



# Business Strategy in the Medicare Market: The PBM Perspective

October 16, 2006

**The Third National Medicare Congress**

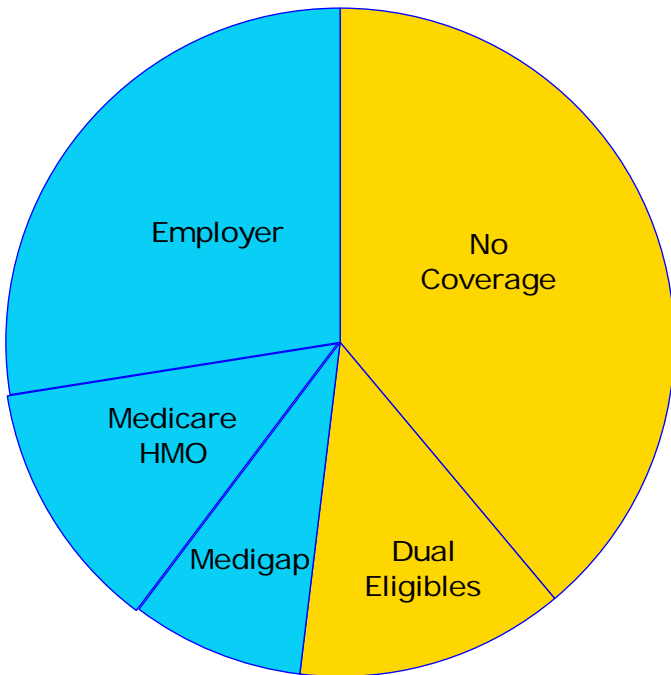
**David B. Snow, Jr.**

Chairman & CEO, Medco Health Solutions, Inc

# Medicare opportunity for PBMs doubles

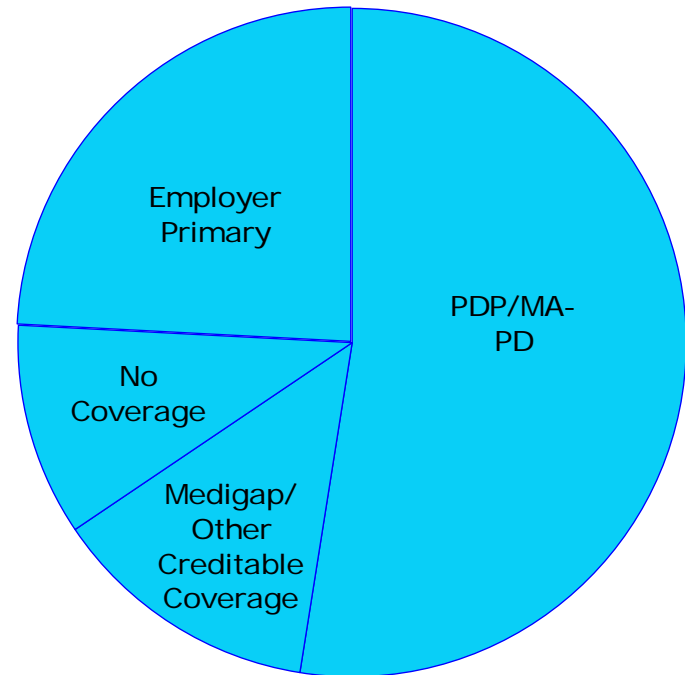
Medicare Part D creates new PBM market

2005 (42.0MM Lives, ~\$120B)



■ Market not served by PBMs

2006 (43.1MM Lives, ~\$133B)



■ Market served by PBMs

Note: Enrollment estimates from Kaiser Family Foundation Medicare Chart Book, Summer 2005. Distribution from *Medicare Advantage News*, January 19, 2006. Employer Primary 2006 includes Federal Retiree Coverage (TRICARE, FEHB)

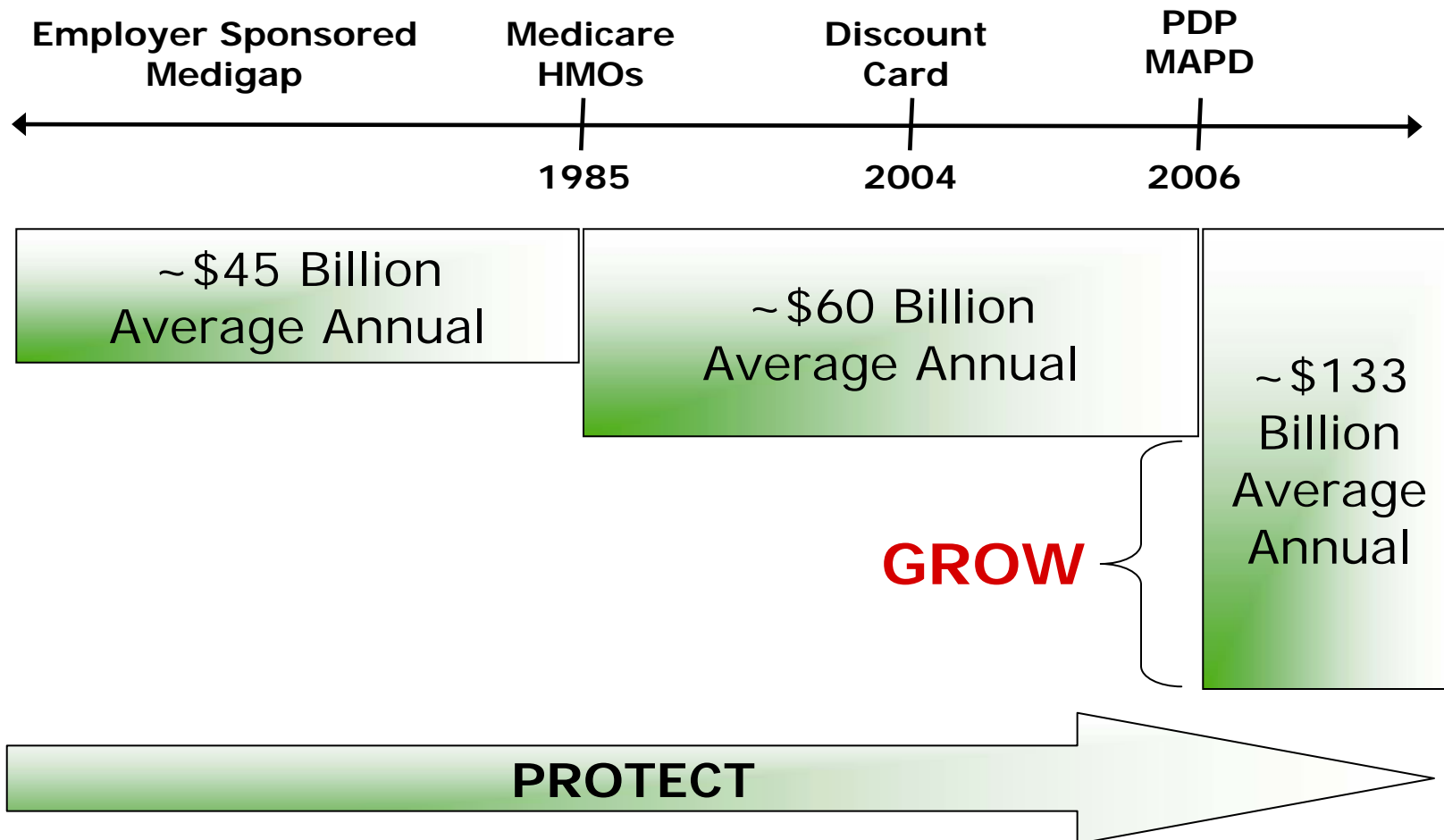
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# The Issues PBMs Considered:

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- Public/Private Partnership?
- Stand Alone Fully Insured Drug Benefit?
- Underwriting Data?
- Pent up Demand?
- Will “The Tools” Survive?
- How to Motivate Dual Eligibles?

# To Play or Not to Play



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# Pre-Launch Anxiety and Uncertainty

Will the benefit be a success?

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CMS

Private industry is critical to success

- Will anyone participate? Will we need fallback plans?
- Will we be within budget projections?

Pharmacy  
Industry

How do I best work with CMS and my business partners?

- What value do/could I add?
- How do I meet inevitable challenges?
- What capabilities must I build?

Employers

What are my best alternatives?

- Who should I turn to for advice?

Part D  
Beneficiaries

What is Medicare Part D?

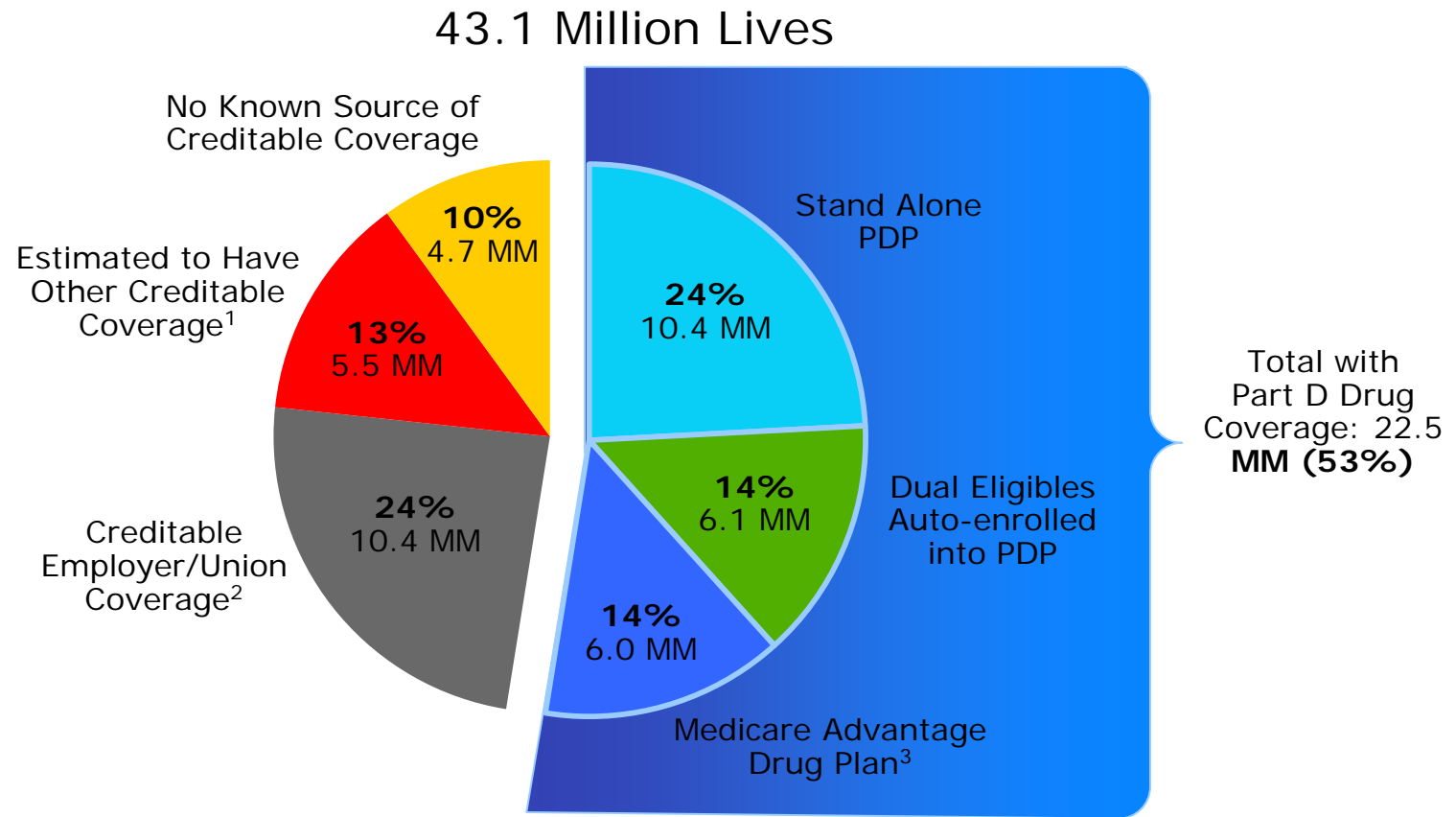
# The Beneficiary Perspective: *Overwhelming Market Choices*

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- 3000+ Part D options offered nationally
- 1,429 Prescription Drug Plans (PDPs)
- 458 Medicare Advantage (MA) plans
- 276 MA plans with Special Needs Plans
- Between 11 to 21 benefit options by region
- 10 National organizations covering 62%
- 4 “near-National” plans



# What Did They Choose?



<sup>1</sup> Includes Veterans Administration, Indian Health Service, employer plans without retiree subsidies, and employer plans for active workers.

<sup>2</sup> Includes employer/union, FEHBP, and TRICARE coverage.

<sup>3</sup> Approximately 594,000 dual-eligibles are enrolled in Medicare Advantage drug plans and are reported in this category.

Source: HHS, April 20, 2006

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# The Launch: Implementation Challenges

*Public-private partnership begins to weaken*

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Enrollment logic and delays, particularly among the low income membership in PDPs, lead to State intervention

Consumer education challenges

Customer service support

Subsidy program – eligibility verification and reporting

Politics begin to take a more significant role in the Medicare Part D benefit. Communications become uni-lateral, with over 300 year to date 'directives' and policy changes, most with significant process implications.

# Making the public-private partnership work

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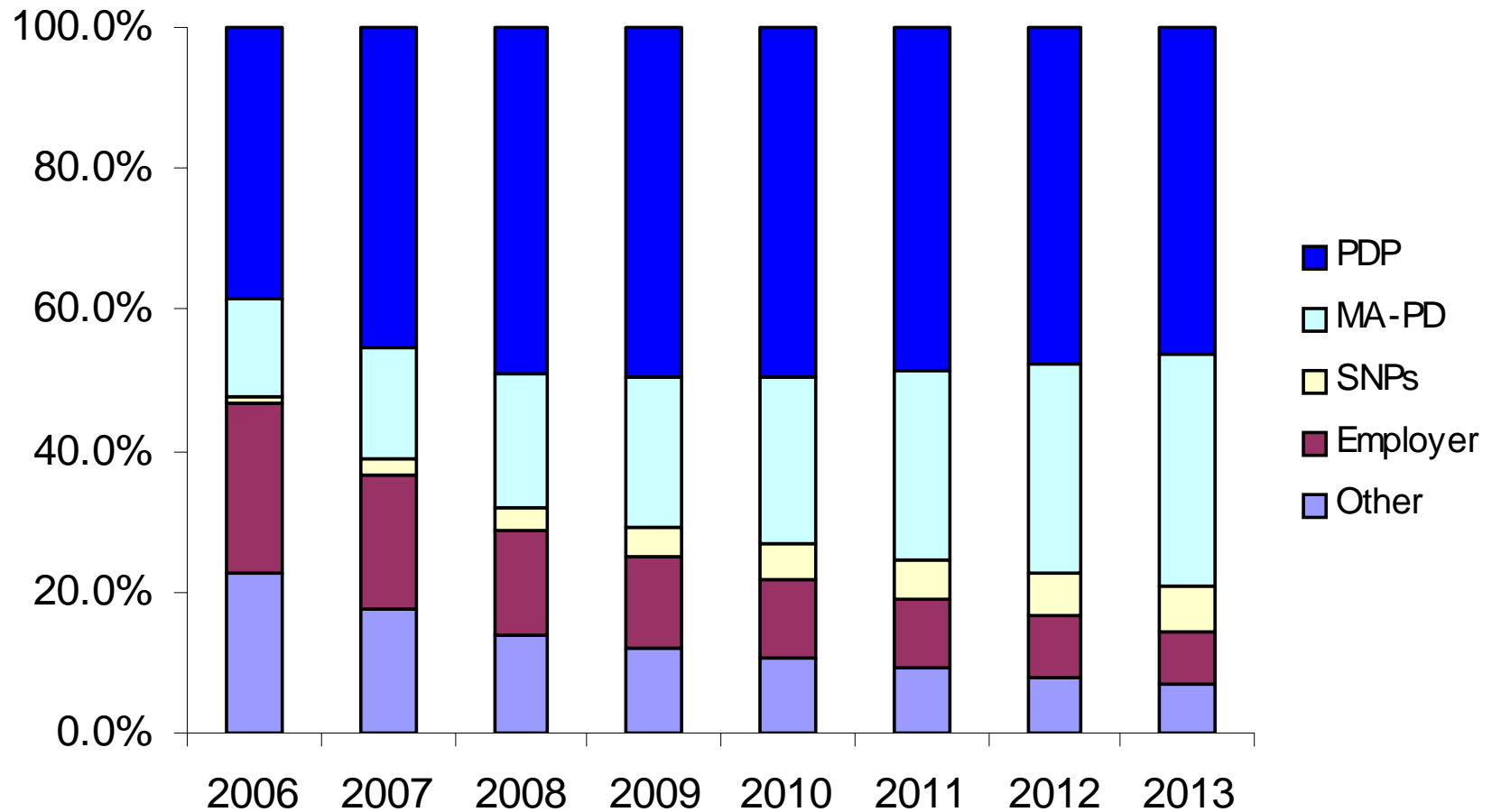
We all have similar interests:

- Choice and access for Medicare beneficiaries
- Member education and benefit understanding
- Cost management to ensure long term benefit sustainability
- Ease of benefit administration
- Program stability

We can work together, similar to what was done when benefit was constructed, to make the benefit stronger.

# Evolution of Medicare D Market

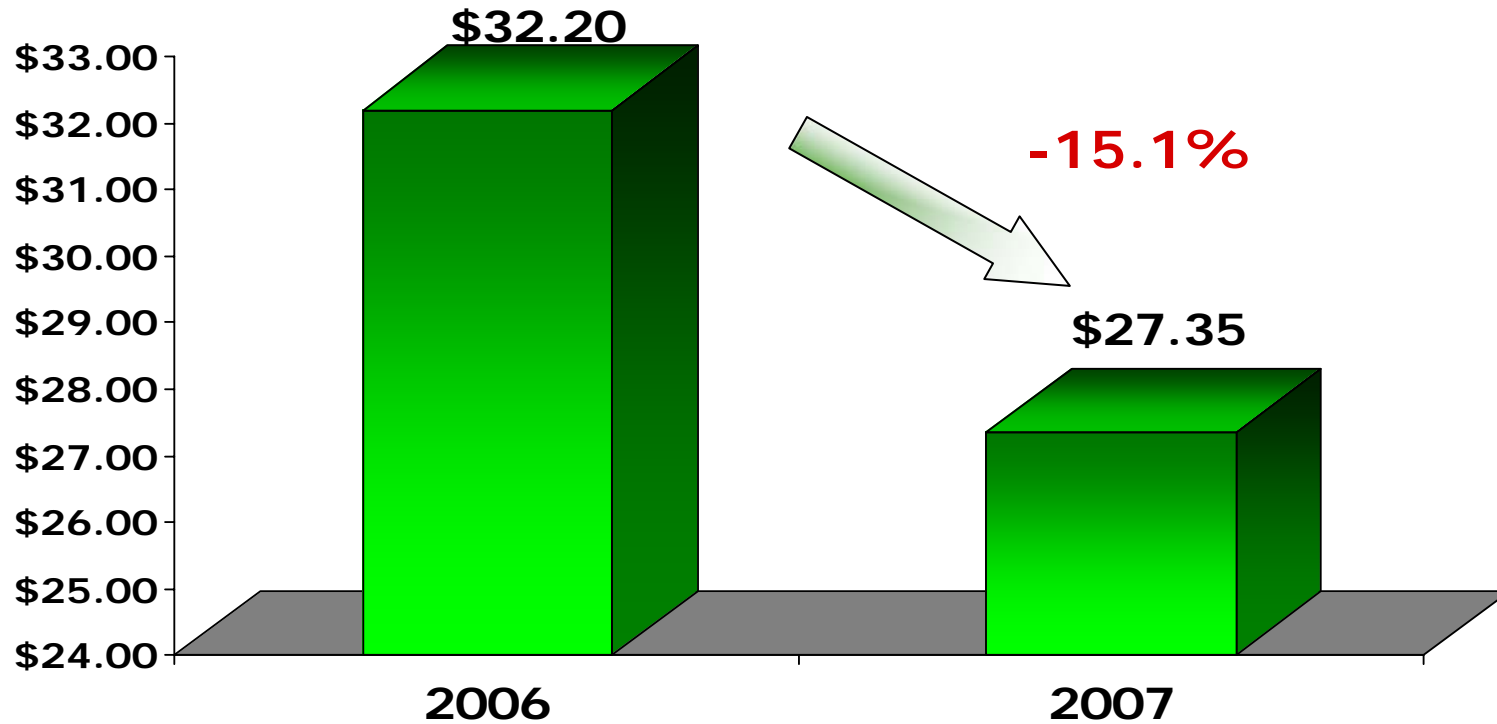
## *Increasing focus on the individual*



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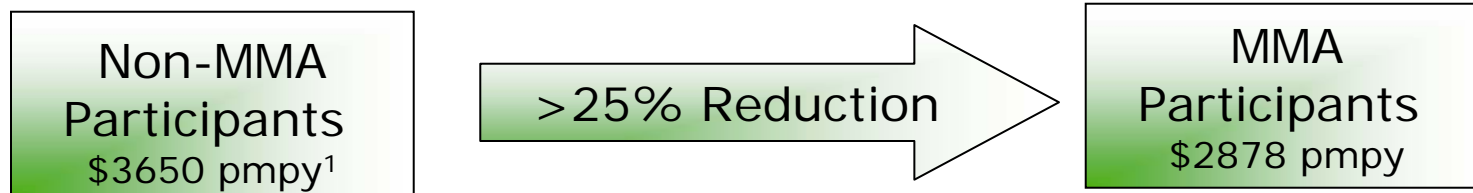
# Premium Performance – 2006 vs. 2007

*Private Sector Competition leads to lower beneficiary cost*



# Public-Private Partnership Model (The Larger Agenda)

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With 43.1M individuals participating in the MMA, annual pharmacy savings are ~\$33B.

What savings would be possible on the medical side if we eliminate the fiscal intermediary approach in favor of private sector competition?

<sup>1</sup> Source: Medicare Trustees Report, CBO estimate of savings pmpy for beneficiaries participating vs. not-participating in Medicare Part D.