

# Generic Drugs By Mail Can Be A Raw Deal

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**In an attempt** to rein in its employees' fast-rising prescription drug costs, **General Motors Corp.** requires its workers to fill prescriptions for chronic conditions through the mail order operation of **Medco Health Solutions Inc.**, But some simple comparison shopping shows that GM, despite its formidable bargaining clout, is paying far higher prices for some drugs than ordinary individuals can get walking into retail pharmacies.

Consider GM's price for ranitidine, the generic form of the popular anti-ulcer pill Zantac. GM pays Medco \$176.22 for 90 pills mailed to a worker, who pays an additional \$5 co-pay, bringing the total cost to \$181.22, according to Medco's Web site for GM employees. If a GM employee were to simply buy the same ranitidine prescription at a retail pharmacy, it would cost a total of \$62.88 for the 90 pills. A person without insurance could buy the same medication at Wal-Mart in Secaucus, N.J., for \$78.62. At **Costco Co.**'s online service, Costco.com, the prescription would cost only \$22 – and include 10 extra pills.

That GM pays Medco higher prices for many generic drugs than regular pharmacies charge customers without insurance illustrates the complexities, and potential pitfalls, of prescription drug coverage. It's also a rare glimpse into how such plans work.

Pharmacy-benefit managers, such as Medco, administer the drug benefits of large employers, acting as the middlemen between the employers and the pharmacies. Such PBMs create large networks of par-

ticipating pharmacies and use their size to drive down prescription drug prices. Some, including Medco, also own their own mail-order pharmacies and prod employers to move more of their workers' prescriptions into the mail business.

PBMs promise to realize savings for their corporate customers by keeping the overall cost of prescription medications down. But they also preserve large profit margins for themselves, as the GM prices show. The price GM pays for prescription drugs is available to any of its employees or retirees through the workers' benefits Web site. The *Wall Street Journal* reviewed Web page printouts provided by a pharmacist with access to the site and who is working to get GM to roll back its mandatory mail policy – in which employers require workers to fill prescriptions through a mail program.

Some companies, like GM, say they are satisfied with the overall savings Medco is providing. But others simply aren't aware of the vast price discrepancies on generic drugs.

Susan Hayes, a consultant with Pharmacy Outcomes Specialists in Lake Zurich, Ill., which helps employers control their drug costs through audits and contracting, says some companies are surprised when she tells them about the price differential. "It's a big deal," says Ms. Hayes. "Why should you pay more than \$1 a pill for generic Prozac to the mail-order pharmacy when you could get it for 23 cents in the retail store?" she asks.

GM has used Medco to manage its drug benefit since 1994, yet the auto maker's drug costs are climbing by more than 15% a year, almost double the rate of increase of GM's overall healthcare costs.

GM's pharmacy chief, Cynthia Kir-

man says GM is getting a good deal from Medco, saving \$80 million by using mandatory mail based on 2003's drug costs of \$1.3 billion. GM declined to explain how it figures it would save \$80 million. The company spent \$1.5 billion on prescription drugs in 2004.

Last week GM moved to strengthen Medco's mandatory-mail program further by preventing its 1.1 million employees and retirees from filling any prescriptions at the **Walgreen Co.** drug-store chain.

GM's Ms. Kirman says its not fair to "cherry pick" certain drugs for a price comparison, though she declined to provide a list of GM's most-used generic drugs. "Numbers on the Medco Web site may not be reflective of the actual GM prices," a GM spokeswoman said yesterday subsequently. The GM spokeswoman declined to explain why the numbers may not be reflective.

A Medco spokeswoman, too, says it is misleading to look at individual drug prices for GM and draw any conclusions about overall costs. The spokeswoman, Soraya Rodriguez-Balzac, said in an e-mail response to questions that "mail-service pricing for generics is usually a flat percentage discount for all drugs and adds value in aggregate."

Because generic drugs are so cheap to begin with, PBMs and retail pharmacies alike typically make big margins on generic drugs, which account for about half of prescriptions filled in the U.S. That's why pharmacies have a big incentive to switch prescriptions for branded drugs to their generic versions.

Aggressively switching of branded prescriptions to generics does help reduce employers' drug costs. Employers also believe they are getting better prices on branded drugs through PBMs, which is why they are willing to pay bigger markups on generic medications.

Mail-order pharmacies generally fill a three-month's supply of medication at once.

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Medco benefits greatly from its mail-order pricing system. When a patient fills a prescription through Medco's mail pharmacy, the full profit belongs to Medco, rather than having to split it or get very little when the transaction happens at the retail store. The Franklin Lakes, N.J., company derives more than half of its corporate profits just from selling generic drugs from its own mail-order unit.

For example, 90 ranitidine pills usually cost pharmacies about \$7. At retail, customers can pay \$22. Medco's mail-order price to GM is \$181.22. Medco can show its customers a great savings because the list price, called the average wholesale price, quotes ranitidine at about \$264 for 90 pills. Medco declined to comment on specific prices on its Web site.

The dizzyingly complex system of drug pricing makes it difficult for employers to know whether they are getting the best prices. Generic drug prices in mail programs are based on average wholesale price, or AWP. AWP is considered an inflated price among those in the drug industry. For example, the average wholesale price for 90 fluoxetine pills, the generic drug for Prozac, is \$240.12 but pharmacies usually pay less than \$5.

Employers can't choose to use a PBM for only brand-name drugs, where they get a price break, and use another service for generic drugs. PBM services are purchased the way employers purchase a health plan – the same health insurer covers all the different physicians and services for a worker.

Medco's generic pricing policy isn't unusual. **Caremark Rx** Inc., the pharmacy benefit manager for millions of federal government employees, charges \$96.05 for 90 pills of fluoxetine and \$105.42 for 90 pills of ranitidine from its mail-order pharmacy. The prices are available to federal employees on Caremark's Web site.

In addition to GM, **International Business Machines Corp.**, **Southwest Airlines Co.**, **Citigroup** and numerous states and municipalities, have started mandatory-mail programs in recent years. A survey by consultant Hewitt Associates found that 22% of employers will have mandatory mail plans in place this year, with another 51% considering such programs.