

Merck-Medco Managed Care

Knowledge Source's Managed Care

BusIntell Reports

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Industry Trends

Pharmacy benefit managers (PBMs) organize the market for prescription drugs.

- Pharmacy benefit managers secure deep discounts from drug manufacturers and retail pharmacies for large employers or health plans. They try to influence doctors' prescribing habits and encourage the use of lower-cost drugs, including generic substitutes for brand-name medicines. They strongly recommend certain drugs over others in each therapeutic category.
- A true PBM is an organization that manages delivery and financing of pharmacy benefits for health benefit purchasers. Initially, PBMs were designed to lower administrative costs, such as claims processing fees, related to the pharmacy benefit. Then PBMs were asked to lower unit costs of prescription drugs by obtaining discounts from pharmacies and pharmaceutical companies.
- By 1994, pharmaceutical manufacturers spent more than \$13 billion to acquire the three largest PBMs. Manufacturers had three goals when acquiring PBMs: access to data; control over discounts/rebates; and ownership of the ability to manage pharmacy benefits.
- The primary functions of the PBMs in the 1990s consisted of: pharmacy benefit design; drug claims processing; pharmacy network management; mail-service pharmacy; drug formulary management; drug utilization management; and disease management.

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Industry Trends

Both the total cost and the rate of increase of prescription drugs have risen over the last five years.

- For employer plan sponsors, the median increase in the cost of prescription drugs was 15.9% in 1999. As these trend rates continue, the total cost for drugs will surpass inpatient hospitals costs for many employers and managed care organizations.
- Pharmacy benefit costs are increasing largely as the result of higher utilization and a different mix of drugs. As new drugs become available and prescribing patterns for existing drugs change, newer, more expensive drugs often replace older drugs.
- An aging population means that more people take maintenance drugs for chronic diseases or use drugs to prevent debilitating conditions. High utilization is not just a reflection of people age 65 or older, as an increased rate of utilization begins at age 40.
- New medical guidelines call for earlier or more aggressive treatment of certain diseases. For many diseases, the latest treatment guidelines call for combination therapies of more than one drug or use of higher doses and longer use of the same drugs.
- New drugs offering modest or significant therapeutic advances are enthusiastically adopted by physicians and patients. More health care is delivered on an outpatient basis, where drugs are covered under the pharmacy benefit plan, rather than in hospitals or physicians' offices, where drugs are covered under the medical plan.

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Industry Trends

Prescription drug management techniques generally fall into two categories: Plan Design and Benefit Management.

- Plan Design has primarily an economic focus, defining access to and allocation of the sponsor's drug dollars through coverage decisions, preference of retail and mail distribution channels, selection of drugs, and quantity management initiatives.
- Plan Design defines the appropriate cost-sharing between plan sponsor and plan member, and offers incentives for cost-effective practice, and defines coverage rules or limits on certain drug categories.
- Retail Pharmacy Networks concentrate purchasing power and secure discounts by limiting the number of pharmacies where members can be reimbursed for drug expenses.
- Mail Service is a more cost-effective channel than retail for maintenance drugs and delivers higher generic substitution and formulary compliance rates.

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Industry Trends

Prescription drug management techniques generally fall into two categories: Plan Design and Benefit Management.

- Benefit Management has primarily a clinical focus, looking at safety, appropriate use of drugs, and accepted clinical treatment guidelines. It comprises a wide array of programs used by pharmacy benefit managers.
- Formulary Management includes formulary drugs chosen for quality and cost effectiveness. The ability to use formulary to move market share enables better prices and rebates from pharmaceutical manufacturers.
- Utilization Management Concurrent Programs applies guidelines and rules to identify and act during the dispensing process on opportunities for quality improvement and savings.
- Physician Profiling and Alerts identifies and encourages change in subset of physicians with greatest potential opportunity for quality improvement and savings.
- Health Management helps plan members control, alleviate or prevent illness, making them healthier and controlling drug and medical costs.

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Industry Trends

Plan sponsors have a number of options to help control the increasing costs of drugs.

- Managing utilization is the most effective way to manage drug trend. Counter strategies focusing on the direct-to-physician and direct-to-consumer efforts of drug manufacturers should be part of a sponsor's quality and cost-management strategy.
- Proactive approaches to the management of new drugs, from the time of market introduction, are imperative for employers and health plans interested in reducing drug spend and trend.
- Unit cost and drug mix contribute up to one-third of trend, and strategies for decreasing unit costs, including encouraging the use of generic drugs, still hold promise.

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Industry Trends

The HCFA estimates that prescription drugs will account for 11.2% of U.S. health care expenditures in 2008, increasing from 7.9% in 1998.

- U.S. prescription drug sales for 1998 were approximately \$90.5 billion, and HCFA projects continued sales increases at an annual growth rate of approximately 10.5% through 2008, compared to an average annual growth rate of approximately 5.5% for total health care costs during this period.
- Factors underlying this trend include: increases in research and development expenditures by drug manufacturers, resulting in many new drug introductions; a shorter FDA approval cycle for new pharmaceuticals; high prices for new blockbuster drugs; an aging population; increased demand for prescription drugs due to increased disease awareness by patients, effective direct-to-consumer advertising by drug manufacturers and a growing reliance on medication in lieu of lifestyle changes.
- This trend creates a significant challenge to HMOs, health employers and unions that want to provide a drug benefit as part of the health plans they offer to members of their respective organizations. These health benefit providers engage the services of PBMs to help them provide a cost-effective drug benefit as part of their health plan and to better understand the impact of prescription drug utilization on their overall health care expenditures.

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Industry Trends

Prescription drug costs are expected to remain one of the fastest-growing components of health care costs.

- The Health Insurance Association of America, in conjunction with the national BlueCross BlueShield Association of America, issued in April 2000 preliminary projections on pharmaceutical spending. Based on expenditure data for the most frequently prescribed drugs from 1989 to 1998, the study predicts that pharmaceutical spending will increase by more than 15% annually over the next five years, from \$105 billion in 1999 to \$212 billion in 2004. The study predicts that \$42.8 billion of the increase will be attributed to drugs currently in development, and the remaining \$64.2 billion will be attributable to price increases and higher utilization of currently available drugs.
- There are a number of factors contributing to this trend, including: increased expenditure on new drug development; an increase in new drug introductions as a result of shorter approval cycles by the FDA; relatively higher prices for new drugs; an aging population; increased direct-to-consumer advertising by pharmaceutical manufacturers including growing use of the Internet as a promotional channel; growing use of pharmaceuticals as first line of attack in disease treatment; and increased availability of pharmacy benefits to health plan members.
- Pharmacy benefit managers emerged to offer health plan sponsors a more efficient and less costly means of managing their members' drug use from both an economic and clinical quality of care perspective.

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Industry Trends

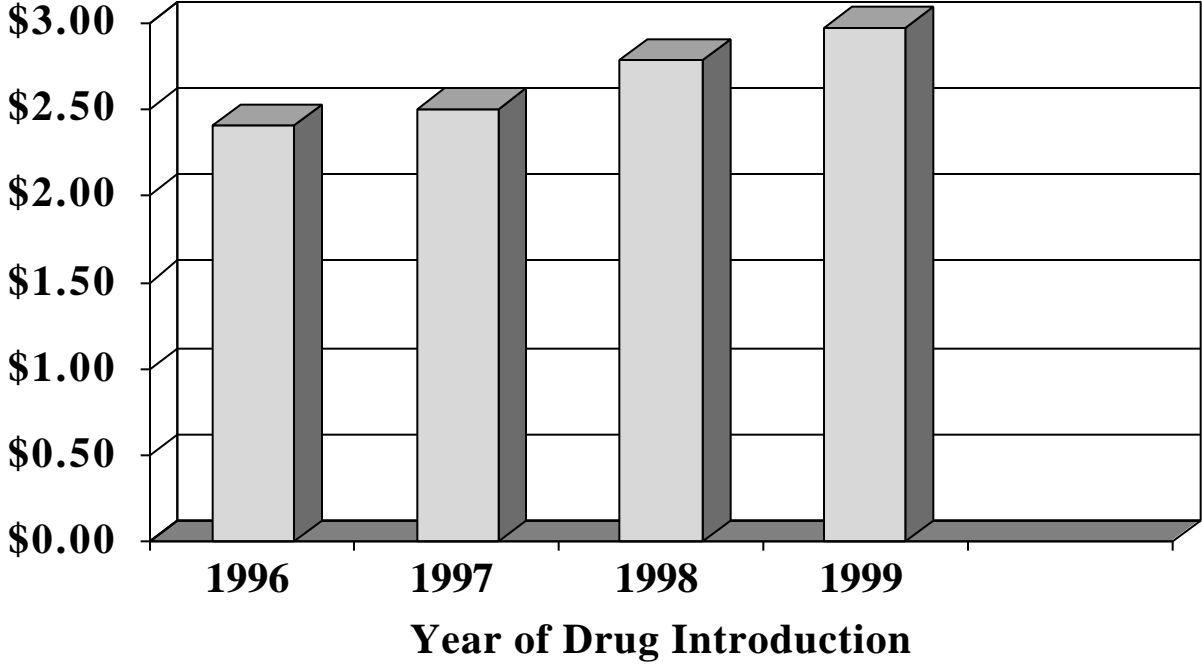
Current estimates indicate that US spending on pharmaceuticals is expected to double from \$105 billion in 1999 to about \$212 billion by 2004.

- The FDA, in 1999, approved 83 new drugs, of which 35 were new molecular entities and 5 were new biologic entities, completely new drug molecules. More than half were priority review drugs, which the FDA feels may represent significant therapeutic gains.
- Prescription drug spending has grown faster than any other category of personal health expenditures over the last three years.
- Researchers are working not only on new drugs but on novel ways to deliver them. By 2003, sales of these new-delivery products are expected to more than double from 1998 levels, with more than 100 new-delivery products anticipated.
- Increasing utilization, not mix, will be the primary driver of drug trend for the next few years, as it has been for the last several. But price inflation is also expected to increase to as much as 5% to 6%, compared to 2% to 4% in the mid-1990s.
- About half of the increase in drug trend is attributable to just two categories: Cardiovascular, including hypertension and cholesterol-lowering drugs; and Central Nervous System drugs, including antidepressants.
- At least forty percent of the estimated spending increase (\$43 billion) will result from drugs in the pharmaceutical pipeline, while drugs already on the market will account for about 60% of the increase.

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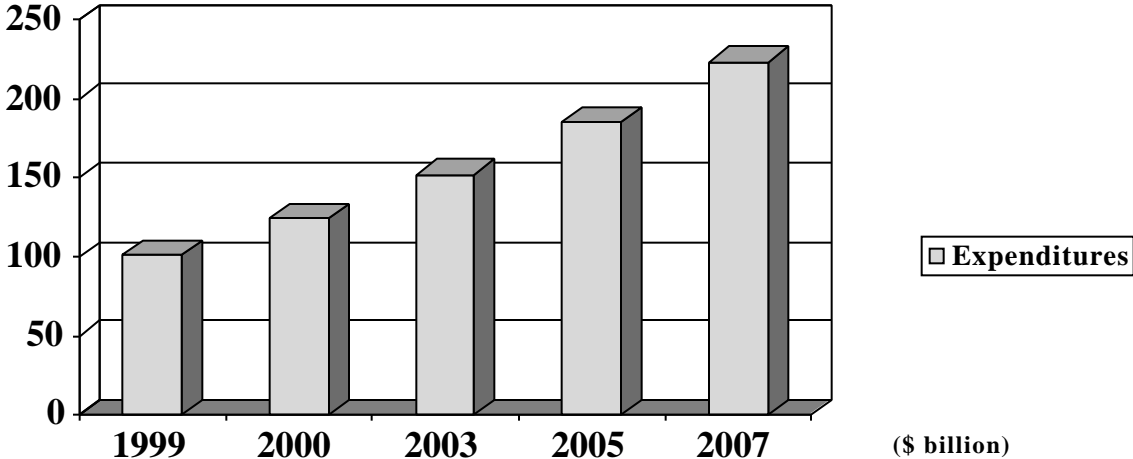
Industry Trends

The average cost per day and rate of increase of new drugs is significantly higher than older drugs.



Industry Trends

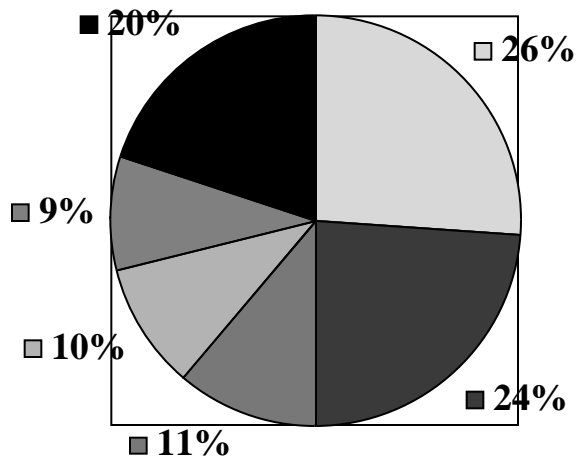
Projected Prescription Drug Expenditures



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Industry Trends

Just five drug categories will account for more than 75% of future drug trend.



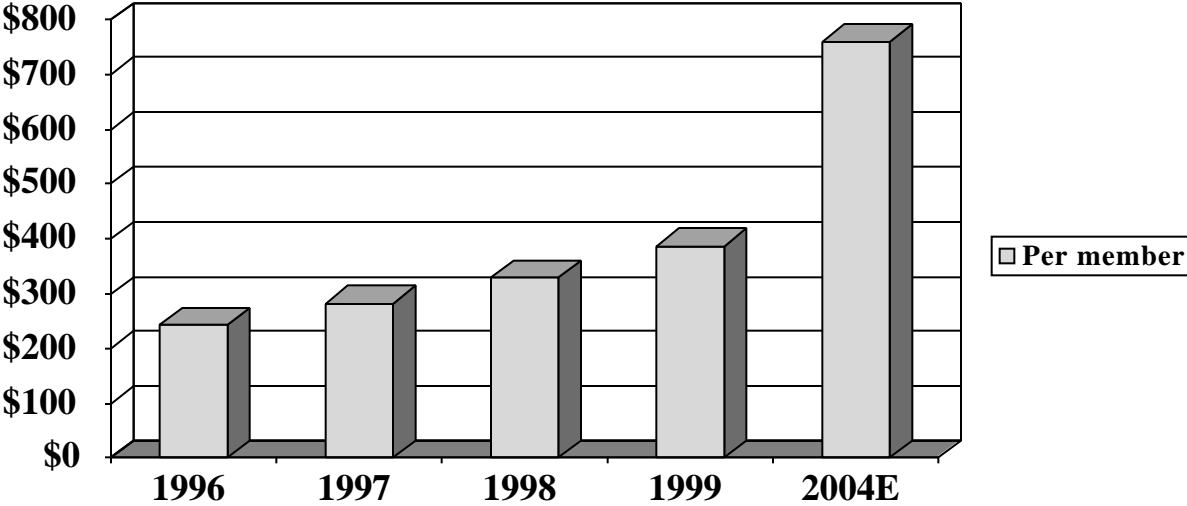
- Cardiovascular, Hypertension, Cholesterol Lowering
- Central Nervous System, Psychiatric, Neurological
- Gastroenterology
- Anti-infective
- Endocrine, Diabetes
- Other

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Industry Trends

Per member drug spend is forecast to grow at a 15% CAGR.

Per Member Drug Spend

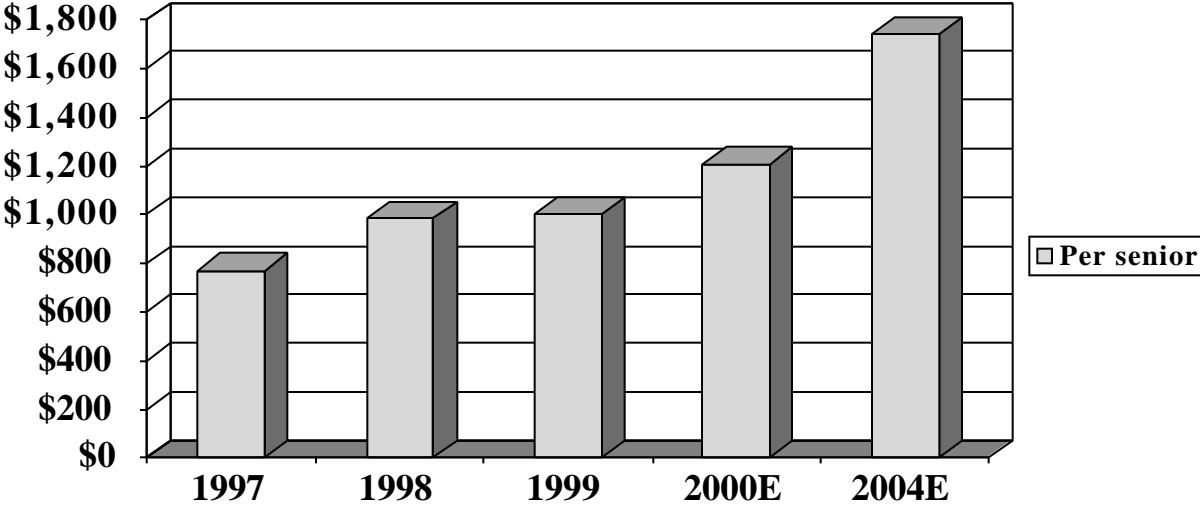


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Industry Trends

Per senior drug spend is forecast to grow significantly.

Per Senior Drug Spend



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Industry Trends

PBM industry trends include:

- Drug spending growing rapidly.
 - New product introductions.
 - Favorable demographics.
 - Rising drug costs.
- Growth of pharmaceutical coverage.
- Mail order programs becoming increasingly popular.
- Consolidation/increasing importance of size.
- Growing demand from all constituencies for additional products.
- Increasingly becoming technology based.

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Industry Trends

PBMs are taking a different role in managed care.

- PBMs serve a number of broad and technologically sophisticated roles in an MCO environment. At the base level, they serve as administrators, processing claims and contracting with network providers. PBMs also provide mail-order pharmacy services and a variety of strategic and tactical services, such as formulary management, benefit design consultation and disease management. Continued growth of MCOs will stir interest from the MCOs in building more of their own services.
- On the functional side, PBMs offer fast, efficient procedural and informational systems that might prove far more economical than building comparable systems from the ground up. Beyond technical and administrative expertise, PBMs are uniquely equipped to organize the marketplace, bringing into alignment the parties that impact pharmacy benefit: empowered consumers, physicians, pharmacists, pharmaceutical manufacturers and policy makers with those of plan sponsors. By facilitating alignment of multiple payors' interests, PBMs optimize opportunities to change prescriber behavior.
- A PBM can offer an MCO strong clinical programs to manage utilization, drug selection and compliance. PBMs can also assist MCOs in navigating the complex and rapidly changing environment by providing consultative services and financial modeling for the design of pharmacy benefits.

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Critical Industry Issues

- Independence from pharmaceutical manufacturers, retail pharmacies and health plan sponsors.
- The quality, scope and costs of programs offered.
- The size and financial strength of the company.
- The ability to reduce customer costs by negotiating favorable rebates and volume discounts from pharmaceutical manufacturers.
- The ability to use clinical strategies to improve patient outcomes and reduce costs.
- The ability to provide flexible, clinically oriented services to customers.
- Changing managed care environment, unbundling services so that managed care organizations can select services best aligned with their needs and strategic objectives.
- Developments in the health care industry, including the impact of increases in health care costs, changes in drug utilization patterns, and introductions of new drugs.

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Overview

Merck-Medco serves more than 65 million Americans.

- Merck-Medco Managed Care (Merck-Medco) provides pharmaceutical care to more than 65 million Americans on behalf of more than 1,100 health plan clients throughout the U.S. Merck-Medco integrates the delivery of pharmaceutical care through its Merck-Medco Rx Services mail service pharmacies and through its PAID Prescriptions network of 55,000 participating retail pharmacies.
- Merck-Medco continued its strong performance in 2000. The addition of the UnitedHealth Group contract, with 10 million clients, and the acquisition of ProVantage with its 5 million lives helped fuel Merck-Medco's growth. For the year 2000, the volume of prescriptions handled increased 22% to more than 450 million and drug spend increased 29% to \$23 billion. Merckmedco.com processes more than 110,000 prescriptions per week and its total prescription sales exceed those of all of the other major online pharmacies combined.

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Overview

Merck-Medco began operations in 1983 as a single pharmacy.

- Merck-Medco began operations in 1983 as a single mail service pharmacy in Elmwood Park, NJ. Identifying an unmet need in the marketplace at the time, Merck-Medco's mission is to improve patient health by improving prescription drug care, while reducing prescription and overall health care costs. Merck-Medco's clients include Fortune 500 corporations, unions, health maintenance organizations, Blue Cross/Blue Shield plans, insurance carriers, and similar organizations providing health benefit coverage.
- Merck-Medco works with patients, pharmacists, physicians and health plan sponsors to improve the quality of patient care and reduce medical costs through better management of prescription drug use and through health management programs for high-risk, high-cost conditions such as diabetes, asthma, and cardiovascular disease.

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Overview

Merck-Medco dispenses approximately 1 million prescriptions through its mail service pharmacies each week.

- Merck-Medco's educational programs and information systems link patients, pharmacists, and physicians, helping ensure appropriate drug use for each individual based upon their health profile, best clinical practices and benefit plan coverage.
- Merck-Medco estimates that it saves its clients over \$1 billion annually through a variety of health care services and programs. Merck-Medco helps plans keep costs affordable by: providing efficient, online processing of prescription drug claims; negotiating lower costs from retail pharmacies; dispensing cost-saving mail service prescriptions; negotiating lower prices for commonly used prescription medicines; and implementing programs that facilitate the use of those medicines when medically appropriate.
- Merck-Medco produces and distributes HealthNews, a daily radio series of 60-second educational announcements that provide information on a wide variety of medical topics. The program is designed to increase public awareness of vital preventive health strategies. It airs regularly on more than 300 radio stations in 48 states and reaches nearly 35 million listeners per month.
- Merck-Medco's Center for Outcomes and Performance Assessment offers two services: helping managed care organizations gain NCQA accreditation; and designing and conducting outcomes studies for group health plans, employers, pharmaceutical manufacturers and government clients.

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Overview

Merck-Medco has grown internally and through acquisitions and alliances.

- Merck-Medco established Systemed as a separate PBM subsidiary in 1998. The Systemed subsidiary provides benefit plans with a complement of services to those with 10,000 or fewer members: continued access to the resources and services of Merck-Medco, coupled with the specialized plan reporting and management services that mid-sized benefit plans require.
- Merck-Medco formed a strategic alliance with insurance broker Accordia Inc. to provide a customized discount program for its clients. Under the alliance, Accordia and Merck-Medco have created scriptSMART, a private-label prescription benefit program will be marketed and administered by Accordion.
- Merck-Medco teamed up with The Reader's Digest Association to create YOURxPLAN, an easy-to-use prescription savings plan for people who pay out of their own pockets for prescription drugs. YOURxPLAN offers discounts on virtually all prescription medicines obtained at more than 40,000 participating drug stores, and even greater savings when people order their prescriptions by mail or the Internet for convenient home delivery. Under the terms of the agreement, Reader's Digest will provide marketing for YOURxPLAN. Merck-Medco will also provide marketing and administer the program, handle product sourcing, fulfillment, customer service, and clinical oversight.

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Overview

Merck-Medco has adopted policies to ensure that it operates independently of Merck & Co. in designing and implementing its programs.

- Merck-Medco's policies include: maintain its own clinical staff and outside, independent medical consultants; rely on the expertise of its internal staff, its independent P&T committee, and other independent clinical advisory boards; make decisions on the therapeutic aspects of its program without substantive influence from Merck & Co.; treat Merck products no differently from those of any other drug manufacturer, observing the same procedures for independent clinical review as it does for drugs of any other manufacturer.
- Merck-Medco has approximately 920 drugs made by more than 60 companies on its Preferred Prescriptions Formulary. There are 28 single-source Merck products on Merck-Medco's formulary. All of these Merck products were on the formulary before Merck's acquisition of Medco, with the exceptions of 11 medicines which are new products and were cleared for marketing by the FDA after the acquisition.
- Merck-Medco's standard generic, or brand to brand formulary management programs, currently encompass 204 products, of which 140 are generic and 64 are branded. Of the 64 branded products for which there are brand to brand formulary programs, nine are Merck products.

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Corporate Strategy

Merck-Medco's objective is to optimize the discovery, development, selection, delivery, utilization, and value of prescription drugs. Merck-Medco's strategies include:

- Help reduce health care costs through the better use of cost-effective drug therapy to improve patient outcomes.
- Eliminate information gaps in the drug delivery system and share the information that drug discoverers, physicians, pharmacists, and patients have about patterns of use.
- Provide the most beneficial and cost-effective medicines and individualized information to help patients better comply with their drug therapy.
- Reimburse pharmacists for participating in pharmaceutical care programs that help patients use their medicines properly and reduce costs for plan sponsors.
- Build on its strength and act as an advocate for change in order to achieve higher levels of compliance with plan guidelines and to ensure that benefit objectives are met.
- Support disease management objectives of managed care organizations with outcomes data and other information resources.

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Strengths

- Subsidiary of Merck & Co.
- Innovative clinical programs.
- Effective cost-management capabilities.
- Advanced information technology.
- Highly trained customer service and account management teams.
- A platform for timely communication with patients and providers.
- Clients include: 125 of the nation's Fortune 500 corporations; over 100 local, state, and Federal employee and retiree groups; one-third of the nation's Blue Cross/Blue Shield plans.
- Consumers once again gave Merck-Medco the highest overall customer satisfaction rating among mail service pharmacies nationwide for the second year in a row according to an independent survey released by Caredata.com Consumer Research.

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Weaknesses

- Increasing cost of drugs.
- Major Internet pharmacies partnering with PBMs.
- Doctors and pharmacists are concerned about the market power of PBMs, which will increase with Medicare coverage of prescription drugs.
- Merck-Medco plans to close its Green Bay, WI, mail service pharmacy by July 2001 due to a shortage of pharmacists in northern Wisconsin.
- Resignation of Per Lofberg as Chairman.

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New Economy

Merck-Medco initially responded to the threat of Internet pharmacies by simply refusing to deal with them.

- Since approximately 80% of drug sales are handled through PBMs, Merck-Medco's refusal to deal with them cost the Internet sites a large part of their target market. Major Internet pharmacies responded by partnering with PBMs.
- Merck-Medco then began to develop its own integrated Internet site. It began with the building of its automated drug warehouse in Las Vegas in 1994. The dispensing and packing process is automated for 75% of prescriptions. The company also set up three calling centers across the country and negotiated with state pharmacy boards to allow prescriptions to be written in one state and dispensed in another, all of which shortened order turnarounds.
- Merck-Medco has launched a pilot program in which 2,000 physicians are using Palm Pilots to send electronic prescriptions, since mailed prescriptions may never overtake the ones filled at pharmacies.
- Merck & Co. formed a \$100 million venture fund, called Merck Capital Ventures, to invest in emerging Internet health care firms and named Per Lofberg, former Chairman of Merck-Medco, to head the new venture as President.

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New Economy

Merckmedco.com and CVS.com formed an alliance to provide one-stop shopping for consumers.

- Merck-Medco and CVS initially formed a long-term strategic alliance in 1999 to collaborate on enhanced Internet, retail and specialty pharmacy services for Merck-Medco's health plan members. The agreement expanded the product offerings on merckmedco.com by enabling its members to purchase over-the-counter medicines and general health products on the site. The agreement also formalized an arrangement that made CVS.com the first and only online retail pharmacy to accept prescription orders from Merck-Medco members over the Internet for delivery either by Merck-Medco Rx Services or for pick-up at CVS stores.
- The agreement also made CVS's specialty pharmacy company, ProCare, the exclusive provider of specialty pharmacy mail order services for Merck-Medco plan members. ProCare focuses on supporting individuals requiring complex and expensive drug therapies.
- Merckmedco.com announced in 2000 that visitors to its site can now purchase over-the-counter medications, vitamins, herbal remedies, and health and beauty aids, exclusively through its alliance with CVS.com.

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New Economy

merckmedco.com is the world's largest Internet pharmacy, dispensing more than 85,000 online prescriptions per week.

- Merck-Medco is working with hundreds of physicians to assess a variety of emerging point-of-care technologies. Some of these enable doctors to assess clinical and cost information while they are seeing patients. Merck-Medco has launched a pilot program in which 2,000 physicians are using Palm Pilots to send electronic prescriptions.
- Merck-Medco, to encourage Web use, has continuously enriched its Web site. At merckmedco.com, consumers receive targeted health information, reminders about refills, summaries of their previous orders, and detailed descriptions of their insurance plan benefits.
- Merck-Medco is the first pharmacy benefit manager to have its online services recognized by the National Boards of Pharmacy for having met the criteria to become a Verified Internet Pharmacy Practice Site (VIPPS).
- merckmedco.com offers interactive information resources to help educate consumers about health issues that interest them.

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New Economy

The addition of nonprescription products is just one in a series of features designed to enhance the quality and scope of services available at merckmedco.com.

- My Page - a personalized home page for each individual; designed specifically to provide messages about their pharmacy benefit plan, refill reminders, prescription information, health tips and other important information that is specific and relevant to each consumer's personal prescription history and benefit plan design.
- My Health - a health and wellness information center with resources and tools personalized for each individual based on his or her health interests.
- My Benefits - a service convenience area providing plan members with access to important, relevant information about their individual prescription benefit plan including prescription coverage and pricing comparisons for both brand and generic medications; pharmacy benefit plan highlights; a supply request feature; and other key tools designed to make it easy for members to manage their pharmacy benefit online, anytime.
- My Prescriptions - one-stop shopping and information designed specifically to meet member's prescription needs. Included is online status information, 12 months of integrated prescription history, important drug information, online ordering and coverage and pricing information designed to help members optimize their prescription benefit.

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New Economy

Merck-Medco continues to enter into partnerships and alliances.

- Merck-Medco and ChannelHealth, a pioneer of personalized Internet services for the healthcare industry, announced a multi-year agreement to automate the complex processes associated with formulary management and prescription fulfillment at the point-of-care for Merck-Medco members. The agreement will provide ChannelHealth customers with access to Merck-Medco's proprietary system and to unique information regarding patients and benefit plans. Merck-Medco is working with ChannelHealth to enhance the ChannelHealth MedWorks application, which is designed to proactively manage benefit plan compliance with online notification to the physician when a patient fails to refill prescriptions for chronic medications.
- Merck-Medco entered into a strategic educational partnership to promote lung health with the American Lung Association. This collaboration will bring the Lung Association's educational resources in the area of respiratory care to Merck-Medco's 52 million members. The agreement calls for ALA's publications and other proprietary content to be displayed on merckmedco.com.
- Merck-Medco agreed with AHT Corporation to enable physicians who are registered users of AHT's Rx Internet prescription management service to manage prescriptions electronically and to connect with Merck-Medco through the Rx web site.
- Merck-Medco announced a collaboration with ParkStone Medical Information Systems, an innovative developer of palm-size, point-of-care data management systems, to pilot a hand-held electronic prescribing tool for physicians.

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New Economy

Merck-Medco's objective is to offer additional services and content for its clients on its Web site.

- Merck-Medco and adam.com, a leading source for online consumer health information, announced a co-branding arrangement in which adam.com provides Merck-Medco online consumers with specialized healthcare information on demand and customized for merckmedco.com.
- Merck-Medco and Physicians' Online announced that approximately 1,800 physicians are equipped with the tools to transmit new mail service prescriptions over the Internet. This service complements POL's existing suite of Internet applications designed to help physicians more efficiently manage the business and practice of medicine.
- Merck-Medco entered a strategic partnership with WellMed of Portland, OR, allowing its clients to access WellMed's Personal Health Manager at merckmedco.com. WellMed also agreed to work with Merck-Medco to build secure, online personal networks for members to allow them to store their prescription information and health records.
- Highmark and Merck-Medco created Highmark Blue Cross Blue Shield @ merckmedco.com for members with prescription drug benefits.

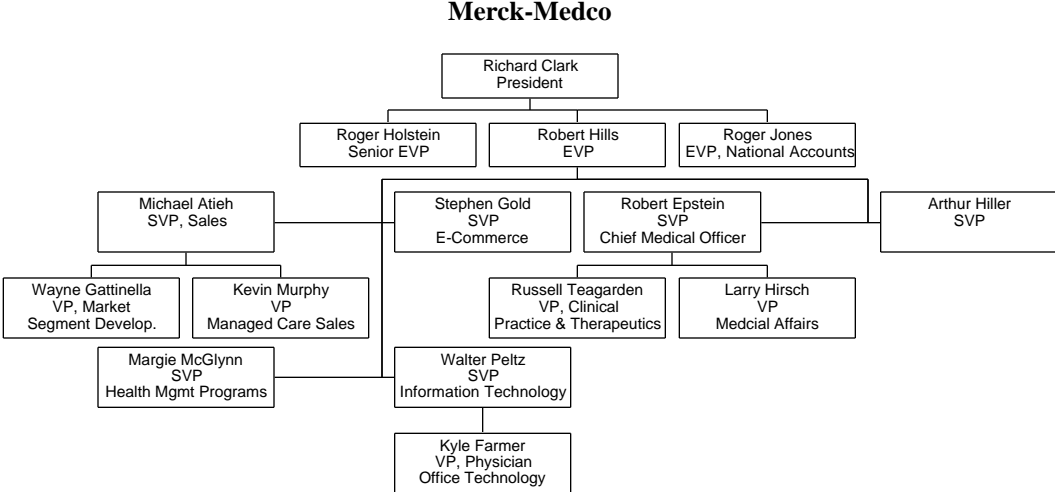
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Merck-Medco executives

Per Lofberg resigned in late November 2000 to become President of Merck CapitalVentures.



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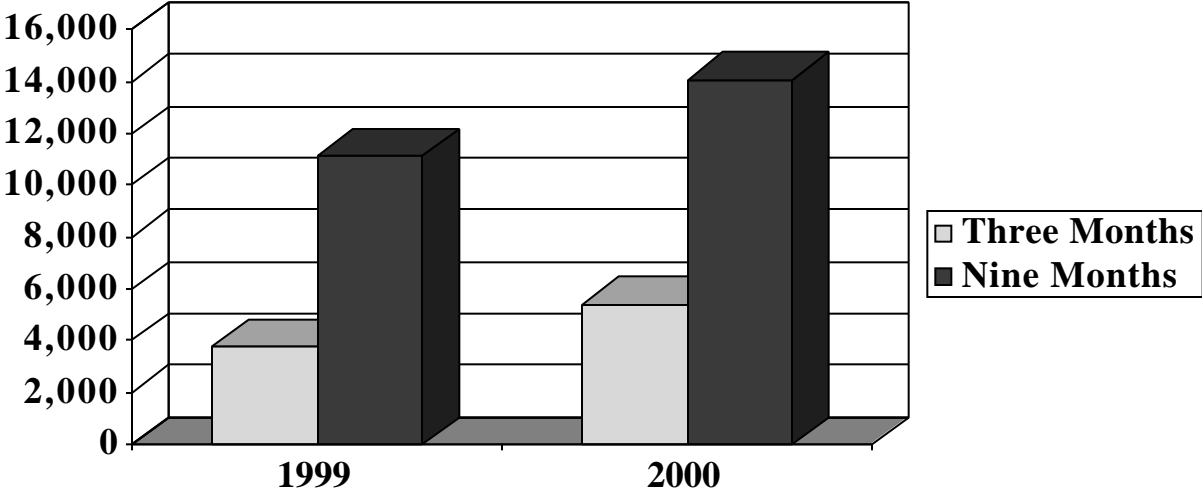
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Financial Information

Merck-Medco revenues have significantly increased in 2000.

Revenues (\$ millions) at September 30

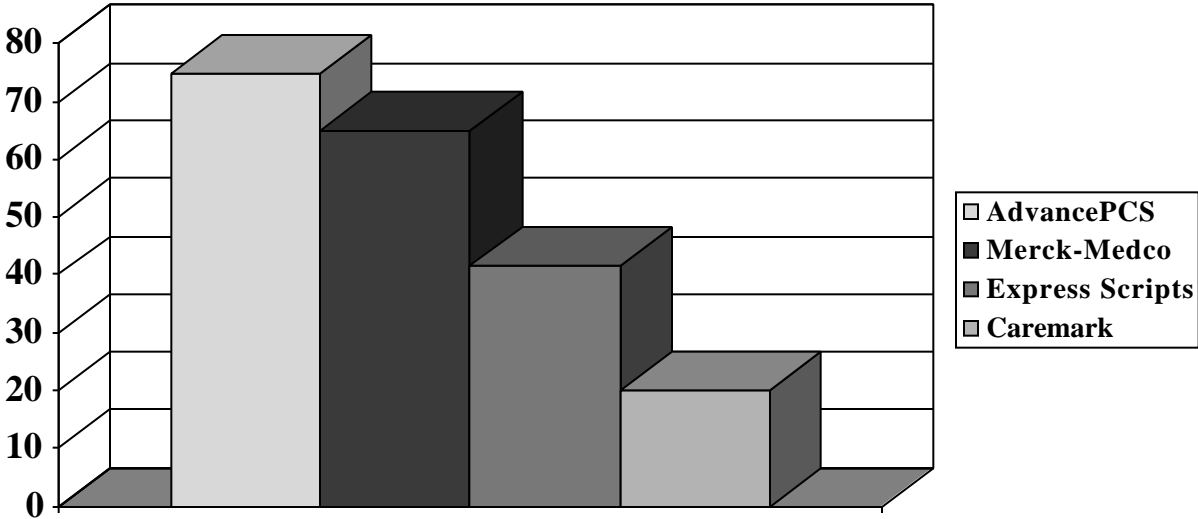


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Statistical Information

Merck-Medco covers approximately 65 million lives.

Covered Lives (millions)

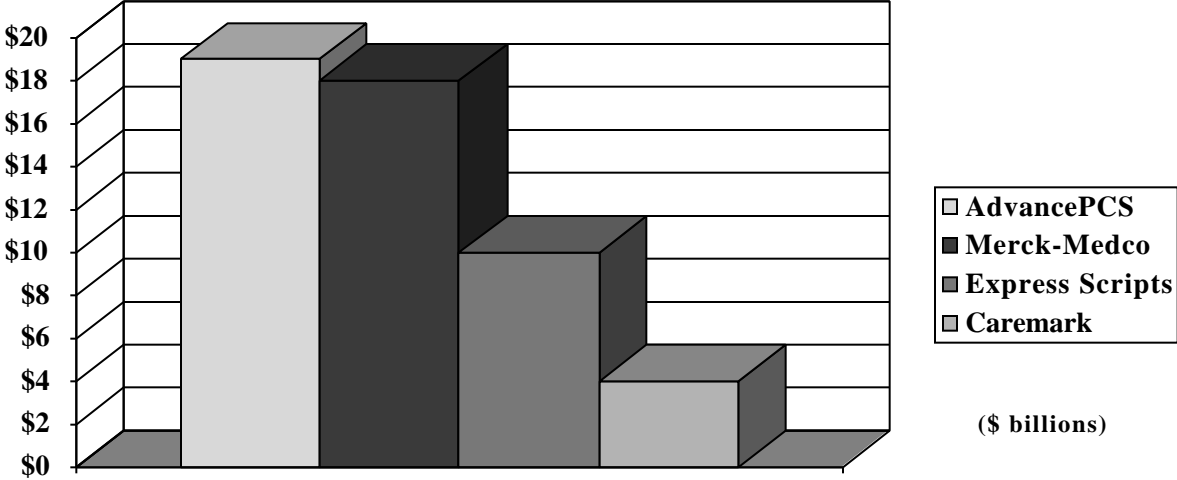


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Statistical Information

Merck-Medco manages approximately \$18 billion in drug spending.

Drug Spending Managed

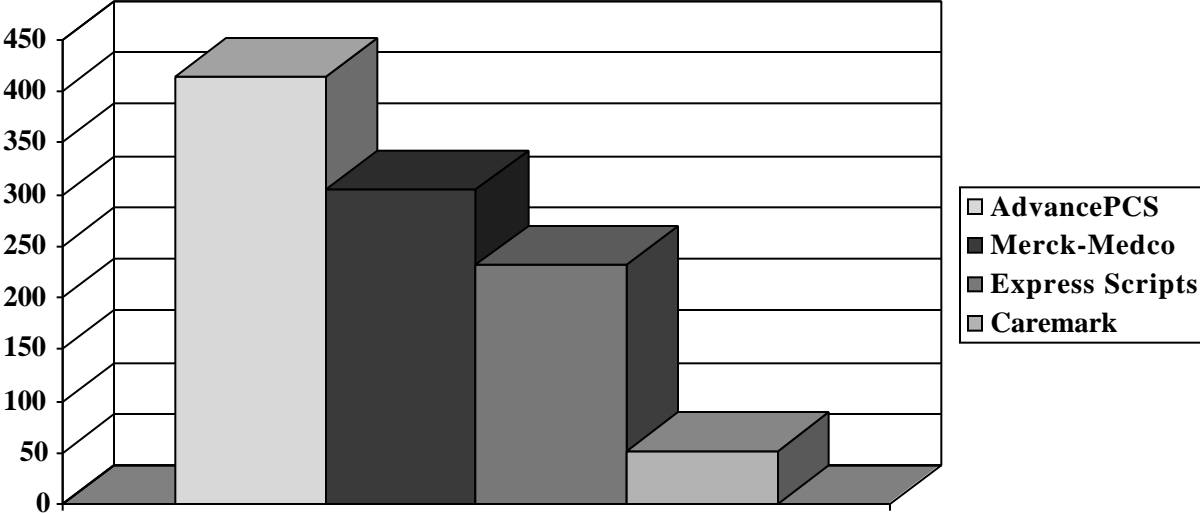


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Statistical Information

Merck-Medco processes over 300 million claims annually.

Claims Processed (millions)

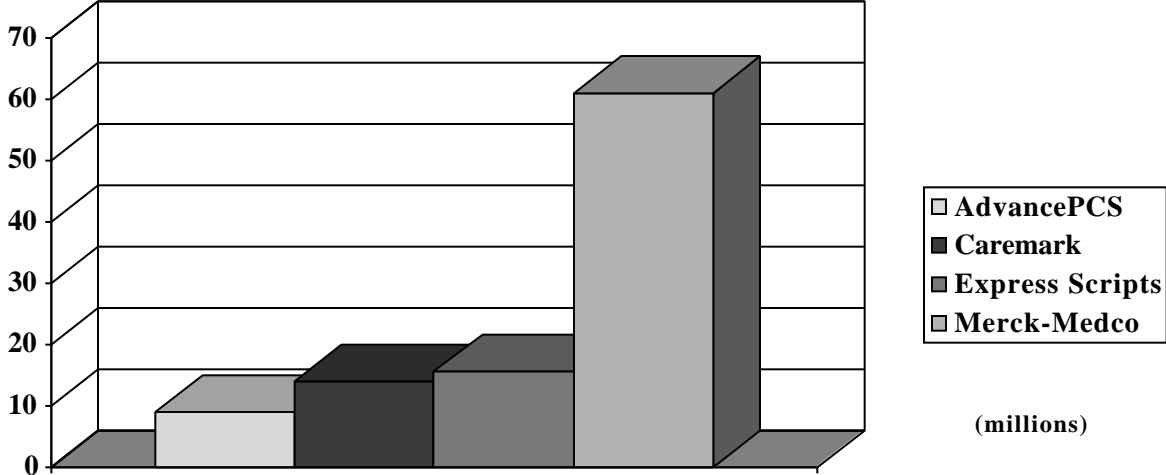


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Statistical Information

Merck-Medco fills more than 60 million prescriptions by mail annually.

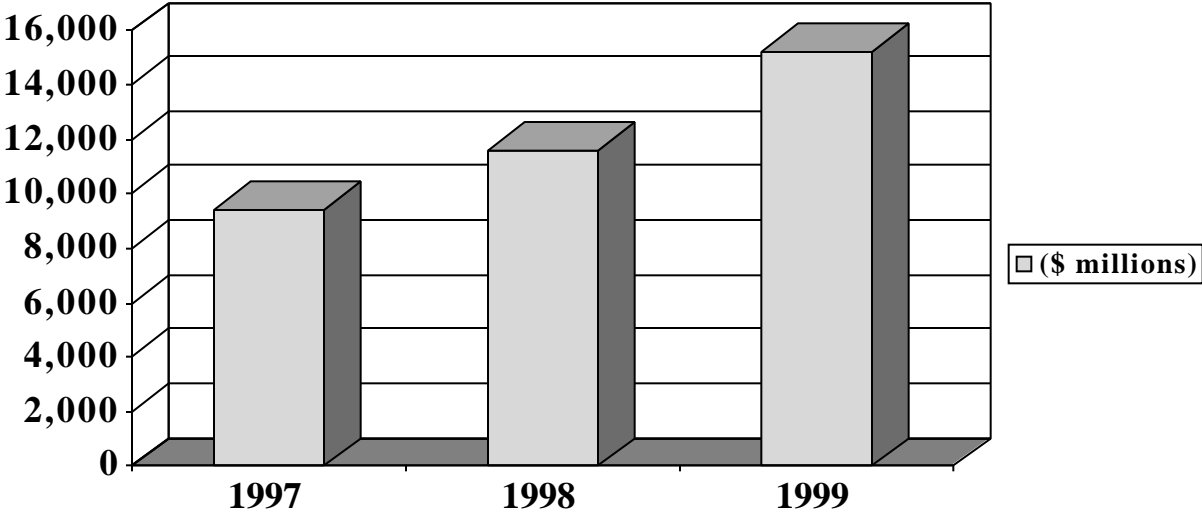
Prescriptions filled by Mail



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Financial Information

Merck-Medco Revenues



Another BusIntell Report from Knowledge Source, Inc.

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Lines of Business

Merck-Medco offers an array of formulary programs to help clients meet their cost and access objectives.

- Preferred Prescriptions - includes more than 900 drugs, providing members with access to a broad range of medications.
- Rx Selections - offers a more narrow content including more than 700 drugs designed for clients seeking a more aggressive approach to reducing drug spend while maintaining the quality of care.
- Universal Formulary - includes more than 1,000 drugs, providing access to ambulatory prescription drug products subject to the determination of an Independent Pharmacy and Therapeutics Committee.

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Lines of Business

PAID Prescriptions is Merck-Medco's retail pharmacy network subsidiary.

- PAID Prescriptions enables Merck-Medco patients to conveniently fill prescriptions through its nationwide Coordinated Care Network of 55,000 participating retail pharmacies. Patients using the Coordinated Care Network benefit from convenience and low out-of-pocket costs.
- Merck-Medco uses its clinical expertise and state-of-the-art information management systems to link information about prescriptions provided to patients through Coordinated Care Network pharmacies as well as information from the company's mail service pharmacies.
- PAID Prescriptions' pharmacists are able to check a patient's medical history and pharmaceutical record at any place at any time. Patients and plan sponsors are provided with unified customer service and account management support for every part of their plan.

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Lines of Business

Merck-Medco Rx Services is the company's mail service pharmacy.

- There are 13 Merck-Medco Rx Services mail service pharmacies regionally located in nine states: Florida (2), Massachusetts, Nevada, New Jersey, Ohio (3), Pennsylvania (2), Texas (2), and Washington. Each Merck-Medco Rx Services pharmacy is fully licensed at the local, state and federal level.
- Patients served by Merck-Medco Rx Services mail service pharmacies have toll-free access to registered pharmacists 24-hours a day for questions about their medications. Prescriptions filled by Merck-Medco Rx Services mail service pharmacies undergo a series of clinical reviews in the context of the patient's personal drug history by registered pharmacists to prevent drug-to-drug interactions, duplicate therapy, improper dosing, drug-allergy interactions, drug-age complications, and fraud or abuse.
- Merck-Medco expected to begin dispensing prescriptions at its new, 180,000 square-foot highly automated mail service pharmacy in Willingboro, NJ, in 1999. The new pharmacy brought more than 600 new jobs to New Jersey initially, and when operating at full capacity by 2003, will employ over 800 people.
- Merck-Medco plans to close its Green Bay, WI-mail service pharmacy due to a shortage of pharmacists in northern Wisconsin. The company will increase its investment in the ProVantage Account Management organizations in Waukesha and Green Bay, WI, and in Salt Lake City to enhance client services to its plan sponsors.

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Lines of Business

Merck-Medco's pharmacists play a key role in encouraging physicians to change prescriptions.

- Merck-Medco's Prescribers Choice Program delivers savings to clients because Merck-Medco pharmacists encourage physicians to prescribe the most cost-effective drugs when possible. Merck-Medco's Formulary Management Program lists alternative drugs that have been carefully selected for their clinical efficiency and cost effectiveness.
- Merck-Medco encourages pharmacists to telephone physicians to change prescriptions to lower cost drugs to save benefit plan sponsors money through its Prescribers Choice program. Merck-Medco pharmacists help clients achieve discounts by selecting specified drugs for switching among drug classes with several comparable substitutes.
- Merck-Medco's Prudent Prescribing Programs and drug utilization reviews enable its pharmacists to help doctors make prudent prescribing decisions before the prescription is written, at the time of dispensing and after dispensing, by looking at the effects of prescribing over time.

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Lines of Business

Merck-Medco offers Optimal Outcomes health management programs designed to help clients improve care for patients with high-risk, high-cost conditions.

- Optimal Outcomes, in 1999, served more than 60 Merck-Medco clients and more than 250,000 patients in its health management programs for asthma, congestive heart failure, depression, diabetes, gastrointestinal diseases, high cholesterol, hypertension, and smoking cessation.
- Optimal Health Inspirations Asthma Management Program helps people ages six and above with mild, moderate and severe asthma manage the less common but costly events that can occur as a result of the disease. The program aims to educate asthma patients about their condition and environmental triggers, and to promote guided self-management skills.
- Making Sense: A Multiple Sclerosis Patient Support Program incorporates guidance and materials from the National Multiple Sclerosis Society, is an MS program that provides intensive counseling to increase patient compliance with drug therapies that have been proven effective in managing the condition.

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Lines of Business

Merck-Medco offers a complete line of comprehensive health management programs.

- Merck-Medco teamed with the American College of Gastroenterology to improve care for its members who suffer from digestive health conditions, and to raise awareness of gastrointestinal diseases through Merck-Medco's Digestive Health Solutions health management program.
- Merck-Medco and Partners Community HealthCare of Eastern Massachusetts announced two jointly-developed health management programs focusing on the treatment of coronary artery disease and gastrointestinal disorders. The two programs have been implemented in PCHI's physician network and provide an opportunity to measure the clinical and economic impact of health management programs for individual patients as well as on the overall delivery of healthcare services.
- Merck-Medco joined forces with the American Liver Foundation to help improve awareness and treatment of hepatitis C in conjunction with Merck-Medco's hepatitis C health management program, Raising Awareness Through Education.
- Merck-Medco and Medicine Shoppe International launched a retail-based disease management program designed to provide a comprehensive evaluation for patients with stomach conditions, or gastrointestinal disorders. The program began in Dayton, OH, and then expanded throughout Ohio and Kentucky.

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Lines of Business

Merck-Medco's nationwide Gatekeeper Program links senior patients in need of extra care with community support and services.

- Merck-Medco requires that all customer service representatives -- who handle more than 20 million telephone contacts with plan members each year -- are trained to be Gatekeepers. The Gatekeeper Program is designed to identify vulnerable senior patients in need of special care or extra assistance. These coordinators arrange for community and social services for Merck-Medco plan members through contact with local and state offices on aging.
- The Gatekeeper Program provides patients ranging from age 50 to 90 with options to help improve their quality of life and care, including the assignment of homemakers, nursing aides, transportation services, financial planners, Meals on Wheels, or volunteers who run errands or drive seniors to and from doctor appointments. In some cases, members are introduced to senior citizen groups as a valuable social outlet and source of moral support.
- Merck-Medco provides prescription drug care to approximately 15 million retirees. Merck-Medco, since the program's inception in 1988, has made approximately 10,000 referrals, with close to 80% for female patients.

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Lines of Business

Merck-Medco has launched the Generics First program in the U.S.

- The initiative promotes the use of generic prescription drugs through a sampling and education program and by providing physicians with consumer education materials to help promote physician-patient dialogue about generic drugs. The Generics First program initially is promoting the use of generic versions of anti-hypertension agents, anti-infective products, gastrointestinal drugs, and nonsteroidal anti-inflammatory drugs.
- A team of Merck-Medco pharmacists is meeting with physicians who belong to large group practices in select cities to discuss the availability of underused, high-quality generic drugs. The pharmacists are providing the most recent information about the status of brand-name medicines and the availability of new generic drugs. In addition, physicians will be given access to free samples of commonly prescribed generic medications through a mail order system.
- In the first year of the program, more than 7,700 physicians will be contacted nationwide; 6,000 physicians will receive direct mailings and 1,700 physicians will receive monthly visits from registered pharmacists. In the first phase, Generics First is targeting physicians in Los Angeles, Cleveland, Dayton, Columbus, St. Louis, Detroit, Flint, Greensboro, Charlotte, Raleigh, Houston, Providence and Seattle.

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Customers

Merck-Medco clients include: 125 of the nation's Fortune 500 corporations; over 100 local, state, and Federal employee and retiree groups; one-third of the nation's Blue Cross/Blue Shield plans.

- Merck-Medco teamed with Highmark to give Highmark members new tools for managing their prescription benefits online and accessing a host of other beneficial features. Merck-Medco processes pharmacy claims for Highmark and administers its mail service pharmacy program.
- The National Labor Alliance of Health Care Coalitions, a national coalition of ERISA union benefit funds coalitions selected Merck-Medco to administer pharmacy benefits for the 1.75 million people covered by the coalitions in a contract that runs through the year 2002.
- Merck-Medco is administering Medical Mutual of Ohio's prescription drug benefit programs and work in partnership to implement a wide variety of innovative prescription and health management programs. Medical Mutual has approximately 1.4 million members.

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Customers include:

American Brands	American Airlines	Anheuser-Busch	AT&T
Automatic Data Proc.	Bankers Trust	Bell Atlantic	BestFoods
BC/BS of Florida	BC/BS pf Maine	BC/BS of Michigan	BC of Puerto Rico
BC of Western PA	Bridgestone/Firestone	Burlington Industries	Chevron
Chubb	Continental Airlines	Cooper Industries	Dow Chemical
Duke Energy	Dun & Bradstreet	DuPont	Equitable
Florida Power & Light	Ford Motor	General Electric	General Motors
The Hartford	HCA	Home Depot	Hercules
IBM	Kellogg	Land O'Lakes	Marathon Oil
Maxicare	Michigan State Employ.	Montgomery Ward	National Steel
National Labor Alliance	Navistar	Norfolk Southern	Pacific Bell
PepsiCo	Pillsbury	PNC Bank	Primerica
Reynolds Metals	Salomon Smith Barney	Sears	Shell Oil
SNET	Sony	Supervalu	T. Rowe Price
Taco Bell	Texaco	Unilever	Union Camp

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Partners

Merck-Medco has developed partnerships with pharmaceutical companies other than Merck over the years.

- Entered a joint venture with Wyeth-Ayerst to concentrate on women's health in the areas of prenatal care, menopause, osteoporosis, and family planning. Merck-Medco and Wyeth-Ayerst have worked to: develop programs for additional categories such as arthritis, and cardiac arrhythmias; form an executive committee from both companies; and market all programs developed by the joint venture to its own managed care and other customers.
- Entered into a long-term agreement with Eli Lilly concentrating on insulin-taking diabetic patients and high-risk, non-insulin taking diabetic patients whose current care regimen many not be adequately managing their diabetes and related health conditions. Merck-Medco made the programs available to its plan sponsor clients, and Lilly provides the program to its customers.

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PBM-HMO Market Share-1999

PBM	Members	HMOs
DPS	9,494,200	86
PCS	7,135,300	56
CIGNA	4,074,632	43
Merck-Medco	6,043,320	43
Express Scripts	4,631,744	41
Prudential	2,430,503	33
Advance Paradigm	3,181,360	31
Aetna Pharmacy Mgmt.	3,106,900	23
MedImpact	2,837,500	21
Integrated Pharmaceutical Serv.	3,911,495	20
Prescription Solutions	4,118,600	14
ProVantage	784,300	14
WellPoint	2,760,000	9
PharmaCare	1,392,000	4

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Sources

- Business Insurance
- Managed Healthcare
- Merck.com
- Merck SEC Filings
- Merckmedco.com
- New York Times
- Pharmacy Benefit Management Institute
- The Wall Street Journal
- The Wall Street Transcript

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