



## MEMORANDUM

**TO:** DIRECTORS OF THE NATIONAL LABOR ALLIANCE OF  
HEALTH CARE COALITIONS (NLA)

**FROM:** JIM CONLON *JCC*

**DATE:** AUGUST 4, 2005

**RE:** PHARMACY BENEFIT MANAGER (PBM) COMPETITIVE  
BIDDING PROCESS

The purpose of this memorandum is to describe the competitive bidding process which was utilized by the NLA in satisfying the due diligence required by ERISA in the evaluation and selection of a PBM on behalf of the NLA member Funds.

- [1] The contract effective date is for the three-year period beginning July 1, 2005.

The incumbent PBM is Medco.

- [2] The Request for Proposal (RFP) was drafted by Milliman and circulated to the Directors of the NLA for their input on November 11, 2004.

The RFP focused on several key contractual provisions:

- a. Transparency in pricing and full disclosure of all PBM revenue sources.
- b. Audit provisions and rights of the member Funds to audit, including the selection of the auditor.
- c. "Most Favored Nations" pricing provision.

d. Other standard issues addressed in the RFP included:

- \* Company background
- \* General capabilities
- \* Account and customer services
- \* Reporting
- \* Retail pharmacy network
- \* Mail service pharmacy
- \* Clinical capabilities
- \* Financial

[3] After incorporating NLA Director input, the REP was distributed to an NLA Director-generated list of PBM candidates. Respondents were directed to reply by January 14, 2005.

[4] Written responses were received in the Milliman office within the response deadline by the following PBMs:

- \* NMHC Rx
- \* SAV-Rx
- \* Medco
- \* Express Scripts
- \* Caremark
- \* Wellpoint Pharmacy Management
- \* Prescription Solutions (submitted a response several weeks after the January 14, 2005 deadline)

[5] Milliman reviewed all responses and compiled the results of the analysis as follows:

- a. PBM summary matrix of all questions
- b. Response to key questions regarding transparency, audit and company background/Taft-Hartley experience
- c. Financial spreadsheet
- d. PBM reported book-of-business statistics
- e. Numerical scoring of PEM responses to questions
- f. Actuarially modeled cost comparison with and without rebate

The compilation was sent to all NLA Directors.

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[6] On February 23, 2005, the NLA Directors met via a teleconference to choose finalists based on Milliman's data compilation.

After discussion, a second teleconference was scheduled for March 3, 2005, during which the finalists were selected.

[7] Finalist presentations were held on March 31, 2005. Each candidate was given 45 minutes to present their PBM and to answer questions from the Directors.

All finalists were requested to produce "best and final" pricing.

The finalists were

- \* Medco
- \* NMHC Rx
- \* Express Scripts
- \* Prescription Solutions

[8] Medco and NMHC Rx were selected as finalists and were asked to produce NLA prescription drug benefit contracts by April 22, 2005.

[9] Medco and NMHC Rx reported the best financial terms and scored #1 and #2, respectively in the actuarial cost comparison,

[10] Based on:

- \* Written response and scoring
- \* Milliman evaluation of financials
- \* Teleconference discussions
- \* Finalist presentation and vendor response to questions
- \* Final contract form

Medco was selected and the three-year contract was executed by the NLA on June 15, 2005.