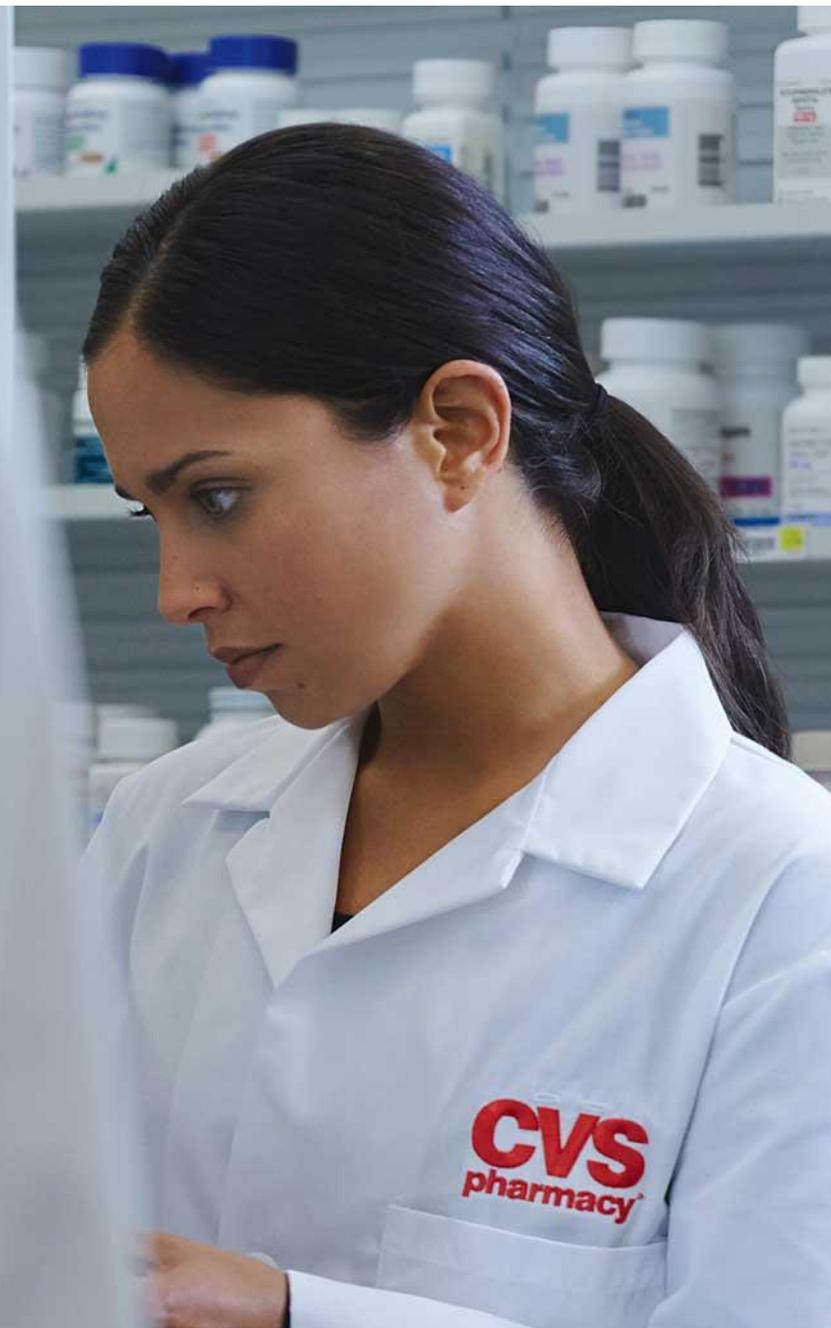


Prescription Drug Program Update

City of Memphis
Healthcare Committee
and CVS/caremark

October 28, 2014

CVS/caremark[™]



City of Memphis - Historical Successes

Contract Improvements/ Market Check

- 2013 – Improvement of 4.7% in gross plan cost
- 2014 – Improvement of 1.9% in gross plan cost
- 2015 – Coming mid-November

Clinical Outcomes

- 2012 – 4.5% savings of total net plan cost
- 2013 – 4.0% savings of total net plan cost
- 2015 – Projected savings 4.0% of total net plan cost*

Member Initiatives

- 2013 – Retail 90 option for members at retail
- 2013 – Added Healthcare Reform Preventive Services
- 2013 – Added 1st, 2nd, and IRO Appeals

Future Initiatives

- Immediate: Formulary Management
- Long-Term: Additional Formulary Controls; Network Options

Guiding Principles of Formulary Management



Maintain clinical integrity

Target classes with sufficient generic availability, clinically interchangeable brands; evaluate appropriate specialty classes*



Secure competitive pricing for our clients

Continually assess marketplace to identify lower-cost options and opportunities to maximize manufacturer rebate values



Educate and engage members and physicians

Ensure access to the drugs members need to stay healthy; provide resources for physicians to support member transition

70% of Plan Sponsors in the Mercer NCP have adopted the Standard Formulary.

Our Proactive Approach Positions Clients at the Forefront of Market Changes

- **Industry-leading formulary strategy:** Built from our experience in anticipating marketplace changes
- **Encourage continued savings:** Help clients stay ahead of market shifts with innovative formulary and pipeline management
- **Building on our success:** Continue to help maximize savings for clients while minimizing plan member disruption

A strategic approach to formulary management proactively positions clients to help mitigate the effects of future trend increases.

ALIGNMENT WITH THE 2014 CVS/CAREMARK FORMULARY DRUG REMOVALS RESULTED IN:

- **\$41.13**
Average plan savings per transitioned prescription*
- **\$28.69**
Average member savings per transitioned prescription*
- **2.5%**
Overall effective increase in GDR in targeted drug classes*

Projected Savings for City of Memphis: 4.5% of gross plan cost

Questions?

Appendix

Multiple Market Factors Increase Pressure on Clients to Control Pharmacy Spend

GENERIC LAUNCHES HAVE PEAKED; WILL NO LONGER OFFSET DRUG TREND

- **BOB GDR topped 80% in 2013**; 2012 was peak of patent cliff at \$35B*
- 2014 generic launches make up **half the market value** of 2012 launches*

MANUFACTURER RESPONSE: PRICE INCREASES; SHARE RETENTION STRATEGIES

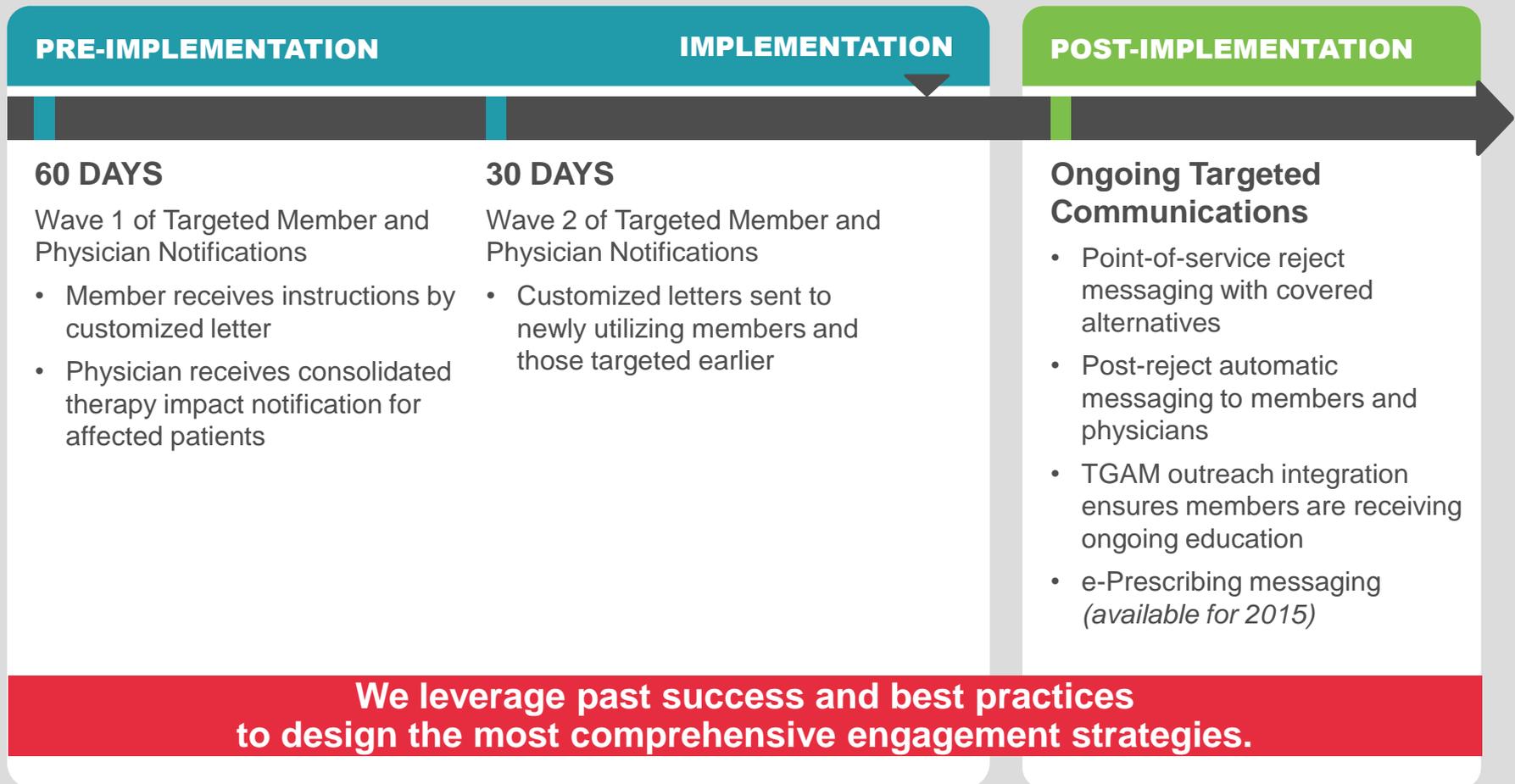
- **14.4% increase** in non-specialty brand AWP in 2013*
- Manufacturers invested **\$4 billion annually**¹ between 2010 and 2011 to preserve market share and margin by going outside the standard supply chain

SPECIALTY CONTINUES TO DRIVE UP COSTS

- Specialty drugs accounted for **22.5%** of our clients' pharmacy spend*
 - Relative increase of **more than 10%** in a single year*

Past plan performance is no guarantee of future results – clients must employ a defined strategy to offset ongoing marketplace tactics

Support a Smooth Transition with Effective Member and Physician Engagement

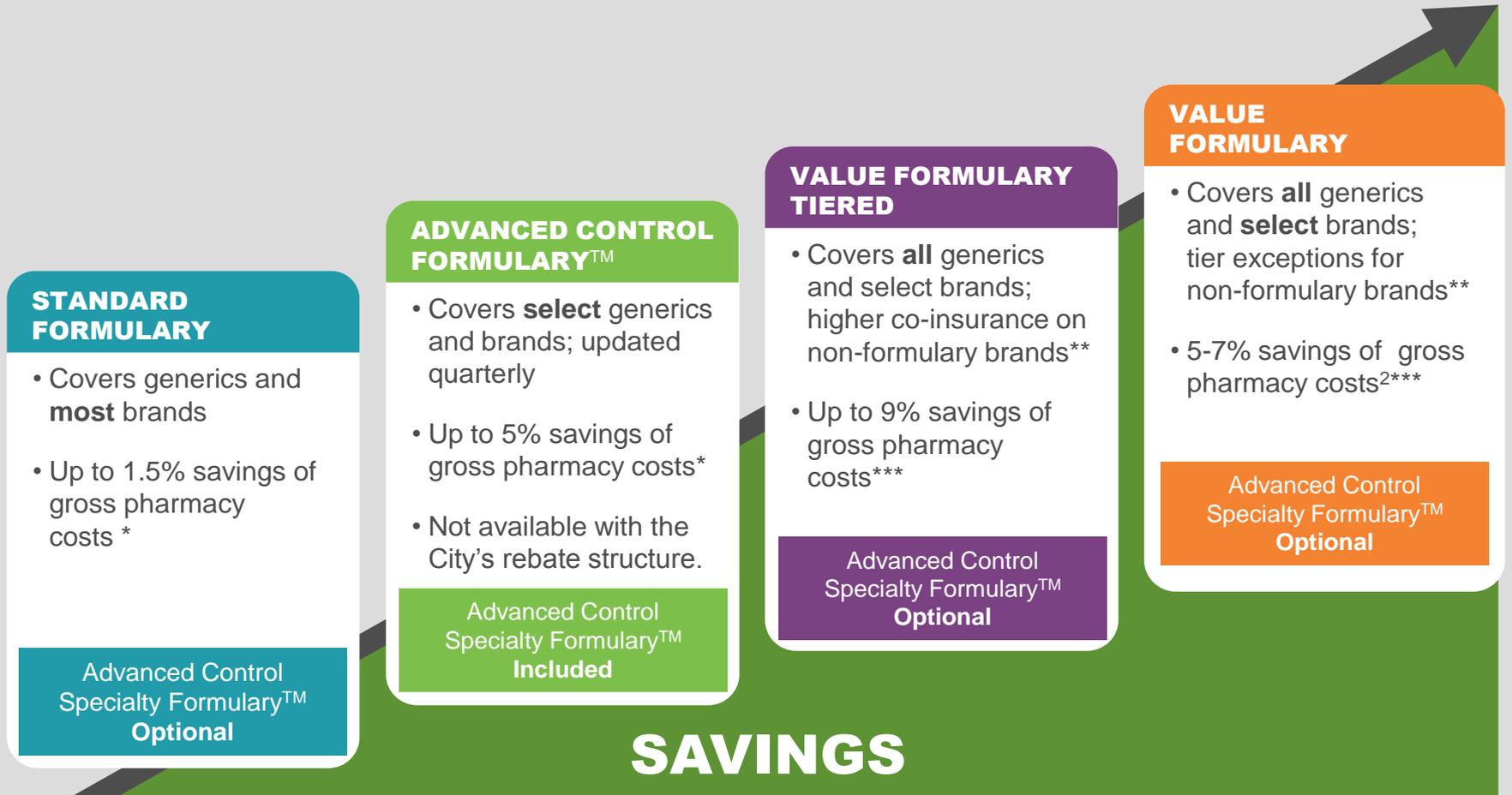


Advanced Control Specialty Formulary™ Drives Additional Plan Savings

- Help manage specialty drug spend:
 - Included in the new formulary option
 - Also available as option with standard formulary
 - Addresses both appropriate utilization and preferred drug selection
- Currently focused on seven** therapy classes: MS, Biologic Disease-Modifying Agents (Rheumatoid Arthritis), fertility, hepatitis C interferons, growth hormone, PAH, osteoarthritis
 - Quarterly updates
- Day one control of new product launches and line extensions, until reviewed; unless given pivotal drug status

Specialty growth expected to quadruple by 2018¹ – new specialty control strategies needed to address rapid growth

CVS/Caremark Managed Formulary Strategies



Formulary strategies to align with your philosophy while meeting your savings goals

1. Source: CVS Caremark Enterprise Analytics, 2012. Projections based on CVS Caremark data. Individual results will vary based on plan design, formulary status, demographic characteristics and other factors. Client-specific modeling available upon request. Based on 2013 data.

*Excluding rebates

**Value Formulary options currently include UM Strategies for Specialty and non-specialty

***Gross pharmacy savings include rebate impact. Client savings may vary by plan design, pricing arrangement, drug mix and at-risk market launches. Member savings will vary based on several factors, some of which include plan design, plan performance, etc.