Rx Price Watch Case Study: Efforts to Reduce the Impact of Generic Competition for Lipitor

By Leigh Purvis\textsuperscript{a} and Stephen W. Schondelmeyer\textsuperscript{b}

It has been reported that the manufacturer of the popular anti-cholesterol drug Lipitor employed an unusually aggressive strategy—including a pay-for-delay agreement, a coupon program, and a substantial price increase—to try to maintain revenue and market share after Lipitor’s patent expired. This strategy could set a precedent for other brand-name drug manufacturers facing the loss of patent protection for blockbuster drugs, ultimately increasing costs for consumers and publicly funded programs like Medicare.

This report focuses on the events surrounding the patent expiration for the popular anti-cholesterol drug Lipitor. In particular, the report examines the variety of strategies reportedly used by Lipitor’s manufacturer to try to maintain revenue and market share after Lipitor’s patent expired, as well as changes\textsuperscript{1} in Lipitor’s price both before and after patent expiration. The report will also discuss the implications of these events given the unprecedented number of widely used drugs that will go off patent and, consequently, face generic competition in the next few years.\textsuperscript{2}

History of Lipitor

Lipitor is intended to help treat high cholesterol and is widely viewed as one of the best-selling drugs in history, generating lifetime sales of $131 billion.\textsuperscript{3} More than 17 million people have been prescribed Lipitor and a majority of them live in the United States.\textsuperscript{4}

Originally co-marketed by drug manufacturers Warner-Lambert and Pfizer, Lipitor was the fifth statin drug to reach the market, joining a drug class that already included three blockbuster products with sales of $1 billion or more per year. A 1994 study showed that Lipitor lowered low-density lipoprotein (LDL, or “bad”) cholesterol considerably more than the other statins that were on the market.\textsuperscript{5} These studies continued after Lipitor launched in 1997 and eventually numbered more than 400 clinical studies and encompassed more than 80,000 patients.\textsuperscript{6}

The evidence gathered from these studies helped change the medical field’s views of the importance of lowering LDL cholesterol. In 2004, the National Institutes of Health revised its treatment guidelines to support more aggressive treatment for patients at high or moderately high risk of a heart attack.\textsuperscript{7} The guidelines also recommended lower targets for bad cholesterol, thereby greatly increasing the number of Americans who would benefit from treatment.\textsuperscript{8}
Reducing the Impact of Generic Competition

Pfizer, which obtained full ownership of Lipitor after acquiring Warner-Lambert in 2000, also undertook several activities to help boost sales. The company heavily promoted Lipitor to consumers: it spent a total of $1.43 billion on direct-to-consumer advertising alone between 2000 through 2010. Prescribers were also targeted, with thousands of Pfizer representatives making repeated office visits and providing free samples. In addition, Pfizer priced Lipitor a little below some of the other brand-name statin drugs on the market, although not below their generic versions once they became available.

In combination with the favorable research results, these marketing strategies helped Lipitor quickly become the top-selling statin and Pfizer’s top-selling product. Lipitor represented approximately 25 percent of the company’s annual revenue between 2001 and 2011.

Pfizer’s Strategy

The patent for Lipitor was originally expected to expire no later than June 2011. Lipitor had already benefited from 14 years on the market with a patent-protected monopoly. However, rather than accept the inevitability of generic competition and its subsequent impact on company revenue, Pfizer reportedly developed an unprecedented strategy to protect and extend Lipitor sales both pre- and post-patent expiration.

“Pay-for-Delay” Agreement with Ranbaxy Laboratories

One tactic that helps brand-name drug companies retain revenue when their products’ patents are close to expiring is entering into what is known as a “pay-for-delay” agreement. According to the Federal Trade Commission (FTC), brand-name drug companies can delay generic competition by agreeing to pay a generic competitor to hold its competing product off the market for a certain period of time. These agreements typically arise as part of the patent litigation settlement process between brand-name and generic drug manufacturers.

Under the Hatch-Waxman Act, the first generic drug manufacturer to successfully apply and receive approval to launch a generic copy of a brand-name drug can receive a 180-day marketing exclusivity period for its product. The Act prevents the Food and Drug Administration (FDA) from approving any other generic applications for the same drug until the first-to-file generic manufacturer has sold its product for 180 days or has forfeited its exclusivity period.

Generic drug manufacturer Ranbaxy Laboratories was the first manufacturer to file for FDA approval of its generic version of Lipitor, submitting its application in 2003. In 2008, Pfizer and Ranbaxy reportedly entered into an agreement that Pfizer would stop trying to block Ranbaxy’s efforts to launch its product if Ranbaxy delayed introduction until November 2011. In return, Ranbaxy gained the right to sell a generic version of the significantly less popular drug Caduet, a combination pill of Lipitor and the blood pressure drug Norvasc, seven years earlier than would have otherwise been possible.

On December 1, 2011, Ranbaxy became the first generic manufacturer to launch a generic version of Lipitor, known as atorvastatin sodium.

Several major U.S. retailers have filed lawsuits against Pfizer and Ranbaxy that accuse them of violating antitrust laws by striking a deal that kept generic versions of Lipitor off the market.
“Authorized Generic” Agreement with Watson Pharmaceuticals

Another tactic designed to minimize the financial impact of generic competition is launching an “authorized generic” version of the brand-name product. Authorized generics are drug products that are approved by the FDA, using the brand-name drug manufacturer’s authority to market the product, but then marketed as generic drugs. Because authorized generics are effectively brand-name drugs, they can enter the market during the 180-day marketing exclusivity period that is granted to the first true generic manufacturer that receives FDA approval, which reduces the generic manufacturer’s revenues and incentive for generic entry.22

Pfizer reportedly entered into an agreement with Watson Pharmaceuticals that allowed Watson to market and distribute an authorized generic of Lipitor that launched at the same time as Ranbaxy’s generic version of atorvastatin. In return, Watson gave about 70 percent of its Lipitor-related profits to Pfizer, allowing Pfizer to protect some of the revenue it would have lost to Ranbaxy.23

“Lipitor For You”

Yet another way to retain brand-name drug revenue after patent expiration is to create a coupon program that reduces consumers’ out-of-pocket costs for the brand-name product and lessens the appeal of the cheaper generic version. In 2011, Pfizer began heavily promoting a new discount program called “Lipitor For You” through advertisements, information distributed at doctors’ offices, and a “Lipitor For You” website. The program offers privately insured patients a coupon card that lets them purchase Lipitor for a $4 copayment, well below the average copayments for preferred brand-name drugs and even below the average copayment for generics.24 The program also provides options like direct delivery of the prescription at no additional cost and reminders to refill Lipitor prescriptions.

Initially, Pfizer paid up to $50 of the difference between the patient’s new $4 copayment and their normal brand name copayment, up to an annual limit of $600. The program was set to end on June 30, 2012, when other generic versions were expected to enter the market.25 However, Pfizer has since extended and enhanced “Lipitor for You,” now paying up to $75 of the difference between the patient’s new $4 copayment and their normal brand-name copayment, with an annual limit of $1,000. The “Lipitor for You” website also states that the coupon card and program will now expire on December 29, 2014, although “Pfizer reserves the right to rescind, revoke, or amend the program without notice at any time.”26

Pfizer reported that more than 750,000 people have signed up for “Lipitor for You.”27

Rebate Agreements

Another way for brand-name drug manufacturers to mitigate financial losses from the end of patent protection is through their relationships with insurance plans and pharmacy benefit managers (PBMs). Pfizer reportedly offered rebates to the insurance plans and PBMs that reduced their costs for Lipitor to less than the cost of Ranbaxy’s atorvastatin, with a generic-level copayment for patients, in exchange for rejecting atorvastatin claims for six months, effectively preventing pharmacists from dispensing the drug (see Appendix A). Some deals also allegedly blocked generic atorvastatin from mail-order pharmacies, which account for almost one-half of all Lipitor prescriptions, allowing Pfizer to maintain a monopoly on a vast majority of the mail-order market.28
Reducing the Impact of Generic Competition

After Ranbaxy’s 180-day exclusivity period ended on May 31, 2012, other generic manufacturers’ versions of atorvastatin entered the market, and atorvastatin’s price dropped dramatically. At that time, the generic atorvastatin block lifted, and retail and mail-order pharmacies began filling most Lipitor prescriptions with generic atorvastatin. However, the specifics terms of the rebate agreements between Pfizer, insurance plans, and PBMs remained hidden and were not transparent to employers, physicians, or consumers.

Retail Price Increases

Another strategy that can reduce the financial impact of losing brand-name drug sales to generic competition is raising a brand-name drug’s price just before patent expiration to maximize revenue. In 2011, the year that Lipitor’s patent expired, the average annual retail price change for Lipitor 20 mg tablets was 17.5 percent, more than four times the average annual price increase from 2006 through 2009, and almost twice the average annual price increase in 2010 (see Figure 1). These findings are consistent with earlier Rx Price Watch reports that found that retail price changes for widely used brand name drugs consistently outstrip the price increases for other consumer goods and services.

Figure 1: Retail Price of Lipitor 20 mg Tablets Increased Rapidly in Years Immediately Prior to Patent Expiration

Prepared by the AARP Public Policy Institute and the PRIME Institute, University of Minnesota, based on data from Truven Health Analytics MarketScan® Research Databases.
Reducing the Impact of Generic Competition

When translated into an average annual cost of therapy, the retail price for Lipitor 20 mg tablets rose by 50 percent between December 2006 and December 2011, from $1,290 to $1,939 (see Figure 2).  

**Figure 2: Average Annual Cost of Therapy for Lipitor 20 mg Increased by Almost $700 between 2006 and 2011**

It is also notable that the retail price of Lipitor 20 mg tablets continued to increase substantially after patent expiration, reinforcing an earlier Rx Price Watch report finding that the prices of widely used brand-name drugs continue to increase after patent expiration.  

Marketing

An additional way to maximize a brand-name drug product’s revenue is through marketing that is designed to encourage utilization of the product. Pfizer maintained unusually high levels of marketing spending in the years immediately prior to patent expiration. For example, Pfizer’s spending on direct-to-consumer advertising for Lipitor made it the prescription medicine most promoted to consumers in 2009 and 2010, with annual spending totals of $237 million and $250 million, respectively.  

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1 This figure reflects the total retail price for consumers enrolled in employer-sponsored health plans and not simply the out-of-pocket cost a consumer would face at the drugstore.
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during a drug’s final year under patent, Pfizer kept its marketing spending for Lipitor nearly level in the 12 months prior to patent expiration, spending $659 million.

**OTC Version**

A final strategy that can help a brand-name drug manufacturer retain revenue after a brand-name patent expires is creating an over-the-counter (OTC) version that can compete with the generic options. Pfizer reportedly considered pursuing an OTC version of Lipitor but has yet to do so. If Pfizer were granted FDA approval to market an OTC version, then it would have had at least three years of marketing exclusivity before generic versions of OTC atorvastatin could have entered the market, allowing Pfizer to retain substantial Lipitor revenue. However, Pfizer would have had to convince the FDA that consumers could take an OTC version of Lipitor without a prescriber’s supervision. Other drug manufacturers have tried and failed to win approval for OTC versions of statin drugs due to FDA concerns that such drugs could not be used safely and that patients would take them unnecessarily.

**Effectiveness of Pfizer’s Strategy**

There is some evidence that Pfizer’s efforts to minimize the impact of Lipitor’s patent expiration have been effective. Lipitor controlled about 33 percent of the U.S. market nearly four months after generic entry (early March 2012), and Pfizer’s chief executive reported that they maintained three times more market share than what is traditionally seen when blockbusters lose patent protection, “add(ing) hundreds of millions of dollars of profitability to the company.” In addition, it has been estimated that Pfizer will continue to make a profit from Lipitor, even after paying rebates to insurers and patients due to reduced administrative and advertising costs as well as the relatively low costs of manufacturing Lipitor tablets.

Nevertheless, Pfizer saw its worldwide Lipitor sales drop from $9.6 billion in 2011 to $3.9 billion in 2012, and it has been estimated that Lipitor sales volumes will continue to decline over the next few years, dropping to just above $3 billion in 2015.

**Implications of Pfizer’s Strategy**

Pfizer’s reported efforts to protect Lipitor sales from the impact of generic competition have implications for the entire health care system. For example, the substantial increases in Lipitor’s retail price in the years immediately prior to patent expiration translated into a $649 increase in the average annual cost of therapy between 2006 and 2011.

While the price increases for brand name drugs just prior to patent expiration may be due to a variety of factors, the overall impact remains the same. Price increases to the pharmacy (or to other providers) translate into higher out-of-pocket costs for beneficiaries who pay a percentage of drug costs (coinsurance) rather than a fixed dollar amount (copayment). Higher prices to retail pharmacies are also generally passed on as higher costs to consumers and insured drug plans.

Rising drug prices also increase spending for government programs such as Medicare and Medicaid, leading to higher cost burdens for beneficiaries and taxpayers.
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Consumers
Pfizer’s efforts to protect Lipitor from the impact of generic competition also have a direct and negative impact on consumers. For example, pay-for-delay agreements like the one alleged between Pfizer and Ranbaxy remain highly controversial. The FTC has observed that the number of pay-for-delay agreements has been growing in recent years and that their estimated yearly cost to the American public is $3.5 billion due to delay of price competition from other generics.\(^{46}\) It has been estimated that the five-month delay in generic competition resulting from the Pfizer-Ranbaxy agreement cost Americans $324 million.\(^{47}\)

In addition, the strategy reportedly developed by Pfizer undermines efforts to promote generic drug utilization among consumers. Consumers are consistently encouraged to use less-expensive generic drugs through lower cost-sharing; however in this instance the brand-name product is, for a limited time, less costly than the generic version. When insurers eventually move to generic atorvastatin after the brand-name drug manufacturer’s strategy phases out, consumers will be expected to immediately respond to incentives that are now guiding them back to utilizing less expensive generic drugs, or end up paying the higher cost associated with the brand-name drug.

Employers and insurers
Pfizer’s strategy to protect Lipitor from the impact of generic competition also specifically affects employers and insurers. For example, it is unclear whether the reported rebate agreements developed between Pfizer and certain insurers and PBMs result in savings for employers who fund health plans. For example, while it appears that the PBM companies benefit financially from rebates, these benefits may not be passed on to their clients, who are then charged for the full costs associated with the brand-name drug.

Although these rebate agreements may be legal, they have attracted the attention of officials at the FTC and members of Congress, who were concerned about the lack of transparency and fear that the agreements could increase government costs and hinder access to generic drugs.\(^{48}\)

It is also unclear why the agreements are necessary in the first place: If Pfizer wanted to reduce prices, they could simply do so directly by charging wholesalers and pharmacies less for Lipitor.

Finally, drug companies argue that discount programs like “Lipitor For You” allow patients continued access to brand-name products, such as Lipitor, at a lower cost. However, even though consumers are technically paying less at the pharmacy counter, their insurers are still paying for brand-name Lipitor rather than generic atorvastatin. In the fall of 2012, a month’s supply of brand-name Lipitor cost insurers over seven times more than a month’s supply of generic atorvastatin.\(^{49}\) Thus, as consumers continue to request Lipitor with its lower copayment, their insurers’ costs remain unnecessarily high. Ultimately, these costs are passed back to the consumer through increased premiums.\(^{50}\)

Generic manufacturers
The rebate agreements reportedly included in Pfizer’s strategy to protect Lipitor from the impact of generic competition could also have an effect on generic drug manufacturers. Generic drug companies—when faced with the prospect of being unable to gain market share during their 180-day exclusivity period—may decide not to challenge brand name
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drug patents in the future. This decline in competition would slow the entry of generic drugs and represents a lost opportunity for slowing health care spending.

Is the Lipitor Strategy the New Model?

Pharmaceutical companies typically abandon brand-name drugs once their patents expire, turning their attention to newer products. However, many brand-name manufacturers are struggling to develop new blockbuster drugs, making it even more difficult for them to replace the revenue from blockbusters that face generic competition.51

The pharmaceutical industry is currently experiencing an unprecedented number of patent expirations. In 2011 and 2012, 6 of the 10 top-selling prescription drug products on the U.S. market faced their first generic competition, and many more drug products are expected to go off patent over the next several years.52

Given the present difficulties of the brand-name pharmaceutical industry, aggressive strategies—like the one reportedly used by Pfizer—could become a model for other brand-name drug manufacturers. Brand-name drug manufacturers clearly have a wide variety of strategies at their disposal that can help protect their market share from generic competition. However, while this behavior may increase revenues for brand-name drug manufacturers, the lost savings from any intentional disruption of the generic drug market will ultimately be passed along in the form of higher costs for consumers and publicly funded programs like Medicare.

Furthermore, efforts to reduce the impact of generic competition could have legal repercussions. Pfizer and Ranbaxy are currently engaged in multiple class action lawsuits, as well as the aforementioned antitrust lawsuits.53

Policymakers interested in reducing health care costs for consumers and the health care system more broadly should consider legislation that would reduce brand-name drug manufacturers’ ability to delay generic competition.

1 Calculated as a rolling average. See detailed methodology in Appendix A of the AARP Public Policy Institute’s August 2010 report, Rx Price Watch Report: Trends in Retail Prices of Brand Name Prescription Drugs Widely Used by Medicare Beneficiaries, 2004 to 2009, for details.


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13 Even before brand-name drugs come on the market, they are typically covered by one or more patents or other types of market exclusivity. Over time, patent-protected brand-name drug products will typically go off patent and face generic competition.

14 Strong price competition among generics can quickly reduce a brand-name manufacturer’s market share from 100 percent to as low as 10 percent, impacting the manufacturer’s revenue substantially. Blockbuster brand-name drugs tend to lose market share quickly once generic versions are on the market. For example, when generic versions of Zoloft became available in August 2006, the brand-name product lost 85 percent of its overall market share in the first 30 days. Similarly, generic statin-dispensing rates almost doubled in the three months after the products entered the market (Medco, 2007 Drug Trend Report, 2008; and Caremark, “Blockbuster Launches of 2006,” TrendsRx Quarterly, December 2006). Lower volume brand-name drugs also experience market share loss to lower cost generic versions but at slower rates of decline than those of blockbuster brands.


16 The Hatch-Waxman Act provides a 180-day marketing exclusivity period to the first generic drug manufacturer that seeks FDA approval by challenging the validity of patents prior to the expiration of patents relating to the brand-name drug product.


18 Pfizer received a six-month patent extension in the European Union (EU) after developing a pediatric version for children with high cholesterol, allowing Lipitor to maintain exclusivity in most EU countries until May 2012. It has been estimated that this extension will bring in an additional $770 million to the company (A. Rappaport, “Pfizer Profits Surge on International Demand,” Financial Times, November 1, 2011).


26 Pfizer, Lipitor for You website. Available at https://www.lipitor.com/LIPITORforYou.aspx?


Reducing the Impact of Generic Competition

30 Lipitor 20 mg tablets are the most popular dosage in the Rx Price Watch market baskets.


32 Previous reports from this series can be found on the AARP Web site at http://www.aarp.org/rxpricewatch.

33 S.W. Schondelmeyer and L. Purvis, *Rx Price Watch Report: Retail Prices for Widely Used Brand Name Drugs Increase Considerably Prior to Generic Competition*, AARP Public Policy Institute, March 2012.


41 L.A. Johnson, “Pfizer Maneuvers to Protect Lipitor from Generics,” *USA Today*, November 29, 2011.


44 For example, a previous Rx Price Watch report found that the retail prices of brand-name drugs widely used by Medicare beneficiaries increased more in 2009 than in the previous four years; notably, 2009 was the year preceding passage of the Affordable Care Act, which contained several provisions that could impact drug manufacturers’ revenues (D. Wilson, “Drug Makers Raise Prices in Face of Health Reform,” *New York Times*, November 15, 2009). Drug manufacturers may also be responding to price pressure from cost-containment measures currently being implemented in many European Union countries (L. Taylor, “EU Govts Warned Over ‘Enforced, Unpredicted’ Rx Price Cuts,” *Pharma Times Online*, March 31, 2010). Yet another factor is the unprecedented number of drugs that will be going off patent and facing generic price competition in next few years (K. Method, “Going, Going, Gone: Patents Set to Expire Soon on Many Brand-Name Drugs,” *Drug Topics Supplements*, August 10, 2009), which may have led some manufacturers to increase their prices in an effort to maintain corporate revenue and profits.

45 United States House of Representatives, Committee on Oversight and Government Reform, Majority Staff, *Private Medicare Drug Plans: High Expenses and Low Rebates Increase the Costs of Medicare Drug Coverage*, October 2007, ii, 15. This congressional report found that “When the Part D insurers obtain rebates, however, they do not pass them through to beneficiaries by reducing drug prices in coverage gaps like the ‘doughnut hole.’” This congressional report also found that “In almost all cases, the private (Part D plan) insurers use pricing formulas that pay pharmacies the drug manufacturers’ full list prices minus a fixed percentage and a small dispensing fee. These formulas have resulted in drug prices that are generally no lower than those already available through discount pharmacies and on-line drugstores, while leaving beneficiaries and taxpayers vulnerable to repeated increases in list prices by the drug manufacturers...With only two exceptions, the Part D insurers established drug pricing formulas that pay pharmacies the manufacturers’ published ‘Average Wholesale Prices,’ which are the manufacturers’ list prices, minus a fixed percentage (on average 15%), plus a small dispensing fee (on average $2.10 per prescription).” The report goes on to say, “One consequence of these pricing formulas is that increases in manufacturer list prices are passed through to beneficiaries.”
Reducing the Impact of Generic Competition


# Coventry Health Care
## Formulary Coverage Change

<table>
<thead>
<tr>
<th>Plan sponsors:</th>
<th>Coventry Health Care</th>
<th>Geographic area:</th>
<th>Nationwide</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective date:</td>
<td>December 1, 2011</td>
<td>Number of lives:</td>
<td>Approximately 1.2 million fully insured members</td>
</tr>
<tr>
<td>Rx Group #:</td>
<td>CVTYCOM</td>
<td>ID number format:</td>
<td>11 digits</td>
</tr>
<tr>
<td>Announcement:</td>
<td>Effective December 1, 2011, for Coventry Health Care fully insured members, generic atorvastatin, of all strengths, will not be covered and will reject with:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Atorvastatin</td>
<td>NCPDP Reject 70:</td>
<td>Drug Not Covered, with a secondary message of “Submit brand Lipitor.”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lipitor</td>
<td></td>
</tr>
<tr>
<td>Coventry sent letters to its fully insured members, notifying them that generic atorvastatin will not be covered and that Lipitor® the brand product will remain covered. Please maintain adequate inventory of Lipitor for these members.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1 covered drugs:</td>
<td>Lipitor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Action requested:</td>
<td>Pharmacies should continue to submit claims for Lipitor to Medco through the TelePAID® System, which will respond with the correct member copayment responsibility.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Follow the TelePAID® messaging, which will respond with the correct member copayment responsibility, based on the member’s benefit.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note:</td>
<td>Members with pharmacy benefits subject to a flat copayment will receive the brand product for a Tier 1 co-payment. For members with pharmacy benefits subject to a deductible and/or coinsurance, the cost of the brand-name drug dispensed, rather than the generic cost, will be used to determine the amount applied to the deductible and the amount of the member’s coinsurance.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Members should be referred to the Member Services telephone number on their ID card should they have questions regarding the changes in their copayment.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For more information:</td>
<td>Contact the Pharmacy Services Help Desk toll-free at 800 922-1557 or visit the Pharmacist Resource Center at <a href="http://www.medco.com/rph">www.medco.com/rph</a>.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Medco manages the prescription drug benefit for many of your customers’ employers or health plans.
Dear Member Pharmacy,

In an effort to support continued access to affordable prescription drug benefits, Medimpact Healthcare Systems, Inc., on behalf of participating plans, will preferentially cover the brand version of LIPITOR over generic ATORVASTATIN when the generic becomes available in the market. Under this initiative, we will request pharmacies to dispense brand name LIPITOR for all new and refill ATORVASTATIN prescriptions from 12/1/11 to 5/31/12 for members of participating plans. Pharmacies will continue to receive brand reimbursement for these fills.

To enable the pharmacist to determine which members are in a participating plan, the NDCs for generic ATORVASTATIN will be blocked from adjudicating on claims for those members. The claim rejection response will contain a message reminding the pharmacist that they should dispense brand LIPITOR to the member.

If pharmacies need a DAW code to bypass internal edits, DAW code value 9 can be used:
- For D.0 claim submissions, DAW9 means Substitution Allowed By Prescriber but Plan Requests Brand - Patient’s Plan Requested Brand Product to Be Dispensed.
- If pharmacy is still submitting 5.1 claims, the use of DAW 9 – Other is recommended.

Members enrolled in this initiative will receive LIPITOR at their generic co-pay rate for the duration of the program. Medimpact clients, their members, and prescribers have been notified of this change.

If you have any questions concerning this letter, please contact a Medimpact representative at 1-888-648-6769.

Sincerely,

Ash Yerasil, PharmD, MBA
Director, Pharmacy Network Development
Medimpact Healthcare Systems, Inc.

This transmission may contain confidential or individually identifiable health information (IIHI) protected under the Health Insurance Portability and Accountability Act (HIPAA) and other applicable statutes.
IMPORTANT INFORMATION REGARDING THE COVERAGE OF LIPITOR

Dear Pharmacy:

Catalyst Rx is pleased to have you in our network and we appreciate the service you provide our members. We have a commitment to our clients to provide innovative programs focused on reducing net drug spend while still providing the highest quality of benefits.

As you are aware, on November 30, 2011, the cholesterol-lowering medication Lipitor (atorvastatin) will become available in generic form. For the first six months following its release, the price of atorvastatin will remain high due to a single manufacturer maintaining exclusive production rights. This, coupled with lower member copayments, will result in increased drug costs for clients.

To reduce net drug spend, Catalyst Rx will be providing a point-of-sale discount on Lipitor prescriptions until competition in the market causes the price of atorvastatin to lower significantly.

Example of Client and Member Savings:

<table>
<thead>
<tr>
<th>Product</th>
<th>Average Wholesale Price</th>
<th>30-Day Supply (With pharmacy discount)</th>
<th>Estimated Additional Discount*</th>
<th>Member Copayment</th>
<th>Pharmacy Due Amount</th>
<th>Plan Paid</th>
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</thead>
<tbody>
<tr>
<td>Atorvastatin</td>
<td>$5.50</td>
<td>$120.63</td>
<td>$0.00</td>
<td>$10.00</td>
<td>$110.63</td>
<td>$110.63</td>
</tr>
<tr>
<td>(Generic Lipitor)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lipitor (Tier 1)</td>
<td>$6.11</td>
<td>$155.72</td>
<td>$47.66</td>
<td>$10.00</td>
<td>$145.72</td>
<td>$98.06</td>
</tr>
</tbody>
</table>

*Actual amount may vary due to variations in plan design and pharmacy network discounts.

Point-of-Sale Discount: Immediately passed to client
Member Savings: Copayment reduced to Tier 1
SAVINGS $12.67

Program Timeline:

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Action</th>
</tr>
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<tbody>
<tr>
<td>November 30, 2011</td>
<td>Lipitor will move to a Tier 1 or generic copayment.</td>
</tr>
<tr>
<td>November 30, 2011 to May 31, 2012</td>
<td>Atorvastatin will be blocked for six months until additional manufacturers enter the market and cause the price to lower significantly.</td>
</tr>
<tr>
<td></td>
<td>Catalyst Rx will provide a point-of-sale discount on Lipitor prescriptions to reduce the ingredient cost.</td>
</tr>
<tr>
<td></td>
<td>This will have no impact on contracted network reimbursement rates.</td>
</tr>
<tr>
<td>June 1, 2012</td>
<td>Atorvastatin block lifted as it is moved to a Tier 1 or generic copayment.</td>
</tr>
<tr>
<td></td>
<td>Lipitor will move to Tier 3.</td>
</tr>
<tr>
<td></td>
<td>Prescriptions for Lipitor should automatically be filled with atorvastatin.</td>
</tr>
<tr>
<td></td>
<td>Members will continue to pay the same Tier 1 or generic copayment.</td>
</tr>
</tbody>
</table>

Enclosed is a copy of a letter that will be sent to Catalyst Rx members currently taking Lipitor. If you have any questions, please call us at 1-888-869-4600. Representatives are available 24 hours a day, seven days a week to assist you.

Sincerely,

Catalyst Rx

Enclosure

Brend-names are the property of their respective manufacturers. Continued on Reverse
CatalystRx®

COVERAGE OF LIPITOR AND GENERIC ATORVASTATIN
Frequently Asked Questions

Q. Will this strategy apply to all Catalyst Rx clients?
A. This approach to the coverage of Lipitor and atorvastatin will apply to the majority of Catalyst Rx clients; however, some exceptions will occur. Custom messaging will be provided to facilitate claims processing.

Q. Could this type of strategy be applied to other medications coming off patent?
A. Catalyst Rx will consider applying this type of strategy to other generic medications as their patents expire. New generics will be evaluated on a case-by-case basis.

Q. Are there any legal concerns regarding blocking a generic medication from being dispensed at the pharmacy?
A. There are some state laws that require pharmacies to dispense a generic if one is available. However, none of the states require generic substitution if the generic will cost more than its brand-name equivalent. The point-of-sale discount that will be applied to Lipitor prescriptions will result in a cost that is lower than that of atorvastatin. In addition, members will still pay a Tier 1 or generic copayment during the six-month exclusivity period.