

17 Mar 2011 19:52 EDT **WSJ(3/18) Calpers Probe Touches Medco**

(From THE WALL STREET JOURNAL)

By Dinah Wisenberg Brin

A broad corruption probe involving the California Public Employees' Retirement System has touched the pension fund's pharmacy-benefits manager -- Medco Health Solutions Inc. -- which Calpers this week dropped from contention for a new contract amid investigations into possible impropriety.

On Monday, Calpers released a report it commissioned to examine middlemen paid by outside money managers to help win fund business. Calpers said the review found apparent misconduct and that some top fund officials had acted inconsistently with their responsibilities.

The Medco-related activity accounted for a relatively small part of the report. Calpers has said that there may have been improper activity by former Calpers officials in connection with Medco's hiring of a consultant who had been a Calpers board member.

Medco Health, one of the largest U.S. pharmacy-benefits managers, isn't expected to take much of an earnings hit as a result of losing the retirement system's business. The Franklin Lakes, N.J., company's stock fell more than 11% this week as investors reacted to the Calpers-commissioned review and the related decision to end contract talks with Medco.

Medco Chairman and Chief Executive David B. Snow Jr. said Thursday that Medco is cooperating with authorities. "Our company has behaved with integrity since its inception, and it continues to do so, and we expect to be getting all of you information from our point of view" within days, he said. Medco hasn't commented on specifics of the Calpers report.

Even prior to the report, the California attorney general's office and the U.S. Securities and Exchange Commission have been examining Medco's past relationship with the middleman, Alfred Villalobos.

According to Calpers, Mr. Villalobos was paid more than \$4 million as a consultant. He faces separate allegations that he helped outside investment firms win fund business by lavishing gifts on Calpers officials. He has denied wrongdoing.

Medco's independent directors are investigating as well, the retirement system said this week.

California last year filed civil fraud charges against Mr. Villalobos and former Calpers CEO, Federico "Fred" Buenrostro, alleging Mr. Villalobos, acting as a placement agent, or middleman, entertained key senior Calpers executives who then influenced the board to authorize investments that generated millions in commissions for him. The state alleged he gave Mr. Buenrostro a \$300,000 job and a condo when Mr. Buenrostro left the pension fund.

Both men have denied wrongdoing, according to media reports. Charges against Mr. Buenrostro are proceeding in a California state court, while Mr. Villalobos filed for federal bankruptcy protection, which resulted in a stay of the state's case against him.

In addition to information relating to money managers, the Calpers report included descriptions of meetings between Medco's Mr. Snow, Mr. Villalobos and Mr. Buenrostro. In May 2004, it said, Mr. Villalobos hosted a meeting at his Nevada home near Lake Tahoe with Mr. Snow and Mr. Buenrostro.

Soon after the meeting, Medco retained Mr. Villalobos as a consultant and agreed to pay him \$4 million, even though Medco already had hired another consulting firm to assist it in securing the Calpers contract, the report from law firm Steptoe & Johnson LLP and Navigant Consulting Inc. said.

Mr. Snow returned to the home in September that year for another meeting with Mr. Buenrostro and Mr. Villalobos, and this time three other men serving on the Calpers board also attended, the report said.

Other meetings followed over the next year between Mr. Snow and some or all of the five men, according to the report, which also noted that one of the board members years later invoked his Fifth Amendment right against self-incrimination when government attorneys questioned him about the PBM contract.

Lawyers for Mr. Villalobos and Mr. Buenrostro didn't return calls for comment Thursday.

Medco provides mail-order prescription benefits to 300,000 Calpers members enrolled in its preferred provider organization health plan, and was awarded a three-year pharmacy-benefit services contract in 2006.

By the time the contract expires at year end, Calpers said it will have paid Medco some \$48 million.

During the contract, Medco managed about \$500 million worth of prescriptions annually for Calpers employees.

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March 17, 2011 19:52 ET (23:52 GMT)

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