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MEMORANDUM

To: Warehouse Employees Union Local No. 730 Health and Welfare Trust Fund Board of Trustees

From: Josh Timm
George Bognar

Date: September 5, 2012

Re: Prescription Drug Pricing and Renewal Analysis

The Segal Company conducted a review of the current prescription drug benefit financial terms under the Fund's pharmacy benefit manager (PBM), CIGNA. On behalf of the Fund, we requested and over the past several weeks have negotiated improved terms. We are pleased to advise that we have now received improved pricing terms from CIGNA, which will result in plan cost savings of approximately $81,000 for the first year of a three year contract, or 2.3% savings (See Exhibit 1). Additionally, as a member of the Healthcare Cost Containment Corporation (HCCCC), the Fund is eligible to participate in their PBM purchasing arrangement, which was recently put out to bid and awarded to the incumbent PBM, CVS Caremark. Exhibit 1 compares the Fund's current achieved pricing terms to the HCCCC terms, and to CIGNA's revised pricing guarantees, both of which are effective 01/01/2013. Projected savings are calculated using the Fund's trended actual prescription costs for the period January 1, 2011 through December 31, 2011, including a projected increase in generic utilization by 1% and excluding all specialty, paper, compound, and OTC claims.

CIGNA provided improvements in each pricing component except for the retail 30 day generic discount guarantee. In addition, CIGNA is offering improved rebates of $17.55 and $42.12 per brand claim at retail and mail order respectively for years 2 and 3 of the contract renewal term. CIGNA also agreed to:

- The Fund's right to terminate the contract with or without cause given a 90-day notice period without penalty after the first contract year.
- The Fund's right to audit, with an auditor of its choice, with full cooperation of CIGNA, the services and pricing (including rebates) provided in order to verify compliance with all program requirements and contractual guarantees. This provision shall survive the termination of the agreement between the parties for a period of 3 years.
- Provide an audit allowance not to exceed $5,000 per plan year to be used by the Fund at their discretion to verify adherence to minimum contractual guarantee performance.

Under the HCCCC agreement, CVS Caremark excludes single source generic products (SSGs) with less than three manufacturers in the true-up of retail generic discount guarantees. Since this has the effect of reducing the overall generic effective discount, we adjusted the quoted discount by 3% points to better reflect the comparison to CIGNA. HCCCC pricing terms result in overall estimated savings of approximately $282,000 for the first contract year, 8.1% over current terms.

It is important to keep in mind that the HCCCC PBM agreement is a coalition arrangement between CVS Caremark and participating member funds. The PBM pricing terms are guaranteed in aggregate and may vary somewhat by specific fund. In addition, there is a small ($0.03 per claim) administrative fee that participating funds pay the HCCCC, which would amount to approximately $1,500 annually.

The Fund may wish to consider the following options:

- Negotiate financial terms further with CIGNA, in particular the retail generic discount guarantee, in order to realize additional savings

- Consider participating in the HCCCC CVS Caremark PBM coalition.

- Consider another Coalition arrangement such as the Delaware Valley Healthcare Coalition (Express Scripts), or put the Fund's PBM business out to bid.

We are prepared to discuss the analysis as well as the pros and cons of each option in further detail at your convenience. In the meantime, please feel free to call if you have any questions.

cc: Co-Counsel
Fund Administrator

Exhibit 1.

Warehouse Employees Local 730 Health and Welfare Fund
Renewal Analysis- CIGNA Current Achieved vs. HCCCC and CIGNA Proposed Terms

Cost trend applied: 5%, Utilization trend applied: 3%, GDR increase applied: 1%

Contract Terms	CIGNA Achieved Terms CY 2011[1]	CIGNA Current Projected Costs Year 1[2]	Caremark HCCCC Terms 01/01/13[3]	Caremark HCCCC Projected Costs Year 1[2]	Caremark HCCCC $ Savings Year 1	Caremark HCCCC % Savings Year 1	CIGNA Renewal Terms 01/01/13	CIGNA Projected Costs Year 1[2]	CIGNA $ Savings Year 1	CIGNA % Savings Year 1
Retail 30										
Brand Discount Guarantee	13.92%	$2,826,000	15.30%	$2,780,700	$45,300	1.6%	15.72%	$2,766,900	$59,100	2.1%
Generic Discount Guarantee	72.43%	$581,700	74.00%	$548,700	$33,000	5.7%	67.53%	$685,200	($103,500)	-17.8%
Brand Dispensing Fee per Rx Guarantee	$1.56	$24,700	$1.05	$16,600	$8,100	32.8%	$1.22	$19,300	$5,400	21.9%
Generic Dispensing Fee per Rx Guarantee	$1.68	$48,000	$1.05	$30,100	$17,900	37.3%	$1.22	$35,000	$13,000	27.1%
Administrative fee per Rx	$0.00	$0	$1.03	$45,792	($45,792)	0.0%	$1.28	$56,906	($56,906)	0.0%
Rebate Guarantee per Brand Rx	$3.00	($133,400)	$21.66	($342,200)	$208,800	156.5%	$16.97	($268,100)	$134,700	101.0%
Total Retail 30		**$3,347,000**		**$3,079,692**	**$267,308**	**8.0%**		**$3,295,206**	**$51,794**	**1.5%**
Retail 90										
Brand Discount Guarantee	13.94%	$116,000	15.30%	$114,200	$1,800	1.6%	17.00%	$111,900	$4,100	3.5%
Generic Discount Guarantee	69.13%	$25,200	74.00%	$21,200	$4,000	15.9%	73.00%	$22,000	$3,200	12.7%
Brand Dispensing Fee per Rx Guarantee	$1.56	$1,100	$1.05	$700	$400	0.0%	$1.00	$700	$400	0.0%
Generic Dispensing Fee per Rx Guarantee	$1.63	$1,500	$1.05	$1,000	$500	0.0%	$1.00	$900	$600	0.0%
Administrative fee per Rx	$0.00	$0	$1.03	$1,668	($1,668)	0.0%	$1.28	$2,072	($2,072)	0.0%
Rebate Guarantee per Brand Rx	$3.00	($4,900)	$21.66	($14,600)	$9,700	198.0%	$40.73	($27,500)	$22,600	461.2%
Total Retail 90		**$138,900**		**$124,168**	**$14,732**	**10.6%**		**$110,072**	**$28,828**	**20.8%**
Total Retail		**$3,485,900**		**$3,203,859**	**$282,041**	**8.1%**		**$3,405,279**	**$80,621**	**2.3%**

[1] Achieved terms assume CIGNA met minimum rebate guarantees for CY 2011. Current minimum rebate guarantees are on a per Rx basis.

[2] Projected Costs based on single sourced generics priced as generics. Excess copay and copay differential amounts are not treated as a reduction to ingredient cost or discount calculations.

[3] Generic discount guarantees reduced by 3% for the exclusion of single source generic products. Caremark HCCCC offers mail order terms of AWP-25.5% and AWP-78% (after reduction) for brands and generics, respectively, for Retail 90 claims dispensed at CVS Pharmacies under the Maintenance Choice program. Rebate guarantees are per retail brand claim for Participating Groups with two-tier plan designs not adopting Caremark's PDL Formulary.