Executive Summary

Express Scripts is providing significant economic benefits to Missouri through its facilities in the St. Louis area. An analysis of company data shows it is generating the following for the state and region in 2010:

- $902 million in spending by the company and its suppliers
- 5,906 jobs and $732 million in payroll
- $59 million in new capital expenditures
- $25.5 million in taxes
- $3.1 million in charitable contributions within Missouri
- $2.3 million in spending for food and lodging by out of town employees and visitors

In all, its economic contribution in Missouri totals more than $986 million in 2010 alone. In addition, conservative projections for spending and growth indicate that the company will continue to provide significant value to the region and state over the next decade. Assuming growth in spending and wages increase at a modest 2% annually over the next 10 years, Express Scripts will produce $10.5 billion in economic benefits for the St. Louis metropolitan area and state of Missouri.

Express Scripts

Express Scripts is one of the largest pharmacy benefit managers (PBM) in the U.S., with facilities across the country as well as operations in Canada. It provides fully integrated PBM services, including retail pharmacy claims processing, home delivery of prescription drugs, benefit design consultation, drug utilization review, formulary management and clinical programs. It also provides specialty pharmacy services through CuraScript, a wholly owned subsidiary.

Express Scripts is headquartered in St. Louis and has multiple other facilities there. The facilities’ direct operational spending increased 22.4% over 2009, and the company is adding 377 jobs by year’s end.

Assessing Economic Impact

An economic impact analysis measures the comprehensive effect of an industry on a community, its economy and its residents. The three main influences are:

Direct impacts — These are the economic effects driven directly by the business under review. They include items such as operational spending, wages and job creation, payment of taxes, and capital expenditures.

Indirect impacts — These are economic changes in industries related to the company under analysis. For example, vendors and suppliers expand and contract in response to the success of the businesses they serve.

Induced impacts — This is higher household spending as a result of increased income from direct and indirect impacts.

To measure the economic footprint of a business, economists have developed models to measure relationships among key variables and calculate the overall impact in dollars.

1 All opinions expressed in this report are those of the authors and not the University of Missouri where the authors are affiliated. The authors are solely responsible for the contents, including any omissions or errors.
Introduction

This study evaluates the economic impact of Express Scripts, on the St. Louis metropolitan area and the state of Missouri. The report provides a brief background discussion on pharmacy benefit management and Express Scripts before describing Express Scripts’ contribution to Missouri’s economy.

The report shows the company provides the following benefits:

- $902 million in total 2010 spending by the company, its suppliers, and related parties
- 3,858 jobs at the company, with an additional 2,048 created indirectly
- $59 million in capital spending for 2010
- $25.5 million of annual tax revenue
- $10.5 billion of total economic activity over the next decade

Pharmacy Benefit Management

Pharmacy benefit managers (PBMs) help plan sponsors manage healthcare spending on prescription drugs while working with other entities in the healthcare system to improve patient health. They offer a wide range of services, including processing of retail pharmacy claims, home delivery of prescription drugs via mail-order pharmacies, formulary development and sophisticated clinical management programs. In addition, many PBMs provide services to manage high-cost specialty medications for complex, chronic diseases such as cancer and hepatitis C.

In the 1980s, PBMs primarily achieved savings through efficient processing of pharmacy claims and home delivery of drugs through mail-order pharmacies. Although those services are still essential, PBMs now offer additional savings via more sophisticated offerings such as extensive data analysis, data integration with other healthcare vendors, improving patient compliance with prescription drug therapy, outcomes research and related clinical management programs.

These techniques have proved successful. For example, a 2004 study by PriceWaterhouse Coopers found that PBMs reduced prescription drug costs 15% to 40%, depending on how aggressively these tools are used.

Express Scripts

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The company has a long history of thought leadership in healthcare. It was the first pharmacy benefit manager to publish a Drug Trend Report, the first to establish an in-house research team, and the first to offer an Outcomes conference for clients and prospects. More recently, it took leadership in the convergence of the behavioral sciences and healthcare, which it calls Consumerology®.

Express Scripts operates under an innovative business model, based on independence from drug manufacturers, retail pharmacies and other entities in the supply chain. This enables it
to act in the interests of clients and members without the conflicts of interest prevalent in the healthcare sector.

Express Scripts runs a major operation in Missouri through its St. Louis headquarters and its other facilities in the region. These include a call center and a Technology & Innovation Center that houses a state-of-the-art home delivery pharmacy and a research lab. Direct operational spending by these facilities in 2010 will increase by 22.4% over 2009, with 377 jobs added by year’s end.

**Assessing Economic Impact**

An economic impact analysis measures the comprehensive effect of an industry on a community, its economy, and its residents. Evaluating the economic footprint of a business is a useful process for understanding the benefits of development or growth. These benefits are measured in terms of the value of goods and services produced, employment, labor earnings and taxes.

A single economic activity, such as an investment in a facility or an expenditure for a good or service, produces a series of chain reactions that generate far-reaching results throughout local and regional economies. In other words, increased expenditure in one area causes a ripple effect of higher spending in other areas as money re-circulates in the economy.

To measure the economic footprint of a business, economists have developed econometric models to capture the relationships among key variables and calculate the overall impact in dollars on the economy. When assessing the impact of a business, there are three major influences to consider:

*Direct impacts* — These are the economic effects driven directly by the business under review. They include items such as operational spending, wages and job creation, payment of taxes and capital expenditures.

*Indirect impacts* — These are economic changes in industries related to the company under analysis. For example, vendors and suppliers expand and contract in response to the success of the businesses they serve.

*Induced impacts* — This is higher household spending as a result of increased income from direct and indirect impacts.

**Study Methodology**

This study draws on multipliers developed by the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce from the Regional Input-Output Modeling System, commonly known as RIMS II. The multipliers are employment, output and earnings. Each multiplier captures the total impact from a change in a given economic activity. The employment multiplier calculates the number of total jobs in the local economy that will be created from adding a given number of new jobs for a project. The output multiplier tallies the total value of additional spending that will be stimulated in the economy for each dollar increase in a firm’s spending. Lastly, the earnings multiplier indicates the total amount of new earnings in the community that will be generated for each dollar of wages earned by the company’s workers.

The RIMS II model is in its third version since the BEA first released it in the 1970s. It is one of three models widely used in economic impact studies in the U.S. for both the public and
All three models use government data to evaluate interactions between industries and households in an economy in order to identify how transactions impact production and consumption of goods and services. The RIMS II model provides analysts with multipliers for 406 detailed industries using benchmark data. Furthermore, the model gives an estimation of the impact of a facility’s operations in terms of total spending, earnings, and employment for a region or state. Both short- and long-term impacts of development can be considered.

Results
The following section describes Express Scripts’ economic impact on metropolitan St. Louis and the state of Missouri.

A. Economic Impact from Operations
The economic impact represents the aggregate spending by Express Scripts and all other businesses and households in the state of Missouri as a result of the company’s facilities. As part of operations, about 780 employees visit St. Louis each year for training. These employees usually stay one week, generating more than 6,100 hotel nights, and spend about $1 million on lodging and food.

Overall, in 2010 alone, Express Scripts is projected to contribute $901.8 million to the local community and Missouri.

<table>
<thead>
<tr>
<th></th>
<th>Direct Spending</th>
<th>Indirect Spending**</th>
<th>Total Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods &amp; Services</td>
<td>$453,200,000</td>
<td>$448,600,000</td>
<td>$901,800,000</td>
</tr>
</tbody>
</table>

* Employment earnings are included in total impact.
** Includes indirect and induced impacts.

B. Job Creation and Employment
In 2009, Express Scripts had 3,481 full-time equivalent (FTE) employees at facilities in Missouri. Despite the recession, the number of jobs increased by 377 in 2010 to 3,858 FTE employees for a 10.8% growth rate. Express Scripts’ hiring plans call for the creation of another 77 jobs at existing facilities over the next two years.

Express Scripts’ payroll at the Missouri facilities was $320 million in 2009. For 2010, the payroll is expected to total $408.2 million. These numbers include the cost of a competitive employee-benefit package, including health insurance, dental coverage, tuition reimbursement and a 401(k). Excluding the firm’s top executives, this means the average employee is earning $71,125 in salary, before the value of the benefits package, this year. In comparison, the average annual wage in 2009, the latest statistics available, for the top 30 occupations in Missouri was $39,250. Express Scripts’ average salary is significantly greater than the statewide average, which highlights the skilled positions available at the company.

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1 The alternative models are IMPLAN and REMI. The IMPLAN model was developed by the U.S. Forest Service in 1979, and the software is now commercially available from IMPLAN Group, Inc. REMI is another commercially marketed system, distributed by Regional Economic Models, Inc.
While the company has directly created 3,858 FTE jobs in Missouri, its activities have generated another 2,048 jobs in support industries in the state for a total of 5,906 jobs. This ripple effect also magnifies the impact of payroll, with households employed in related industries earning an additional $324 million in income. Thus, the combined payrolls of all households impacted by the company’s facilities in Missouri totals $732.2 million in 2010.

**Table 2: Employment Impact for 2010**

<table>
<thead>
<tr>
<th>Number FTE</th>
<th>Direct Jobs</th>
<th>Indirect Jobs*</th>
<th>Total Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,858</td>
<td>2,048</td>
<td></td>
<td>5,906</td>
</tr>
</tbody>
</table>

| Payroll**  | $408,200,000 | $324,000,000   | $732,200,000 |

* Includes all secondary jobs and wages created by suppliers in the community as a result of direct jobs created by Express Scripts.

** Payroll includes the costs for the company’s employee benefit package.

C. Capital Expenditures

Express Scripts’ 2010 direct spending for capital expenditures in Missouri will reach $34.5 million by the end of the year. As shown in Table 3 below, the company’s spending will generate another $24.2 million in indirect spending by other businesses and households for a total impact of $58.7 million for 2010.

The company is considering a further capital expansion of $71 million to build and equip a new 227,000-square-foot facility at its headquarters in St. Louis. The initiative is focused on retaining 1,300 jobs in Missouri and creating 150 new jobs. It is anticipated the construction would be completed and fully operational in 2012.

**Table 3: Capital Expenditure Impact for 2010**

<table>
<thead>
<tr>
<th>Capital Expenditures</th>
<th>Direct Spending</th>
<th>Indirect Spending*</th>
<th>Total Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$34,500,000</td>
<td>$24,200,000</td>
<td>$58,700,000</td>
</tr>
</tbody>
</table>

* Includes indirect and induced impacts

D. Tax Revenues

Missouri and metropolitan St. Louis will realize ongoing benefits from increased tax revenues as a result of Express Scripts’ growing investments and other activities in the area. With a payroll of $408.2 million, the company’s 3,858 area employees will pay $17.9 million in state and local income taxes in 2010. In addition, Express Scripts will pay real estate taxes of $2.5 million and other state and local taxes of $5.1 million. The latter figure includes sales and use taxes, franchise taxes, personal property taxes and income taxes. In total, for this one year, Express Scripts and its employees are directly contributing $25.5 million in local and state tax revenues over and above any tax credits received in incentive packages. This represents an increase of $5.8 million, or 29.4%, over the $19.7 million paid in 2009.
It should be noted that this analysis considers only direct taxes and therefore underestimates actual tax benefits. For example, many company employees own homes and vehicles and pay personal property and sales taxes on these items. In addition, there are indirect tax revenues from supporting businesses and their employees. Data to analyze these benefits are not readily available; therefore this study includes only direct tax revenues generated by Express Scripts and its employees.

**E. Summary of Economic Impact for 2010**

As shown below in Table 5, Express Scripts will have a $986 million total economic impact on the St. Louis region and Missouri for the year 2010. This analysis has shown that the largest factors driving economic growth are job creation and company spending. Nevertheless, tax revenue is also an important variable in sustaining a community.

In addition to the items called out in the tables above, the company’s $3.1 million in charitable contributions within Missouri adds to its impact on the region.

**Long-Term Economic Impact**

This analysis demonstrates that Express Scripts’ economic impact for 2010 is substantial, but strategic decision making requires decade-long projections. Although forecasting over longer horizons is always more difficult, some reasonable assumptions can be made to guide us. Our projections are based on company plans for 2011 and 2012, thereafter assuming payrolls, operating expenditures, and tax payments all increase at a modest 2% annual rate until 2020.

Using these conservative assumptions, Express Scripts will provide $10.5 billion in economic benefits to the St. Louis metropolitan area and the state of Missouri over the next decade. In addition, the annual economic impact increases from $986 million in 2010 to more than $1.1 billion by 2020. Factoring in the time value of money, using a 5% discount rate, the value of the annual benefits over the next 10 years is worth $8.1 billion today.¹

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¹ In economic impact studies, it is common to use a discount rate that reflects the cost for a city or state to issue municipal bonds to fund community projects. At the date of this report, interest rates on these types of bonds were approximately 5% for high-quality securities.
Limitations of Study
All economic impact studies are based on certain assumptions and projections. We have made every effort to use conservative assumptions and to confirm the accuracy of the data used in this analysis.

This study most likely understates the economic impact that Express Scripts has on St. Louis and Missouri. Because certain types of data are unavailable, the following influences were not included in our analysis:

1. Many Express Scripts employees volunteer their time and money for charitable activities. This is private information and not collected by the company.
2. Company retirees receive retirement benefits funded through the company. As the number of retirees living in Missouri expands, they will have a growing impact on the community.
3. In 2010, Express Scripts has purchased $900 million in drugs from Missouri-based pharmaceutical producers along with another $950 million in remittances to in-state pharmacies for a total of $1.8 billion. It is expecting these purchases will rise to $4 billion for 2011 and 2012. No attempt has been made to measure the regional benefits from these sources.
4. As the location of the corporate headquarters, the company receives 4,000 to 5,000 visitors at its headquarters in St. Louis each year. Many of these guests are from out of town and thus spend money on lodging and food during their stay. Our estimates show this factor alone contributes an additional $1.3 million per year to the local economy.

Concluding Remarks
This study quantifies the economic impact that Express Scripts has on Missouri for 2010 and throughout the next decade. Based on the company’s expansion plans in Missouri, the cumulative contribution to the local economy will top $10.5 billion over the next decade.

Express Scripts has been provided incentives to locate and remain in this area; however, this report shows that its economic impact has far exceeded the region and state’s investment. With the pharmaceutical benefit management industry growing rapidly to combat our nation’s rising health care costs, the returns on this investment show no signs of declining in the future.