Sen. Kohl's Follow-Up Questions for the Record for Hearing on

"The Express Scripts/Medco Merger: Cost Savings for Consumers

Or More Profits for the Middlemen?"

For David Snow

1. It is well understood that Express Scripts and Medco are direct head-to-head competitors. One of the big issues arising out of this merger is the loss of head-to-head competition between your two PBMs. The merger's critics are particularly concerned with its impact on the nation's largest employers and plan sponsors who contract with PBMs for their prescription drug benefit. We understand that you contend that there are many other PBMs who are competitors in the marketplace. However, many believe that the "Big 3" PBMs – Express Scripts, Medco, and CVS Caremark – are the only PBMs that have the scale and offer the services necessary for the nation's largest employers. Indeed, 42 of the top Fortune 50 companies use one of these "Big 3" PBMs. If this is true, this merger will reduce the number of PBMs serving the biggest national employers from three to two.

(a) Why is it that Express Scripts, Medco and CVS Caremark have such high share of the PBM business of large employers and plan sponsors?

We believe there is strong empirical evidence demonstrating that competition in the PBM business – overall, and specifically for large employers – is robust, dynamic and increasing at a rapid pace as the lines blur across traditional competitors, including retail pharmacies, health plans and PBMs. Among the large employers, we do not view Express Scripts and Medco as head-to-head competitors; Medco has not lost a large employer client to Express Scripts in more than three years. Additionally, based on the current dynamics across the pharmacy industry, the historical concept of what some refer to as the "Big Three PBMs" is outdated and has lost whatever relevance it had. We also note that the implementation of the new health care reform law has already begun to change the competitive landscape for PBMs, and this pace of change will further accelerate as different aspects of the law become effective and continue to be implemented.

Large employers already use more than just CVS Caremark, Medco and Express Scripts. Looking at the Fortune 50, according to a July 2011 Morgan Stanley report, nine PBMs serve Fortune 50 companies: Aetna, Catalyst Rx, CVS Caremark, Express Scripts, Medco, Prime Therapeutics, Restat, SXC Health Solutions and OptumRx (owned by UnitedHealth Group). Additionally, two Fortune 50 companies, Costco and Kroger, have their own PBMs.[1] Some of these PBMs are among the nation's fastest-growing organizations, developing scale and capabilities at a rapid pace. In 2011, less than 7 percent of Medco's business came from Fortune 50 companies.

[1] Morgan Stanley, "Healthcare Services & Distribution: Large Employer Market Key to Deal Approval", July 28, 2011.

Medco directly experiences this fierce competition for large employer accounts. Although Medco has enjoyed considerable success since its 2003 spin-off, for our 2012 plan year alone, Medco has lost $10 billion in business – losing 40 clients, large and small –to more than 15 different PBMs. The PBM competitors who recently won these accounts from Medco include: Aetna, CVS Caremark, Catalyst Rx, Cigna, Envision Pharmaceutical Services, Express Scripts, HealthPlus of Michigan, HealthSpring, SXC Health Solutions, MedImpact Healthcare Systems, OptumRx, Prime Therapeutics and ProAct.

This current dynamic, coupled with the changing landscape triggered by health care reform, refutes the historical idea of a "Big Three" construct in the marketplace. In fact, UnitedHealth, the largest health insurer in the country, has contracts with clients for PBM services that, when consolidated at its PBM, will instantly make it the third largest PBM in the country. UnitedHealth owns its PBM, branded in the marketplace as OptumRx. UnitedHealth today provides PBM services to its many clients by using both Optum Rx, largely for its government clients, and Medco, largely for its commercial clients. UnitedHealth has announced that it will be moving to OptumRx all the PBM services that Medco currently provides, taking in-house the 14 million lives currently served by Medco. On the pharmacy side, United already provides coverage to a number of Fortune 100 clients, including Delta, Hewlett-Packard, Oracle, Apple, Proctor & Gamble, and state plans such as the State of New York.

UnitedHealth has stated publicly that it anticipates that it will continue to grow its PBM. Today, UnitedHealth alone provides medical insurance coverage for 45 percent of the lives associated with the employers in the Fortune 100. This provision of medical benefits creates a natural feeder to support the continuing growth of OptumRx, which is soon expected to exceed $30 billion in annual revenue as a UnitedHealth subsidiary. In the most recent rankings, UnitedHealth was listed No. 22 in the Fortune 500, with revenues exceeding $94 billion. As part of its publicly announced growth plans, the company in 2012 expects to invest more than $115 million in OptumRx, and has already committed to adding more than 600 jobs to its Kansas City mail order facility, which is capable of dispensing more than 100,000 prescriptions a day. OptumRx also has an additional mail order facility in California.

Today, more than 40 PBMs aggressively compete to provide differentiated value propositions for public and private payors of all sizes. Seven PBMs each process more than 150 million prescriptions annually, 12 PBMs serve more than five million members each, and at least 17 PBMs serve large state accounts. Additionally, nine Fortune 500 companies operate PBMs directly for their employees. Thus, regardless of the past dynamics in the market for large employers, it is changing rapidly and will continue to evolve.

(b) Do you really believe the "second tier" PBMs can serve the nation's largest employers? In the last five years, how many Fortune 100 companies that were your clients have switched to a PBM other than one of the "Big 3"?

As noted above, we do not believe that the historical moniker "Big Three" is applicable to the PBM industry today, and as such, we do not believe that there is a group of "second tier" PBMs. Rather, we believe that there are a large and growing number of PBMs that can serve large employers – and, in fact, do so today. As Scott Streator, associate vice president for business development at Ohio State University Medical Center, testified during the December 6th Senate Judiciary Subcommittee hearing:

> *While three PBMs have had the majority of market share in the past, there are several companies that have evolved recently with strategic acquisitions to develop a robust infrastructure that can now accommodate large employer needs on all levels. As a result they are gaining market share. For instance Catalyst, SXCI, Navitus, MedImpact, OptumRx, Envision, CVS-Caremark, and Welldyne are several options available in today's PBM marketplace depending on individual or purchasing group needs. Further, as the barriers to entry in the PBM market have decreased, new PBM entrants will emerge such as retail-only PBM models.*

As noted above, there are at least nine PBMs that serve Fortune 50 companies, and health care reform has already changed the competitive landscape. We expect that trend to accelerate.

A large number of PBMs service large employers. For example, in April 2011, Cardinal Health, No. 19 on Fortune's Top 20 list, awarded a three-year contract to Tel-Drug, Inc., a CIGNA HealthCare subsidiary. This marketplace is dynamic with strong competitors growing quickly. As outlined above, Medco in the 2012 plan year alone, lost more than $10 billion in business at a time when a number of PBM competitors continues to grow, both organically and through acquisitions of their own. Catalyst Rx, for example, recently acquired Walgreens' PBM unit, and has won several large national employer accounts during the past year, including large employer accounts such as Ford Motor Company, MGM Mirage, Whirlpool and Waste Management. Catalyst already serves Nike, Sprint, Southwest Airlines and Lear Corporation.

Additionally, SXC Health Solutions, No. 1 on Fortune's 100 Fastest-Growing Companies list, recently agreed to acquire PBM PTRX and mail order pharmacy SaveDirectRx. At one time, SXC was considered more of a data processor for PBMs and other health organizations. But the organization now offers a full-service PBM that competes effectively. SXC's recent addition of Bravo Health Plan to its roster of clients captured more than $1 billion in additional drug spend. Just last month, SXC additionally announced its agreement to acquire the HealthTrans PBM. Notable SXC clients include Bravo Health/HealthSpring, Boston Medical Center, Presbyterian Health Plan, Safeway, the University of Michigan, and state-associated plans in Tennessee, Arkansas and Hawaii.

Other PBMs have gained significant market share by differentiating their services. These fast-growing competitors include MedImpact Healthcare Systems, which positions itself as a highly transparent PBM that focuses on offering its clients drug benefit management without operating any of its own pharmacies. MedImpact says it serves eight of the top 10 HMOs in the United States with 35 million members across its book of business – including health plans, state and federal employee programs, private employers, unions, hospitals, insurance carriers and third-party administrators

In addition, as we noted above, UnitedHealth's OptumRx has emerged as a formidable competitor for the business of major employers. In fact, UnitedHealth already has contracts for pharmacy management for Fortune 100 companies, such as Delta, Hewlett-Packard, Oracle, Apple, Procter & Gamble and large state government employee plans such as the State of New York – and Optum Rx will be taking over the mail order and claims administration work currently handled by Medco. We estimate that after bringing in-house the UnitedHealth business currently processed by Medco, OptumRx will serve 14 million additional lives and will record annual revenues exceeding $30 billion. Since being acquired by UnitedHealth in 2005, Optum Rx has increased its managed prescription volume by six-fold. OptumRx has tremendous growth potential as it leverages the resources of its parent, UnitedHealth, which in 2010 earned profits of $4.6 billion. As a senior UnitedHealth executive noted on a recent earnings call:

> *We've been working on improving OptumRx consistently over the last three or four years and believe that we, actually, are quite competitive right now, and we'll continue to be even more competitive. We're hearing from consultants that OptumRx is well positioned, has a rising profile in the national accounts market in particular and is increasingly seen as a thoughtful alternative to the big PBMs.*[2]

(c) For large employers and plan sponsors who can't use smaller PBMs, won't this merger leave them with little choice for PBM services, and vulnerable to higher fees because there will be little incentive to pass on drug price discounts?

No, we do not believe that is the case. Based on our experience, large employers can and do use a number of PBMs. As discussed above, large employers use a significant number of PBMs today, and that number is likely to increase. At least nine PBMs today serve Fortune 50 companies, and 17 PBMs serve the Fortune 100. Please refer to our answers to subparts (a) and (b) above for more detail.

[2] Jacqueline B. Kosecoff from transcript of UnitedHealth Group's Earnings Call Discussion of Q3 2011 Results, October 2011

All PBMs share one common characteristic: they are awarded business based on their ability to deliver the greatest value for clients and their members, thus ensuring a market dynamic that incentivizes them to deliver the lowest possible drug pricing. As Medco experienced by virtue of its $10 billion in recent losses, clients are demanding and will change their PBM readily.

2. Ms. Sutter and Mr. Bettiga testified at the hearing that your merger will make it much more difficult for traditional pharmacies to compete. What is your response? Does your business model to encourage mail order threaten the pharmacy business? And do we risk losing traditional pharmacies, and the counseling and customer service benefits that goes with a visit to the local pharmacy?

It is important to understand that PBMs such as Medco respond to the demands of clients, and that clients demand that their PBMs provide both a retail and mail network for their members. Retail pharmacies are an integral part of health care in America, and Medco recognizes its obligation to provide a comprehensive, convenient and cost-competitive retail option as part of its core suite of services.

Even if this were not Medco's desire, it is a market requirement. Retail dispensing of prescriptions remains the dominant method by which members receive their pharmaceuticals, and our clients demand that we provide robust retail networks. Mail order services represent only about 15 percent of prescriptions dispensed today in the United States; the other 85 percent are dispensed through retail channels. Moreover, there are vast numbers of prescriptions that are not suitable for mail order, such as acute antibiotics and 30-day prescriptions. Medco's client contracts, as well as regulations, require Medco to provide certain access levels to retail pharmacies for our members.[3] Client demand and these regulatory requirements ensure that we work collaboratively with retail pharmacies to ensure they remain in our networks.

Moreover, the perception that independent pharmacies have been losing prescriptions to mail order pharmacies is simply unsupported by the relevant data; however, independents have been losing significant prescription volume to chain pharmacies and big-box retailers, including supermarkets and mass merchants. Data recently released from the National Association of Chain Drug Stores (NACDS) shows that even though all pharmacy segments are filling more prescriptions year over year, the relative share of mail order pharmacy has remained flat, while the share of chain and big box retail pharmacies, such as CVS and Walgreens or Walmart and Sam's Club, has increased at the expense of the community-based independent pharmacies.[4] And the basis of that growth for chain and big box retailers has been fueled in part by the growth of 90-day maintenance prescriptions being filled at those stores and not at mail order. In other

[3] It is important to note that Medco, as a Medicare Part D Prescription Drug Plan, is required by law to ensure that beneficiaries have "convenient access to network pharmacies" – meaning they live within a certain distance of a pharmacy. In addition, under the terms of its client agreements, Medco is contractually obligated to ensure that its retail pharmacy network meets exacting proximity requirements so all plan members can readily access a retail pharmacy, e.g., generally speaking, members in urban areas must live within one mile of a pharmacy, suburban members must live within three miles and those living in rural areas must live within five miles of a retail pharmacy.

[4] NACDS Chain Pharmacy Industry Profile 2011-2012.

words, mail and retail pharmacies are direct competitors for those 90-day prescriptions. As the Federal Trade Commission (FTC) noted last year in a letter stating their concerns with a bill then pending before the Mississippi legislature:

> *Plan sponsors sometimes encourage patients with chronic conditions who require repeated refills to seek the discounts that 90-day prescriptions and high-volume mail-order pharmacies can offer. Mail-order pharmacies, including those owned by PBMs, compete directly with retail pharmacies.*[5]

We have attached a chart in Appendix A that illustrates this pattern.

In fact, Medco data shows that on average, an independent pharmacy loses 64 prescriptions to a chain pharmacy for every single prescription lost to a mail order pharmacy. Nearly half (47 percent) of members who fill prescriptions in an independent pharmacy use more than one pharmacy, including chain and big box retail pharmacies. If independent pharmacies consolidated these prescriptions they would increase their share by 44 percent.

Although as the acquired company we are not in a position to comment specifically on operations post-merger, we believe our merger will help retail pharmacies compete more effectively and stem these losses to chain pharmacies.

Highlighting the importance that Medco places on the continued viability of independent retail pharmacies, Medco has partnered with independent pharmacies in Illinois and New Mexico as part of pilot programs to provide additional reimbursement to independent pharmacies. This reimbursement is for providing clinical counseling to members and closing gaps in care that members may have related to the appropriate use of medication.

Interestingly, based on data presented by their own trade association, traditional community-based independent pharmacies continue to grow in number and increase their top-line revenue and bottom-line profits. Between 2009 and 2010, the number of independent pharmacies grew by almost 400 to more than 23,000, representing a $93 billion industry. Average independent pharmacy sales increased by 3.7 percent in 2009, from $3.88 million to $4.03 million.[6] Pharmacy profits have doubled since 1999, with average profits per pharmacy of almost $1 million.[7] In the context of one of the most difficult economic environments in generations, that is an enviable position for any industry.

We would also emphasize that our mail order pharmacies provide comprehensive patient counseling by trained pharmacists. Medco employs more than 3,000 pharmacists who assure our clinical quality standards remain the industry standard. They are available around the clock, every day of the year to answer member questions and address concerns – even if those members are using a retail pharmacy. We also offer our

[5] FTC letter to The Hon. Mark Formby, Mississippi House of Representatives, March 22, 2011, regarding MS SB 2245, p. 4; accessible at http://www.ftc.gov/os/2011/03/110322mississippipbm.pdf.
[6] National Community Pharmacists Association, 2010 NCPA Digest, October 2010.
[7] Drug Channels, "Owning a Pharmacy: Still Pretty Profitable", January 25, 2011 (Analysis of 2010 NCPA Digest Data).

members the opportunity to speak with pharmacists who are specifically trained in specialized areas related to chronic and complex conditions – ranging from heart health and cancer care to asthma and diabetes – a capability that is unrivaled in the mainstream retail environment.

3. (a) According to industry estimates, after this merger the combined Express Scripts/Medco will control about 60% of the mail order business. Should we worry about this high level of concentration in the mail order marketplace? What would you say to your critics who have concerns about competition in the mail order business?

We do not believe that the industry estimate of 60 percent is accurate. For example, the market share estimates do not reflect Medco's significant pending business losses, which represent about 25 percent of our 2011 book of business and $10 billion in lost revenue. Moreover, the estimates do not reflect that retail pharmacies today also dispense 90-day prescriptions for members with chronic and complex conditions – the types of prescriptions dispensed by mail order pharmacies. The line has been blurred between "retail" and "mail." In fact, CVS Caremark in its business model promotes its belief that this line has been erased completely, as it offers 90-day prescriptions with no distinction between whether they are picked up at the retail store or received by mail. As noted above in our response to Question 2, the FTC has recognized that mail pharmacies "compete directly with retail pharmacies" for this business.[8]

Medicines shipped via mail order are largely "maintenance" medications. These are taken by patients with chronic or complex conditions to manage their care on a long-term basis. Currently, 70 percent of all maintenance prescriptions (90-day supply) are dispensed at retail pharmacies; only 30 percent are dispensed through mail order pharmacies.[9] With growing numbers of retail pharmacies now offering 90-day maintenance plans, we believe there is robust and growing competition from retail pharmacies.

In addition to retail pharmacies, competition across mail order pharmacies is vigorous. There are at least 32 different companies that own and operate mail order facilities. At least eight of these operate two or more facilities.

This means that any industry estimates of mail order share need to be adjusted based on these conditions: reflecting Medco's significant pending business losses – business that is going to 15 different competitors; the share of 90-day prescriptions that are dispensed by retail; and an acceleration in the competition across the PBM space – driven, in part, by the phased implementation of health care reform.

[8] FTC letter to The Hon. Mark Formby, Mississippi House of Representatives, March 22, 2011, regarding MS SB 2245, p. 4; accessible at http://www.ftc.gov/os/2011/03/110322mississippipbm.pdf.
[9] NACDS Chain Pharmacy Industry Profile 2010-2011.

(b) Some of the merger's critics argue that this level of concentration gives your PBMs an incentive to unduly direct consumers to utilize mail order services. What is your response?

Medco, as a PBM, does not have the power or the ability to direct members to use mail service. The decision to use mail order delivery is made solely by plan sponsors. PBMs offer plan sponsors different benefit design options, and the plan sponsor chooses and implements the benefit design that best meets its objectives. It is the plan sponsors that select whether, or to what extent, they provide financial incentives to encourage members to use mail order pharmacies.

Members always have the option of filling prescriptions at any pharmacy they select. However, their plan determines the level of reimbursement provided based on the conditions outlined in the plan's benefit design. To encourage members to use a lower cost and more efficient delivery channel, many plan sponsors offer a lower co-payment for mail order – just as they may choose to lower co-payments for generics, compared to brands. This reduces costs and ensures plan sponsors can continue to provide access to affordable benefits. In some cases using a retail pharmacy for a prescription that falls under a mandatory mail order plan design could require the patient to pay the full, albeit discounted, retail cost of that prescription.

Moreover, for certain entities – insured business in many states and Medicare Part D business – provisions known as "Any Willing Provider" laws do not allow plan sponsors to offer incentives or direct members to mail order.

Finally, as noted above, there are certain types of prescriptions that are not appropriate for mail order pharmacies to dispense, such as acute antibiotics and short-term pain medications. A merger would not alter those circumstances.

4. In her written testimony, Ms. Sutter brought forward substantial evidence of waste resulting from mail order shipments of prescription drugs, including allegations that patients on many occasions could not get their PBM to cease shipping unneeded drugs. What is your response to these reports of substantial waste in your mail order business? Do PBMs have an incentive to ship prescription drugs to consumers, whether they need them or not? Don't you get paid for every prescription you mail out?

Medco's pharmacists work hard to prevent waste and, in the process, safeguards patients' health, while saving patients, plans and their sponsors significant sums of money. The Medco pharmacy ships prescription medications as authorized by our patients. In fact, even so-called "mandatory" mail programs are a misnomer. By design, even these plans typically allow – and even encourage – that patients receive the first several 30-day fills at retail pharmacies. This allows a physician to ensure that the patient has stabilized on the proper medication before a larger 90-day quantity is dispensed, reducing waste and optimizing clinical care. When patients no longer want authorized medications after they

have shipped, we have processes in place for handling returns and crediting patients and their plans, as appropriate.

Our clients hire us to make prescription medications more affordable. Accountability to our clients creates a very strong incentive to manage waste. With regard to incentives to ship medications to consumers, we are highly incented to ship only those medications our patients need.

5. (a) Specialty drugs are an increasingly important component of medical costs. Generally, these drugs are distributed more narrowly than other pharmaceuticals, often on an exclusive or semi-exclusive basis. How will the merger affect the cost and availability of specialty drugs?

Generally, the overall majority of specialty distribution is broad, not narrow. Although as the acquired company we are not in a position to comment specifically on operations post-merger, we believe the merger will create operational efficiencies and purchasing scale that will help to further reduce the cost of providing specialty pharmacy care for our clients and their members. When assessing the specialty drug space, it is important to remember that a large amount of drug spend for specialty drugs is not adjudicated by PBMs, and that specialty drugs are dispensed by medical providers as well as pharmacies. Additionally, pharmaceutical manufacturers, not PBMs, control whether a drug is dispensed on an exclusive or semi-exclusive basis, and retain the ability to revoke the arrangements at their discretion. Moreover, the competition in the specialty drug space is robust and growing.

Depending on the situation, specialty drugs may be paid for under members' medical benefit or under their pharmacy benefit. Medco, as a PBM, only manages the pharmacy benefit. On the pharmacy benefit side, for most drugs that are considered specialty, pharmaceutical manufacturers do not limit the number of pharmacies that dispense the drugs; any retail pharmacy can dispense specialty drugs to Medco members, and many do. As a result, there are literally thousands of retail pharmacies in Medco's networks that fill prescriptions for specialty products, including self-administered injectables. As well as being dispensed by pharmacies, specialty drugs can also be dispensed by doctors, and in clinics and hospitals.

Pharmaceutical manufacturers can, in certain circumstances, limit the number of pharmacies that distribute a specialty product. The decision to limit the number of distributing pharmacies and the conditions that a pharmacy must meet in order to become a limited distributor are decisions fully within the control of the pharmaceutical manufacturer. They do this, in part, because this may be associated with drug-approval requirements specified by the Food and Drug Administration (FDA) for the management and safety of these medicines or because of special handling requirements. The pharmaceutical manufacturers retain the ability to determine which pharmacies dispense the drugs.

(b) What steps would the new, merged company take to ensure that specialty drugs will be distributed in a way that there will not be supply shortages and that prices for these drugs won't increase for consumers?

Shortage of supply is an issue that arises with the manufacturer and the FDA, and is not created by a PBM or a pharmacy. Our mission, as a PBM, is to ensure that the right patient gets the right drug at the right time in accordance with the physician's prescription and the client's plan design. Our clients demand that we maintain an inventory to ensure that their members can obtain their drugs.

Our pharmacies will not have the ability to create shortages that would drive up prices. There are multiple channels by which specialty drugs are dispensed to members. Retail pharmacies dispense specialty products, as do physician offices, clinics, hospitals and other clinical settings. Depending on the circumstances, payment for specialty medicines can be covered under the member's medical benefit through the health insurance plan or the pharmacy benefit program.

As you may know, a recent report issued by Adam Fein of Pembroke Consulting has estimated that in 2010 the specialty pharmacies operated by Express Scripts and Medco handled 31 percent of specialty drugs dispensed by specialty pharmacies in the U.S. Furthermore, because this figure does not take into account specialty drugs dispensed by physician offices, clinics, hospitals and the like, it necessarily overstates the role played by Medco and Express Scripts in the overall dispensing of specialty drugs.

Although as the acquired company we are not in a position to comment specifically on operations post-merger, we believe the merger will create operational efficiencies and purchasing scale that will help to further reduce the cost of providing specialty pharmacy care for our clients and their members.

(c) What assurances can you give us that the new company will not limit distribution of, or charge very high rates for, specialty drugs to competitors who also must distribute or help make these drugs available to consumers at competitive prices?

As outlined in the previous response, a significant number of entities provide specialty drugs, creating a highly dynamic and competitive environment that will ensure consumers have access to these medicines at competitive prices. For drugs where a pharmaceutical manufacturer has decided to limit the number of distributors, that manufacturer has the ability to add or delete pharmacies at its discretion. It retains ultimate control over distribution. The control exercised by the pharmaceutical manufacturer will prevent any pharmacy – owned by a PBM or not – from limiting distribution of the product.

6. In your written statement, you stated that "Under the terms of our existing contracts alone, we project that at least $1 billion in savings from the merger will be passed back to our clients annually starting immediately." Please explain with specificity from where the purported $1 billion in merger specific efficiencies will come, and the basis for your assertion that the savings will amount to "at least $ 1 billion."

The merger of Medco and Express Scripts will result in immediate savings to our clients and, ultimately, to consumers. Today, each of our companies has a separately negotiated agreement with each pharmaceutical manufacturer. We know that one or the other company has the better purchasing terms, providing the lowest overall price. As a merged corporation, we would use the terms of the best contracts that currently exist in making these purchases, which are in the tens of billions of dollars. We project that at least $1 billion in savings from the merger will be passed back to our clients annually – starting immediately. Sharing these savings with our clients is part of our contractual requirements, certifiable by us and independently auditable by our clients.

7. At the hearing, I stated during my questioning of you that "significantly increasing discounts over what you are getting right now is really not why you are doing this deal, and you are not as certain as some people might think that this deal will result in far more discounts from your suppliers. There are other ways in which you hope this deal will pay off." You responded "That is correct." Please state with specificity what are these "other ways."

During the hearing, this question was directed to Mr. Paz, and we expect he will be addressing this question in his written response. However, as reinforced in our written testimony, we strongly believe the combination of Medco and Express Scripts makes strategic sense for plan sponsors and members. Each company employs a fundamentally different business model, and combining the best attributes of each will create an enhanced capability to lower prices and improve quality care for members. Aside from our ability to negotiate lower drug prices, we believe the merger creates value in other ways. Specifically:

- The merger will allow the companies to streamline operations and implement each other's best practices. Our ability to drive higher volumes through a combined network with fixed overhead also will create efficiencies to reduce the unit cost of medications for plan sponsors and members. Savings from these synergies are estimated at $1 billion, which is in addition to the $1 billion that will flow through to clients as contractually required.

- The merger will allow us to more effectively combat fraud, waste and abuse, which is estimated at about 1 percent of all prescription spending, or $3 billion a year. We will enhance our ability to help state and federal law enforcement in their efforts to shut down so-called "pill mills" that fraudulently bill the health care system. We will do

this by more effectively monitoring claims data to detect patterns of potential fraud and abuse.[10]

- The merger will allow us to apply our advanced technology platforms across all elements of the expanded company. This enables us to seamlessly integrate prescription management at both mail order and retail with our plan sponsor and member services organizations and to facilitate collaboration with physicians to deliver the benefits of new science more quickly to members. The combined entity will advance the transition to wired health care – building on our strong foundation to improve communications among payors, patients, physicians and pharmacists, enabling real-time, secure access to vital member information, enhancing drug-interaction screening and furthering the cause of evidence-based medical practice.

- The merger will combine our collective and complementary expertise to close gaps in care – attacking the estimated $290 billion in avoidable medical spending annually resulting from patients' non-adherence to their prescribed medications. This represents an opportunity that equates to about 13 percent of all health expenditures.[11]

- The merger will enable us to amplify our impact in helping reduce overall health care costs by improving the quality of patient care. This will make American business more competitive – creating a healthier, more productive workforce, preserving existing jobs and creating new jobs in the future.[12] This will also drive greater savings in the Medicare and Medicaid programs without the need to reduce benefits.

8. Are there any conditions on this merger you would accept in order to secure its approval at the FTC?

Since this transaction is currently being considered by the FTC, it wouldn't be appropriate for us to comment at this juncture.

[10]Pharmaceutical Care Management Association, "Fraud, Waste, and Abuse Detection in Retail Pharmacy: The Drugstore Lobby vs. Employers," July 2011.
[11] New England Health Care Institute, "Thinking Outside the Pillbox: A System-wide Approach to Improving patient medication Adherence for Chronic Disease," August 12, 2009 and Jonathan Orszag, "The Economic Benefits of Pharmacy Benefit Managers," December 2011.
[12]David Cutler and Neeraj Sood, "New Jobs Through Better Health Care, " Center for American Progress, January 2010.

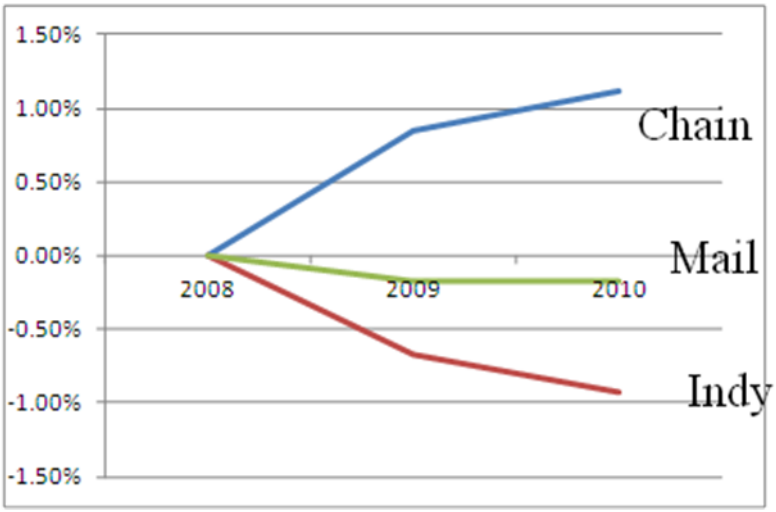
Appendix A

Independent Pharmacies are Losing Share to Chains, Not to Mail

According to NACDS data:[13]

- For several years mail share in the industry has been relatively flat
- While chain share has been growing at the expense of the independent pharmacy

Change in Share



Share calculated by % of total Rx volume

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Mail	5.1%	5.4%	5.5%	5.9%	6.5%	6.8%	6.8%	7.3%	7.4%	7.2%	7.2%
Indy	24.4%	23.6%	22.9%	23.0%	22.7%	21.9%	21.6%	21.3%	20.8%	20.1%	19.8%
Chain	70.6%	71.0%	71.5%	71.1%	70.7%	71.3%	71.6%	71.4%	71.9%	72.7%	73.0%

[13] NACDS 2011-2012 Chain Pharmacy Industry Profile: Calculated from table 37 "Pharmacy Prescriptions by Type of Store."