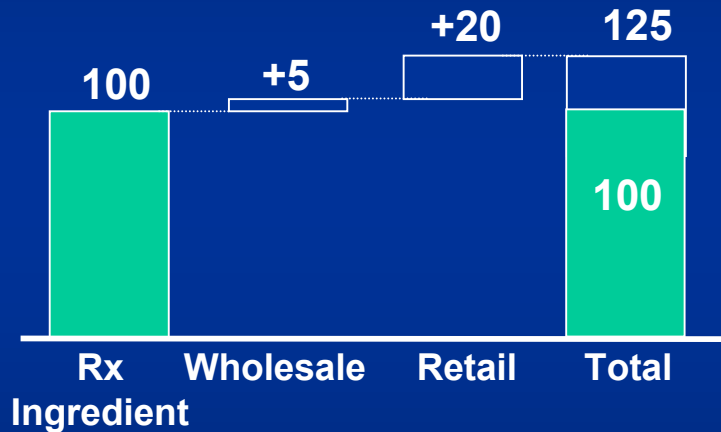
PBM's Role in Reducing Drug Costs



PBM Industry Overview

PBMs Reduce Distribution Costs -- Increase Value of Rx's to Patients

Non-PBM - Administered



Ingredient Cost: 80%

Distribution Cost: 20%

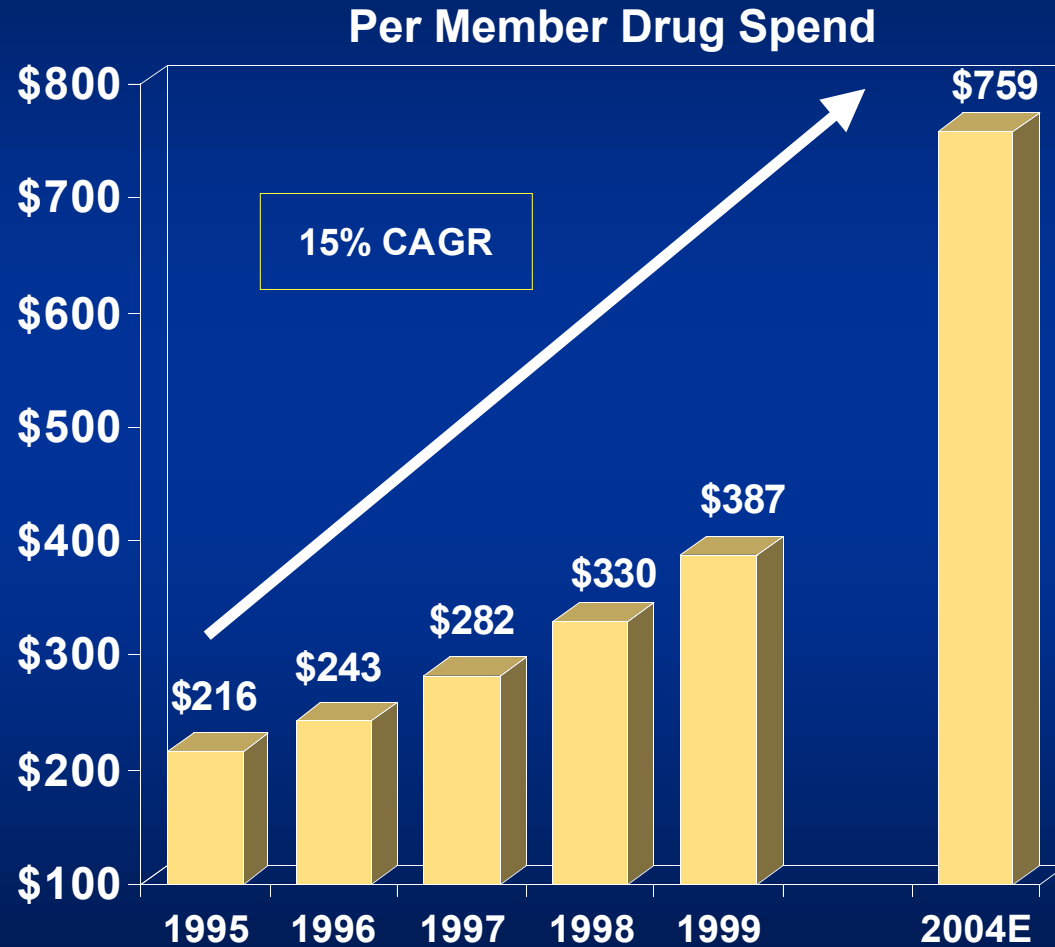
U.S. PBM - Administered



Ingredient Cost: 86% 90%

Distribution Cost: 14% 10%

Pharmaceutical Costs - The Fastest Growing Component of Health Care



Source: 1999 Express Scripts Drug Trend Report

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Pharmaceutical Costs - The Fastest Growing Component of Health Care

Per Senior Drug Spend

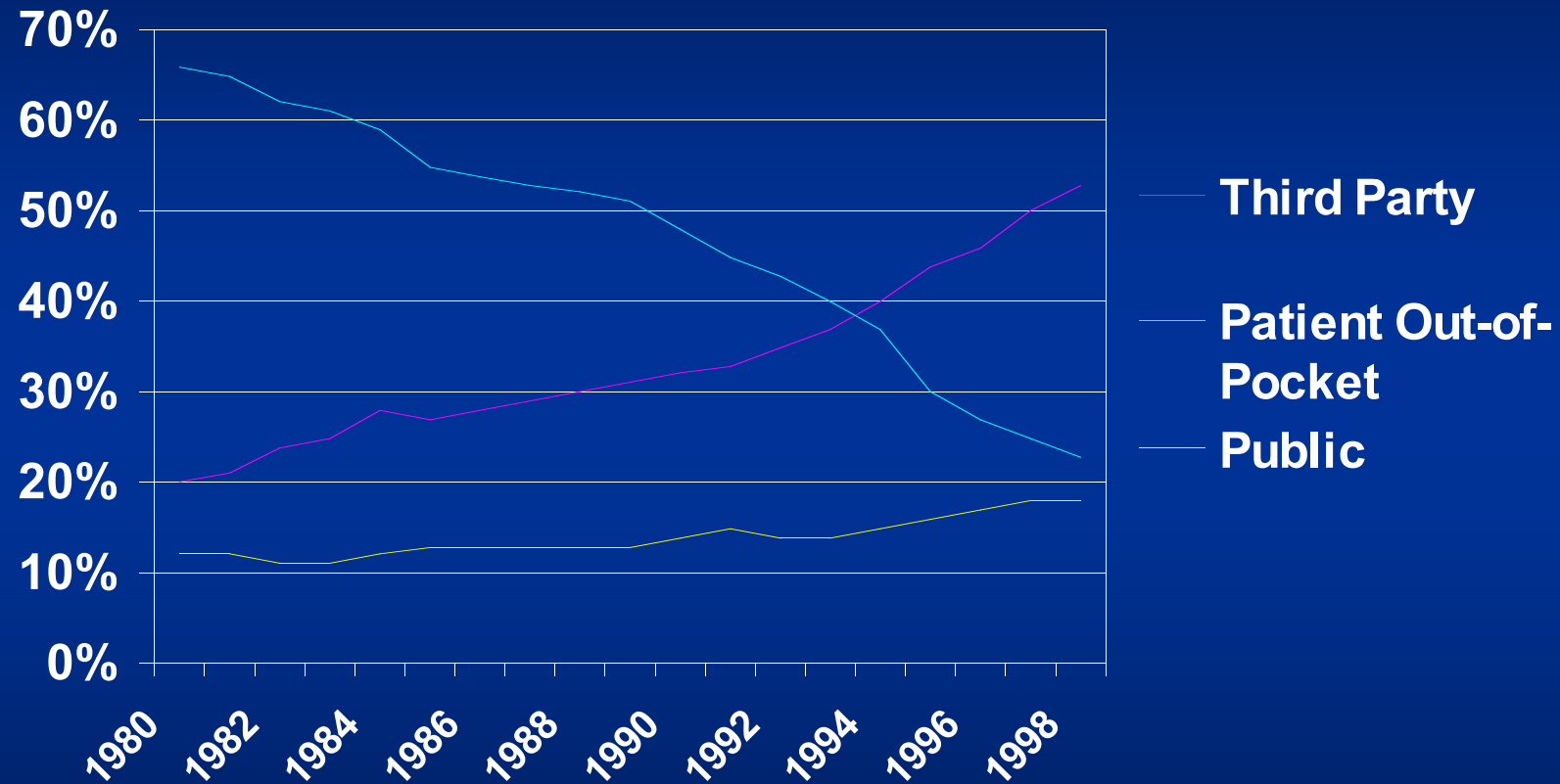


Source: PRIME Institute, University of Minnesota

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PBM Issues: Patients Paying Less



PBM Issues: Patients Becoming Consumers

Percentage of patients 'very likely' to talk to MD about Rx if they saw an advertisement for a condition that was bothersome

54%

Percentage of patients given a Rx when asked about a drug

50%

Source: FDA, Division of Drug Marketing, Advertising, and Communications

How will we finance prescriptions that come from Human Genome research?

PUBLIC → **PRIVATE** → **PERSONAL**

Publicly financed

- Rxs treating whole populations
- Vaccines (e.g. polio)
- Relatively few Rxs treating random illnesses

Private pre-tax health insurance

- Rxs treating large populations, e.g.:
 - hypertension
 - depression
- Many Rxs

More patient participation (Defined Contribution)

- More Rxs serving narrow populations
- Highly predictable Rx use -- chronic medications

PBM Direction: Likely Future for Prescription Financing

- + Increasing Rx Costs
- + Patients Request for Rxs
- + Backlash Against Managed Care

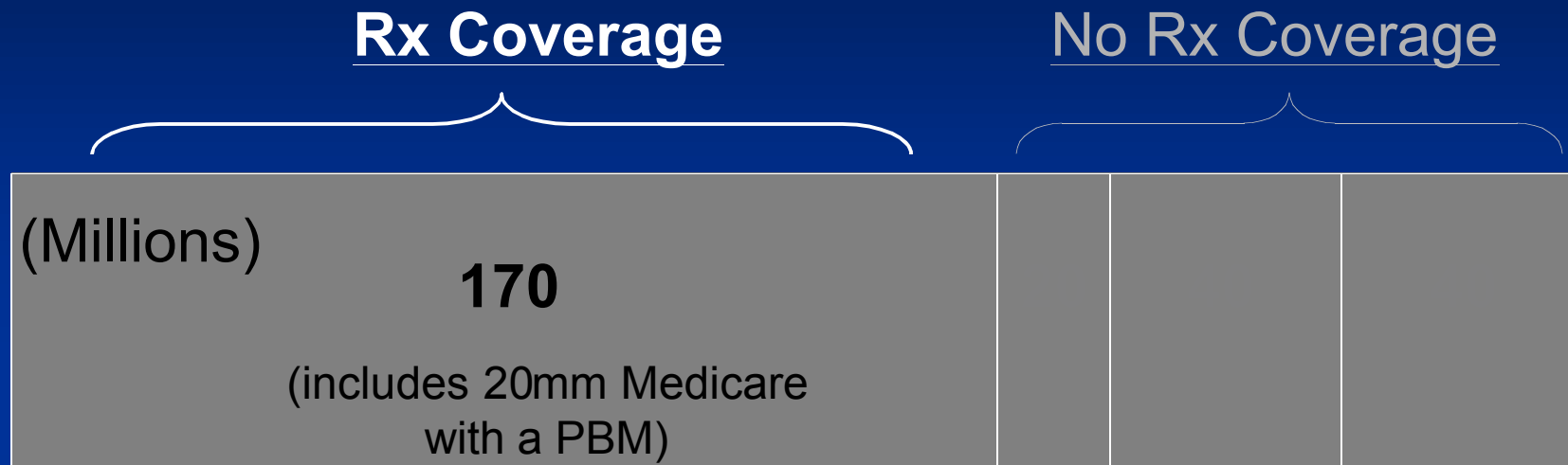
- = Movement Toward **Defined Contribution** (or at least more patient cost) in pharmacy benefit

Requirements for more patient involvement

- better Rx information
- more say in construction of pharmacy program

PBM Direction: Increasing PBM Services

U.S. Population: Prescription Benefits

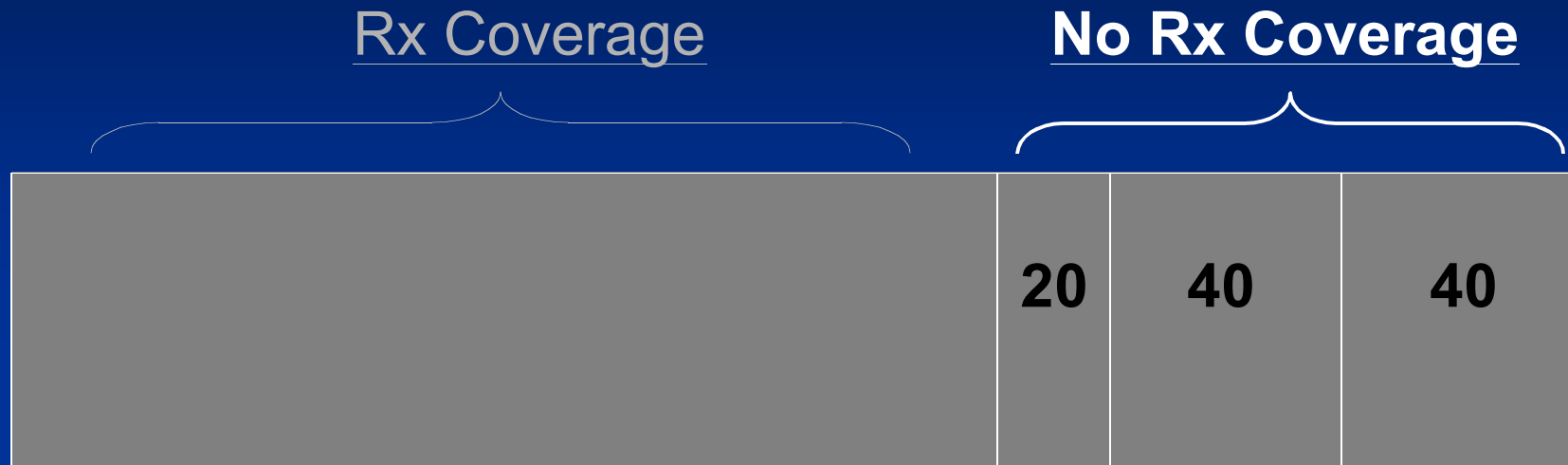


Insured

- PBM coverage
- Low out of pocket costs to members
- Increasing trend towards active Rx cost management
 - e.g. mail order, formulary, 3-tier

PBM Direction: Increasing PBM Services

U.S. Population: Prescription Benefits



Medicare

- No Rx coverage
- Very high cost, \$1000/year average

Medicaid

- Little PBM involvement
- Initial PBM selection, 2000
- No clinical programs

Uninsured

- High cost
 - no networks
 - no formularies
- No clinical programs

Current Proposed Federal Focus on Pharmacy Affecting PBMs

- Expand Coverage to Medicare Recipients
 - Federal programs
 - State financing
- Medical Errors
- Drug Pricing and Reimportation
- Privacy / Security

PBM Direction: Use of New Technology

Internet:

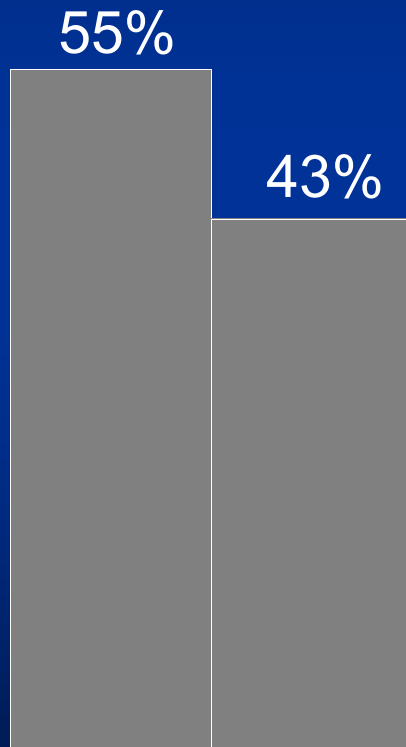
- Patient empowerment regarding prescriptions

Hand-held Devices:

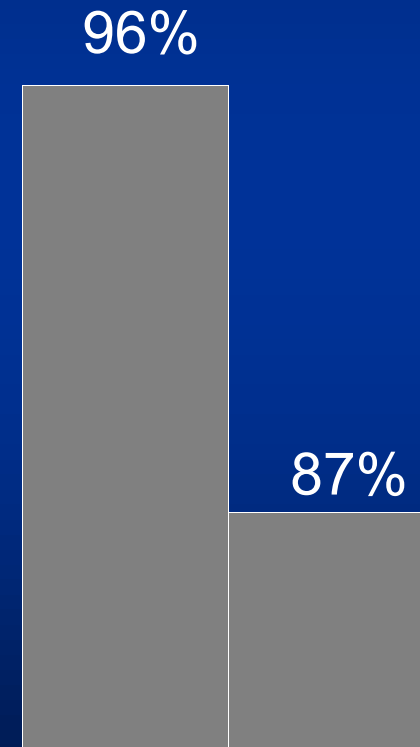
- Better clinical information at point of care
- Better formulary enforcement
- Lower distribution costs

Point-of-Care Electronic Prescribing Reduces Pharmacy Costs

Prescribing Generic Alternatives



Formulary Compliance




Electronic
prescribing


Paper process

All trends considered...

- I. More Drugs and Higher Utilization of Existing Drugs
- II. Changes Likely in the Way Pharmaceutical Costs are Financed
- III. PBM Services May Expand with a Funded Rx Benefit to Include Medicare and the Uninsured
- IV. Rapid Adoption of New Technology
 - Pipeline developments will advance the PBM industry