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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

REPORT ON UNIVERSAL SERVICE AND THE POSTAL MONOPOLY
Docket No. PI2008-3

COMMENTS OF TOM UNDERKOFFLER
DIRECTOR OF LOGISTICS
MEDCO HEALTH SOLUTIONS

(June 19, 2008)

Good afternoon, I am Tom Underkoffler, Director of Logistics for Medco Health Solutions. My responsibilities require extensive involvement in postal issues, and I also represent Medco with multiple industry associations, including the Parcel Shippers Association (PSA). I serve on the PSA Executive Committee, and co-chaired the Mailers Technical Advisory Committee (MTAC) subgroup on service standards for packages.

Medco Health Solutions is a leading Pharmacy Benefit Manager (PBM), and operates the nation's largest and most advanced mail-order pharmacy operation. In 2007, Medco managed nearly 560 million prescriptions, including 94.8 million prescriptions dispensed at its mail-order pharmacies. We provide pharmacy benefit management services for roughly 1 in 5 Americans. In 2007, Medco's high-quality service, advanced technology, and cost containment and clinical programs enabled it to keep the average drug trend for all of its customers at a record low 2 percent – well below the national average.

Medco's highly automated, proprietary pharmacy systems located in Las Vegas and Willingboro, NJ together have the capacity to fill more than 2 million prescriptions per week. In fact, our dispensing operations are significantly more accurate than hospitals or retail operations, exceeding Six Sigma® levels of dispensing accuracy. A statistical standard used to characterize a near-perfect production environment, Six Sigma represents a 99.997 percent error-free rate, unmatched by any retail pharmacy. In addition, we are investing more than \$140 million to develop a next-generation mail-order facility in Whitestown, IN, scheduled to open in 2009. Medco also operates two pharmacies that dispense

diabetic supplies from our Liberty Division, and three specialty distribution pharmacies and 87 specialty branch pharmacies from our Accredo Division.

Medco utilizes many classes of mail for our normal course of business. We use First-Class Mail flats for our Welcome Kits and First-Class Mail letters to correspond with our patients. We also receive First-Class Mail letters containing new prescription orders from our patients. Our Customer Service and Marketing areas utilize First-Class Mail and Standard Mail letters. Our mail-order pharmacies dispense almost 1.5 million parcels per week, which are largely delivered via Expedited Drop Shipments (including Priority Mail Open and Distribute) containing Standard Mail parcels. We also service our patients via First-Class Mail parcels, Express Mail, and Priority Mail, and utilize a third party vendor to transport Parcel Select packages for deeper entry delivery into the USPS network.

In short, the United States Postal Service assists Medco in providing the value proposition to our clients and service and convenience to our patients. Universal, affordable delivery of its products is critical to Medco, its clients, and its patients. Thus, the concept of the Postal Service's Universal Service Obligation is very important for Medco and requires some discussion.

Our clients and patients have come to depend upon the ability of the USPS to cost-effectively deliver our mail and prescription orders six (6) days per week today. Reducing the number of delivery days would have a negative effect on our ability to service our clients and patients, as this would slow down both the order receipt and medication delivery processes. Any reduction in Postal delivery

days to zip codes with existing volumes without a corresponding improvement in service would ultimately lead to delays in our patients receiving their medications. We believe Saturday delivery is important to our patients, as it further complements our 24 hour dispensing process during the week. The topic of eliminating Saturday delivery has been brought up, and is a large concern. This would create a period of two consecutive days without delivery, negatively impacting the service to our patients.

We are also concerned that reducing the number of delivery days per week would result in degraded service during the inevitable peak volume periods that would result from losing a delivery day. Even though Medco is a very consistent shipper in terms of volume, peak volumes from other shippers, combined with a 17% or more reduction in delivery days (i.e., 1 day per week) could lead to exponential service delays.

That being said, however, we also understand the state of the current economy, and the likely impact it will have on the existing volume trends for the USPS. We certainly want to see a financially healthy USPS in the future, but any changes made need to protect the existing value proposition, which is affordable service. Degrading service to control costs will not likely enhance either customer's satisfaction or future volume growth.

My experience at Medco, and my role with MTAC in the effort to develop delivery service standards for the Postal Service, reinforces my opinion that simply mandating "universal service" is not sufficient. Service standards, goals, and performance measurement are necessary to ensure that any "universal

service” mandate is worthwhile. Unpredictable or unreliable delivery service for our products would, obviously, be problematic. We at Medco appreciate the role this Commission is playing in the development of service standards and performance measurement systems. We publicly thank you for that.

Medco patients reside in all 50 states and U.S. Protectorates, from Maine to Hawaii, from Guam to Puerto Rico. From that aspect, the continued ability of the USPS to offer cost-effective service to all locations is important to Medco, as in many cases, the USPS is really the only game in town. In fact, ordering medication from PBM’s like Medco for delivery by the Postal Service is the most convenient, cost-effective way for many Americans to access their medications because pharmacies are few and far between in many rural areas.

We believe that the Postal Service is uniquely situated to offer affordable service to all locations, particularly rural ones, in a cost-effective manner because its significant delivery densities enable it to have the lowest final mile delivery costs. Given these low delivery costs, the Postal Service should also continue to charge similar prices for delivery in rural and urban areas.

Additionally, to maintain these densities, the existing letter and mailbox monopolies should be protected. Reducing the scope of these monopolies could jeopardize the Postal Service’s ability to comply with the PAEA’s CPI-based price cap for market-dominant products, an outcome that Medco believes would be unacceptable. In addition, the security of the mailboxes that is provided by the existing monopoly is of great importance. American citizens need to continue to trust the contents of their mailbox, as the present law ensures.

In exchange for these protections, we feel strongly that the Universal Service Obligation should include all areas, and should definitely include First-Class Mail and Standard Mail parcels. Of course, care must be taken to ensure that delivery to higher-cost areas be affordable. Affordability is a key element of any universal service obligation.

As previously stated, we do understand the need for the Postal Service to continually look for ways to reduce costs. Worksharing, in particular, has proven to be a valuable and effective method for reducing total network cost. Medco has embraced this concept, and currently sorts Standard Mail parcels by 3 and 5-Digit ZIP Codes and generally enters them at the destination sectional center facility (DSCF) and select destination delivery units (DDU). We look forward to additional incentives that will allow us to inject additional parcels deeper into the USPS, i.e., to more DDU's, in the near future. We believe that this will both reduce Postal Service costs and improve the service that our parcels receive.

The Postal Service should also take advantage of the enhanced ability provided by the PAEA to offer new products that can assist in paying for USPS operating costs. Additional opportunities abound here, such as automated redirected deliveries and allowing mail recipients to request evening deliveries and hold for pick-up service. These options would greatly enhance the convenience factor of the USPS, while potentially reducing costs and generating new revenue for the organization.

In summary, we feel that to best service our patients, the USO should protect existing delivery schedules. We appreciate the devotion of the USPS to

constantly look for ways to reduce costs, but would not expect service to be reduced as a result. We look forward to the continued requirement for all existing mail products, including parcels, to be included in the USO. In the best interests of the USPS, we would support the protection of the letter and mailbox monopolies, as it will best ensure the overall value proposition of USPS products.

Thank you for this opportunity and your attention. I will be pleased to answer any questions you may have.