

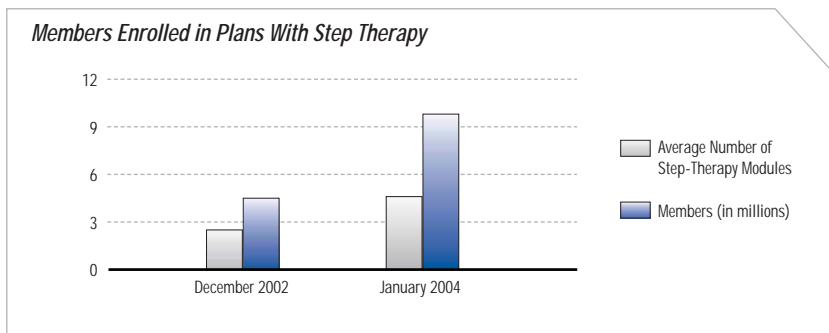
Executive Summary

MARKET TRENDS

As employers, health plans and other plan sponsors strive to provide affordable drug benefits to their employees and members, Express Scripts takes an evidence-based approach in developing customized programs and services that help plan sponsors reach their goals. By examining the latest trends in prescription drug utilization and spending, the *2003 Drug Trend Report* presents Express Scripts best thinking about the pharmacy benefit along with the latest research evidence that supports our consultative recommendations.

The year 2003 is likely to be seen as a turning point in healthcare due to several significant developments, including the new Medicare prescription drug benefit, the loss of employer-sponsored prescription drug coverage, and the launch of over-the-counter (OTC) versions of several leading prescription products. As a result of such events, plan sponsors adopted a variety of proven and innovative management tools that made plan sponsors even more active in managing drug costs than in previous years.

Leading the way in new implementations were step-therapy programs designed to encourage the use of lower-cost medications, particularly generics. Among Express Scripts members, the use of step therapy grew from 4.5 million to 9.8 million lives from the end of 2002 to the beginning of 2004, as shown in the following exhibit. In addition, the number of step-therapy modules per life grew from 2.5 to 4.6 over the same time period. Each drug subclass for which there is a step-therapy program (e.g., SSRI antidepressants), is considered a separate module.

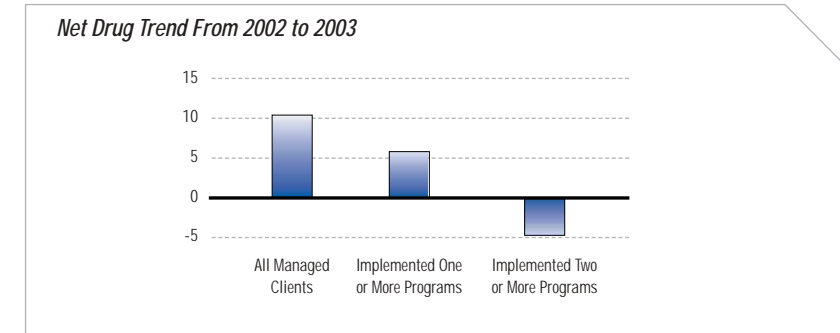


An ongoing strategy to promote the use of cost-effective medications in 2003 was the three-tier copayment, which assigns generics the lowest copayment, formulary brands the middle copayment and nonformulary brands the highest copayment amount. Nearly two-thirds of Express Scripts commercial clients had a three-tier copayment design in 2003. Also growing in popularity was Express Scripts High Performance Formulary, which consists primarily of generics and low-cost brands. The 10 plan sponsors that have adopted this formulary since 2002 are all experiencing negative trends in drug spend.

Reflecting the growing interest in consumerism, Express Scripts consumer-driven plan design, Express ChoiceSM, grew tenfold in member enrollment since 2002, with plan sponsors experiencing significant savings (range of -15% to 3% trend observed) while maintaining member satisfaction.

DRUG TREND

Managed trend — or drug-trend growth net of copayment — for those plan sponsors who had at least one trend-management program by 2003 was 10.4%. As shown in the following exhibit, plan sponsors that implemented one or more tools for the first time in 2003, as recommended in the Express Scripts *Pharmacy Benefit Guide*, experienced a net cost trend of 5.9%; and those who implemented two or more tools for the first time in 2003 averaged a net cost trend of -4.6%. (Rebates, which were not considered, would have added to the trend reduction.) Despite increased member responsibility among some plans with low or negative trend, member responsibility remained under 25%, and member satisfaction remained steady at greater than 94%.



In 2003, overall trend growth in ingredient cost, or unmanaged trend, reached 15.5%, which was not only the lowest rate of increase since 1997, but was also significantly less than the 18.5% seen in 2002. When specialty drugs are excluded, trend growth slowed even further to 14.5%. Spending on specialty drugs grew nearly 40% in 2003. The average cost per prescription for a specialty drug was \$1,223, up 2.5% from 2002, while utilization growth was up approximately 35%. The increase in specialty-drug spend was driven primarily by the transfer of specialty-prescription management from the medical to the pharmacy benefit.

Utilization growth for common drugs (those approved in 2002 and earlier) reached an all-time high in 2003, contributing 47.2% to the overall trend increase. As in previous years, classes such as antihyperlipidemics and miscellaneous endocrine drugs led the utilization increase. However, some of the utilization growth came at a reduced overall cost. Four of the top 10 classes in utilization growth were also in the top 10 for brand/generic mix, which reflects the cost-savings impact of increased generic use.

The percentage of prescriptions filled with generic drugs continued to grow, reaching 48% by the end of 2003. The increased use of step-therapy programs that promote generics as first-line products and the release of several high-profile generics each contributed to the increase. Currently, the pharmaceutical industry is in the largest patent expiration cycle it has ever seen, with products that account for \$38 billion in sales expected to have generic competition by the end of 2008.

THERAPY CLASS HIGHLIGHTS

Antihyperlipidemics replaced gastrointestinals as the leading therapy class of 2003. Growing 23.8% from 2002, the annual per-member spend of \$64.11 for antihyperlipidemics represented almost 14% of the total growth in prescription-drug spend. The top five categories (antihyperlipidemics, gastrointestinals, antidepressants, antihypertensives and anti-rheumatics) contributed nearly 45% of the growth in drug spend.

The impact from over-the-counter versions of Claritin® and Prilosec® that were launched in December 2002 and September 2003, respectively, was felt in the relevant therapy classes — antihistamines and gastro-intestinals. Overall trend growth for the antihistamines was -20.9%, with both cost-per-prescription and utilization trends decreasing from 2002 levels. At 11.5%, growth in the gastrointestinal class was still substantial but significantly less than the 25% trend increase observed in 2002. In addition to the effects of Prilosec OTC®, generic competition for the prescription version of omeprazole (the generic for Prilosec) affected overall growth.

The estrogens class continued to be affected by the negative results of the Women's Health Initiative study, which prompted subsequent labeling changes that essentially limit the products to short-term use. Overall estrogen spend decreased by 23.2%, and utilization was down almost 30%.

As in previous years, drugs that were new to the market in 2003 contributed only modestly to overall drug-trend growth. Only 10 of the top 25 therapy classes had a measurable change in trend due to new drugs. Strattera®, a new drug for attention-deficit/hyperactivity disorder, had the greatest impact on drug spend, leading to more than a 40% growth in spend for its therapy class, stimulants/anti-obesity.

FORECAST

Modest drug pipelines, increased generic drug utilization and more aggressive trend-management programs will result in moderate drug trend growth through 2008. For unmanaged clients, Express Scripts forecasts an ingredient-cost trend growth rate of 14.1% for 2004. Continued increases in utilization should be offset by decreasing costs per prescription due to growing numbers of generic alternatives. The antihyperlipidemic therapy class will continue to lead in terms of overall spend, and the top seven therapy classes should remain constant for the next several years. With the strongest pipeline of new products, the antineoplastics class will be one to watch.

BENEFIT DESIGN

To avoid the forecasted double-digit trend in 2004, plan sponsors should implement programs that optimize use of the growing numbers of generic medications for key therapy classes. Five key programs for promoting use of cost-effective medications, both brands and generics, include the following:

- Tiered copayments
- Generic policy
- Step therapy
- High Performance Formulary
- Express Choice

Three-tiered copayments have become an industry standard because they align interests between the member and plan sponsor, provide financial incentive for the member to use the most cost-effective alternative and still allow members a choice of medication. Express Scripts has done extensive research on three-tier copayments, finding that they can provide significant cost savings without any negative effects on clinical outcomes, such as medication compliance or other medical costs. Nearly two-thirds of Express Scripts clients currently have a three-tier copayment design.

For brand medications with a generic equivalent (i.e., multi-source brands), a generic policy requires the member to pay the copayment plus the difference in price between the brand and generic medication if the member chooses to get the brand. Research has shown that the majority of members believe generics are just as good as brand medications. Accordingly, it is not surprising that plans implementing a generic policy experience no decrease in reported member satisfaction. About two-thirds of Express Scripts clients had a generic policy in 2003.

Step-therapy programs are excellent tools for increasing use of generic medications because they extend a generic policy to promote therapeutic substitution. In a step-therapy program, the use of a first-line medication, typically a generic, is required before coverage is provided for a second-line, typically more expensive brand medication. The number of therapy classes for which step therapy is appropriate has grown significantly in the past two years. Currently, more than 10 therapy classes are candidates for step therapy, and all of the top five therapy classes have step-therapy programs available.

Express Scripts has conducted extensive research on step therapy, finding significant savings and manageable member disruption. When implemented for just three therapy subclasses — proton pump inhibitors (PPIs), selective serotonin reuptake inhibitors (SSRIs) and non-steroidal anti-inflammatory drugs (NSAIDs) — step therapy produced a savings of \$140 per member affected, \$700 per call to the PBM, and \$4,600 for each call to the employer's human resources office.

Step-Therapy Savings Offset Member Disruption

Disruption		Savings
0.05% of members become dissatisfied	MEMBER SATISFACTION	\$2,700/ dissatisfied member
0.03% call HR	HR DEPARTMENT	\$4,600/HR call
0.2% call ESI	EXPRESS SCRIPTS CALL CENTER	\$700/call
1.0% affected	MEMBERS AFFECTED	\$140/employee affected

The most significant step a plan sponsor can take to promote the use of generics is to implement Express Scripts High Performance Formulary (HPF), a formulary consisting primarily of generics and lower-cost brands. Branded products covered on the HPF are either in therapy classes without a clinically-equivalent generic or they are needed for clinical reasons. The HPF can provide a plan sponsor with immediate savings of as much as a 40% reduction in its current drug spend. Ten Express Scripts clients have experienced significant spending decreases after implementing the HPF. Given the growing number of generic medications, this formulary is likely to lead the market in new adoption in the near future.

Finally, Express Scripts consumer-oriented plan design, Express Choice, provides an alternative to defined-contribution plans. With Express Choice, plan sponsors offer multiple pharmacy plans that let members select the one that best meets their needs. Then, throughout the year, members experience the effects of their own decisions regarding cost, coverage and flexibility. By encouraging efficient use of the pharmacy benefit through Express Choice, plan sponsors consistently have seen significant reductions in trend while still maintaining member satisfaction.

In summary, plan sponsors demonstrated in 2003 that active management of the pharmacy benefit could lower drug trend dramatically. As we look to 2004 and 2005, plan sponsors have a variety of clinically appropriate trend-management tools at their disposal to promote the use of generics and lower-cost brands, thereby maximizing the value of the pharmacy benefit to their members.