

**Testimony Of
Mr. Larry Merlo
President and Chief Executive Officer
CVS Caremark Corporation**

Good morning Chairman Baucus, Ranking Member Hatch, and members of the Committee. Thank you for holding this important hearing today and for allowing CVS Caremark the opportunity to share our views on tax reform.

My name is Larry Merlo. I am the President and Chief Executive Officer of CVS Caremark Corporation, a domestic health care business headquartered in Woonsocket, Rhode Island that employs more than 200,000 Americans.

Today I would like to provide the committee with an overview of CVS Caremark's business and explain how we think our company and the nation as a whole would benefit from meaningful corporate tax reform.

As a leading health care company and the leading pharmacy care provider in the U.S., CVS Caremark is dedicated to helping Americans achieve their best health outcomes at lower costs. As a Fortune 25 company, each day we spend \$260 million doing business with over 44,000 different vendors – generating a total of \$95 billion of economic activity each year. We employ more pharmacists and nurse practitioners than anyone else in the nation, filling over 830 million prescriptions every year or 20% of the U.S.'s total prescriptions.

Some think of us as the nation's leading drugstore chain because we operate more than 7,200 CVS/Pharmacy stores in 44 states, the District of Columbia and Puerto Rico. Seventy-five percent of all Americans live within three miles of one of our stores in the markets where we operate. For others, we're a leading pharmacy benefits manager, or PBM. As you know, PBMs assist health plans, unions, and governments design prescription drug benefit options to best meet their members' needs and help sponsors drive down costs. Our PBM also provides beneficiaries with access to a network of more than 65,000 pharmacies in the U.S.

CVS Caremark is more than just a PBM and drugstore chain – we consider ourselves a part of the fabric of American society, working to improve the lives and health of our customers – and to provide services at the lowest possible cost. Because of that, we have made significant investments in our people and infrastructure; we believe that is part of our obligation as a participant in the American business community. Our organization, including our more than 51,000 pharmacists, pharmacy technicians, physician assistants and nurse practitioners, is focused on delivering expert pharmacy health care to consumers. Our strengths extend to areas that include retail clinics, specialty pharmacy, pharmacogenomics, technology and serving over 6 million Medicare Part D beneficiaries.

- **MinuteClinic** - We have invested capital and established nearly 600 retail based MinuteClinics in 26 states and the District of Columbia. MinuteClinics are staffed by board-certified nurse practitioners and physician assistants who utilize nationally recognized medical protocols to diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions and deliver vaccinations. Since inception, we have seen more than 10 million patients at our MinuteClinics. We believe this is a service that not only helps improve patient health, but saves us all money by reducing health care costs through preventative care.
- **Specialty** - We operate the largest specialty pharmacy business in the U.S. We are investing in new products and services for patients with diseases like HIV or multiple sclerosis that require more complex treatments than simply taking a pill. Today four of the top ten most prescribed medications are specialty drugs and that number is expected to rise to seven out of ten by 2015.
- **Pharmacogenomics** – We have made a significant investment in this emerging field that focuses on providing the right drug and dosage to the right patient. By identifying how an individual's genetic variations are likely to impact the response to a particular treatment, we can minimize adverse drug reactions and lower costs overall.

- **Technology** - We invest heavily in state-of-the-art technology to support the services our caregivers provide. Our technology platform supports future clinical advances and helps us encourage patients to remain compliant with prescribed medications and closes gaps in care. The result is better health outcomes for our customers and lower overall health care costs for everyone.
- **Medicare Part D** - We are the second largest provider of drug benefits to eligible beneficiaries under the Federal Government's Medicare Part D program. Each year, CVS pharmacists serve more than 6 million beneficiaries and fill more than 245 million prescriptions under the Part D program.

In our view, CVS Caremark is the most integrated and effective pharmacy health care provider in the country today. But we believe we can do more, and we are expanding our role as a health care provider; and we are also growing our company to meet the needs of consumers and the changing U.S. health care system. Our company currently reinvests approximately \$2 billion back into our business each year and we are committed to making significant future investments in our service offerings, technology, training, drug adherence programs, retail clinics and other improvements to our infrastructure and operations. Our investments are geared towards lowering the overall cost of health care in this country and improving consumer health.

Impact of Tax Reform

Tax reform is important to CVS Caremark because we anticipate that it will serve to lower our cost of capital and enable the company to make additional investments in our core business. We support broad reform that enhances the competitiveness of U.S. companies around the world and encourages the free flow of capital. For CVS Caremark, however, the key component of any tax reform initiative is a reduction in the maximum corporate income tax rate. Reform that includes a corporate rate reduction would allow us to accelerate our investments in U.S. jobs, technology and infrastructure that would enable CVS Caremark to (i) more effectively manage pharmaceutical and health care costs, (ii) increase patient adherence, (iii) increase access to primary care services, (iv) improve health outcomes, and (v) educate our customers in health enhancing behaviors.

CVS Caremark's federal effective income tax rate is approximately 35% and our combined federal and state effective income tax rate is approximately 39%. Together with our more than 200,000 employees, we generate federal payroll and corporate income tax revenues of approximately \$3.7 billion annually.¹ When similar state and local payroll and income taxes are considered our annual tax payments exceed \$4.3 billion.

We have a high effective tax rate for two principle reasons, the first being that many of the tax policies that help industry have limited application to CVS Caremark, and secondly, we have consistently chosen to reinvest our earnings and create jobs in the U.S. That said, CVS Caremark does benefit from certain incentives such as the Work Opportunity Tax Credit and accelerated/bonus depreciation. Notwithstanding our use of some incentives, we support business tax reform that broadens the base by reducing expenditures and provides a consequential reduction in the maximum corporate tax rate.

In order to continue to be successful in an increasingly global marketplace, CVS Caremark must control costs, raise capital and efficiently reinvest its earnings. Although we have worked hard managing our operations and controlling costs to provide both capital for our business and returns for our shareholders, our high effective tax rate not only limits the amount of earnings available to us for reinvestment in our core business, it also makes CVS Caremark less attractive to global investors.

We are committed to growing our business in the U.S. Without a consequential rate reduction tax considerations will have to be an even more significant component of our overall investment analysis.

Conclusion

We believe that by lowering the corporate tax rate, you will enhance the competitiveness of U.S. companies, spur job creation, and help the economy grow.

¹Our payroll tax figures include both the employee and employer share of all federal payroll taxes and income tax withholdings.

Therefore, CVS Caremark supports tax reform that includes a meaningful rate reduction because we believe it will encourage investment in the U.S. by both domestic and foreign companies. Such reform will strengthen our company and accelerate our investment in domestic jobs, technology and infrastructure – all of which will ultimately help us lower health care costs and grow the economy.

As I stated earlier, CVS Caremark is committed to improving care and lowering health care costs for millions of Americans. We are excited about the possibility of having the ability to invest our earnings to do even more. Changes to the tax code such as those we have suggested will help us, and many U.S. companies like us, do just that.