2018 Wall Street Comes to Washington Health Policy Roundtable

Flush from Medicare Advantage and managed Medicaid enrollment growth, large national health insurers will continue to integrate vertically along the care continuum to better control costs and utilization, according to panelists at the 23rd annual Wall Street roundtable sponsored by the JKTG Foundation in conjunction with the USC-Brookings Schaeffer Initiative for Health Policy. Private equity and venture capital investors also like the idea of acquiring or investing in physician practices, perhaps with an idea of increasing efficiencies and then selling the practices for a profit down the road to hospitals or insurers. Hospitals also are looking for a piece of the action through partnerships with health plans to offer co-branded Medicare Advantage products. Analysts predicted continuing interest in home health investments, fueled in part by new Medicare Advantage rules allowing coverage of some l assistance with nonmedical activities of daily living to keep people out of hospitals and nursing homes.

Vertical Integration Fuels Mergers

While it's always made sense to integrate pharmacy benefits into medical benefits to better manage costs and utilization, even the largest managed care companies lacked the scale until recently to manage pharmacy benefits in house, according to Wall Street analysts. In the last decade or so, however, managed care companies have expanded beyond the commercial employer insurance market into Medicare Advantage and Medicaid managed care, increasing the scale of their operations and making mergers with pharmacy benefit managers (PBMs) attractive.

"Why would you have a different entity managing that member through one benefit, while hospital, outpatient and other benefits are managed by managed care?" asked Ana Gupte, managing director at Leerink Partners. UnitedHealth Group and its integrated PBM, OptumRx, have really "shown the way," she said, prompting other large insurers to become "fast followers" and merge with PBMs—in the case of Aetna, with CVS, and Cigna with Express Scripts.

Matt Borsch, managing director at BMO Capital Markets, agreed, saying, "Now, the very largest managed care companies have become big enough, where with their own business alone, they can pretty much get there in terms of scale. And then of course they can do business for other health plans that don't have the scale." However, it remains to be seen whether other health plans will find the firewall strong enough between OptumRX and UnitedHealthcare to share proprietary claims data, he said.

Additionally, the growing emphasis on chronic care management has become "part and parcel of managed care," Gupte said, adding, "There's been kind of a convergence of what the PBMs are doing and the managed care companies are doing, and it makes it more seamless to have it under one organization to manage members' health to reduce admissions and readmissions and is heavily about compliance with the pharmaco therapy and managing their health around medications that they take, especially for multiple co-morbid conditions."

Insurers Buying Physicians

Responding to a query from moderator Paul Ginsburg about whether insurers are buying physician practices and freestanding outpatient facilities as a defensive move to prevent hospitals from acquiring them or an offensive strategy, the analysts said it's a bit of both and depends on the insurer.

"Recognize of course that the managed care companies are not pursuing a uniform strategy here, and that some of them, maybe not so much publicly, but they will say, 'Look, we did that 20, 30 years ago, and the results weren't very good. We're not going down that road today." Borsch said. "...On the other hand, clearly the other end of the spectrum, you have UnitedHealth that has been very acquisitive and done many acquisitions of providers."

Unlike the Kaiser Permanente model where employed physicians care only for Kaiser patients, United and Optum are acquiring multipayer practices that serve both United members and other health plans' members. "That probably makes sense if United is going to continue to be a broad-based, network-contracted health plan that appeals to a wide potential customer base," Borsch said. "But it also raises some of the same possible conflict of interest, I guess you might say, with United owning the practice, and the practice serving— perhaps 25 percent of their volume is United, and 75 percent of it is other payers."

Gupte views United's acquisitions as much more of an offensive strategy, saying, "From United's angle, two things—one is you want to reduce hospital spend in your own managed care business, and, hopefully, as they have a vision to serve other third-party plans as well, to improve your medical loss ratio, which is a percentage of cost spent on claims."

United is targeting 75 markets across the country to build out robust access across ambulatory settings, Gupte said, noting, "They will build out home health. They'll buy up the primary care docs, and that's a huge piece of it, because primary care is the linchpin of managing a member's health. Then, you have freestanding urgent care centers, which is under the MedExpress brand. And then, the ambulatory surgery centers. They bought a company called Surgery Care Affiliates. And then, they have some hospice wrapped in, and they're trying to integrate data, clinical and claims, across all of those sites of service and develop out those markets. And, they're having remarkable success."

Paul Heldman, managing partner of Heldman Simpson Partners, LLC, pointed out that both government and commercial payers are encouraging the shift of more procedures into lower cost ambulatory surgical centers, which increases their attractiveness as acquisition targets.

Borsch wondered in the longer run whether insurers will be "better off owning that MedExpress urgent care center as a means of reducing emergency room utilization, or can you do just as well, or maybe better, by contracting with urgent care centers, and doing it virtually. ...despite the scale and volume of the acquisitions that United has done, it's still the case that the providers who've been acquired by United cover about 15 percent of United's insured medical expense. So, enough to absolutely move the needle—it's significant—but we're not talking 50 percent yet."

Another factor fueling the merger and acquisition spree is the cash flow generated by larger insurers. "Optum and United work because UnitedHealthcare generates all of this cash, because the insurance model is amazing. There's more free cash than you would ever see in any other business because they get their premiums before they pay the claims, there's no capital

expenditure and their debt load is low. So, I mean, Aetna can fuel a lot of the maintenance and [capital expenditure] growth for CVS," Gupte said.

Private Equity Takes a Stake in Physician Practices

As private equity firms and venture capital funds show growing interest in acquiring physician practices or funding start-up models like ChenMed, Ginsburg asked, "What is the attraction for private equity in this area?—meaning, what opportunity does private equity perceive to make more money from the practices than the practices are making today? Because isn't that the essence of the strategy, that if you can't make more money with those practices, it won't work."

Borsch acknowledged that it's difficult to know for sure what the private equity end game is but speculated that the strategy may rest on the value of practices appreciating. "Maybe you don't have to make a lot more, because maybe your objective is to have it make a little bit more and to have the value of the practice increase because of that, but also because the value of practices is increasing generally. And, sell the practice five years down the road and reap some considerable profit."

Heldman observed that physician payment reforms under the Medicare Access and CHIP Reauthorization Act of 2015 create more risks and administrative burden for physician practices, and private equity firms may see an opportunity "to help with the administrative burden and spread the cost and reduce cost per doctor and also find a way to maximize their reimbursement under the pay-for-performance metrics."

At the same time, Medicare payment changes have made hospital ownership of new physician practices less appealing, according to Heldman. In the past, hospital-owned physician practices were eligible for about 60 percent higher reimbursement because they could bill at hospital outpatient department rates. Existing hospital-owned practices were grandfathered under the rule, but newly acquired practices will face lower reimbursement rates if the change stands.

Taken together, the overall shift in ownership of physician practices from physicians to other entities "may be an inevitable recognition that small practices don't have a future, and one way or the other being acquired by insurers, working for a hospital, or being acquired by private equity or other organizations. That may be the opportunity set for small practices," Ginsburg said.

Hospitals Partner with Insurers to Offer Medicare Plans

Medicare Advantage and the Affordable Care Act health insurance exchanges also have sparked hospital interest in jumping back into the insurance business by partnering with health plans. One example is Bright Health, which does a "neighborhood care model" through a joint venture branded relationship with one health system in a local market to offer a Medicare Advantage plan, with a "narrow, narrow, narrow network," Gupte said. Another example is Centene's partnership with Ascension, the massive Catholic hospital system, to roll out a co-branded Medicare Advantage product across 26 states by 2020, she said.

Borsch, however, cautioned that hospitals at their core may lack the discipline to execute an insurer role, pointing out that in the late-1990s, many provider-sponsored health plans failed. "There were many factors that went into that failure. But, one of the questions was can hospital systems that have in their DNA, if you will, the objective of filling beds, can they actually do a good job running health plans and incenting doctors to efficiently work toward managing medical costs," he said. "And, not to be too wishy washy on this, but I think the jury's out. A lot

has changed, and of course there probably isn't one answer anyway. There are some of these models that will work, and some of them won't."

A Minute Clinic on Every Corner?

Analysts also dissected the Aetna-CVS merger, raising questions about what the merged company will do with the 10,000 retail CVS store fronts, which face declining sales and pressure from online retailers like Amazon. So far, the plan is to take a subset of the 10,000 CVS sites and repurpose them into "neighborhood health centers," Borsch said.

Gupta viewed the deal as more of a marriage of convenience, saying, "Here you have CVS worried about what do they do with these 10,000 stores, and here you have Aetna, who's been a little of a laggard, I would say, among the large insurance companies, in terms of creating any medical cost-structure advantage."

She also questioned whether the current Minute Clinic nonphysician staffing model, which handles mostly sore throats and other minor ailments, can shift to "chronic care longitudinal population health management, which is the vision that CVS has around this. And then, they're talking about engaging the pharmacist. I mean, you've seen the CVS pharmacists. They're so busy—the lines just to fill up the scripts are kind of crazy. Where is the capacity to so something like that?" she said.

Home Is Where the Heart Is

Analysts also predicted continuing interest in home health investments. Recent changes in Medicare Advantage rules now allow health plan supplemental benefits to cover some non-medical needs like a home health aide helping a senior with activities of daily living, such as bathing.

"I think the virtual home concept is the biggest concept right now," Gupte said. "Humana is investing a ton in home health. They just bought a portion of Kindred at Home, with a private equity consortium. And, United is investing a ton in home health. Home health has exploded... private equity wants to get into home health."

The federal changes also likely will contribute to Medicare Advantage growth—already more than a third of seniors opt for private plans through Medicare Advantage. "It seems to me that the administration is using Medicare Advantage, trying to encourage its growth, but using it to experiment, in this case, with in-home services for sort of loosely described nonmedical needs to reduce medical needs in the future," Heldman said.

This Issue Brief is based on the 23rd annual Wall Street Comes to Washington conference held Nov. 14, 2018, in Washington, D.C. A full transcript of the conference is available at *www.jktgfoundation.org*.