



Kaiser Daily Health Policy Report

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Prescription Drugs

***New York Times* Examines Business Practices of Pharmacy Benefit Managers**

The [New York Times](#) on Thursday examined business practices of pharmacy benefits managers, including "millions of dollars in payments" that pharmacy benefits managers make "to important customers when contracts with them are signed," according to industry executives and consultants. Some industry officials say that payments related to contract provisions may be driving up the cost of business unnecessarily. For example, Mark Campbell, chief executive of Wisconsin-based PBM [Innoviant](#), said it is "not uncommon" for PBMs to offer health plans a \$10-per-person transition payment intended to cover the costs of initiating a new contract. Campbell said that amount is "excessive," adding that it is "not really necessary to cover the costs of a transition." However, Jeffrey Simek, a vice president at Medco, said such payments are "standard across the PBM industry." Simek added, "The upfront payments are generally associated with transitional expenses, typically associated with the number of covered lives, and some are related to future rebates." Similarly, Stephen Littlejohn, a vice president for PBM [Express Scripts](#), said the company "sometimes may reimburse a client for actual and reasonable costs, such as the production of new cards and membership materials, incurred in transitioning its plan to Express Scripts from a competitor." Patricia Wilson, an independent consultant who advises companies on drug benefit negotiations, said transition payments cannot accurately be called "buying business" because companies ultimately wind up carrying the cost of advance payments through higher drug costs or other fees.

Medco Investigation

According to the *Times*, the practice is "receiving widespread attention" because of a pending [Justice Department](#) lawsuit against PBM [Medco Health Solutions](#) (Freudenheim, *New York Times*, 12/11). The DOJ on Tuesday in federal court in Philadelphia filed an amended complaint alleging that New Jersey-based Medco paid \$87.4 million to secure a contract in late 2001 with an unnamed insurer. Connecticut-based [Oxford Health Plan](#) later confirmed that it was the company to which the complaint referred. The newest court documents also allege that Medco made payments in cash and services to other plans to influence them to select Medco for contracts. The documents also state that Medco solicited or attempted to solicit "money and things of value from pharmaceutical manufacturers seeking to provide pharmaceuticals to federal beneficiaries." The new complaint expands a civil lawsuit filed in September by DOJ alleging that Medco improperly switched, canceled and destroyed mail-order prescriptions to defraud patients ([Kaiser Daily Health Policy Report](#), 12/10). Officials from both Medco and Oxford have said that the payments were "legal and appropriate," the *Times* reports (*New York Times*, 12/11).