New Rivals: Integrating Health Benefits to Provide Comprehensive Patient Care

By Gary Branning, MBA, and Martha Vater

On March 8, 2018, health insurer Cigna agreed to purchase the largest pharmacy benefit manager (PBM) in the United States, Express Scripts, for $52 billion.¹ This deal is the latest in a wave of payer consolidations that have the potential to reshape the US healthcare. Payers and PBMs are joining forces to maintain their competitive edge in a constantly shifting environment. The ability to integrate health benefits around the patient to provide comprehensive care begins to align incentives related to medical and pharmacy costs. Recent changes to the Affordable Care Act; threats that Amazon may enter the healthcare market; and the announcement that Amazon, Berkshire Hathaway, and JPMorgan Chase have joined forces to create a new healthcare company have inspired many to look at healthcare differently.²

Stand-alone PBMs have come under scrutiny lately, as critics question whether they operate in a transparent and ethical way.³ With their business model under attack, it makes sense for a PBM such as Express Scripts to merge with a health insurer. Insurers are forming closer relationships with PBMs to offer their employer customers improved transparency.³ Cigna and Express Scripts are not the first to attempt such a merger. In December 2017, CVS Health announced an agreement to purchase Aetna for $69 billion, one of the largest transactions of that year.⁴ In a turbulent healthcare environment, the merger between CVS and Aetna will create a formidable organization, with the capacity to influence a majority of healthcare services that members use, and will offer their employer customers one-stop shopping for health insurance. The 2 companies have had a business partnership for 7 years, and have gradually converged to share a similar vision of the role they can play together in the evolution of healthcare.⁴

By joining forces, the CVS-Aetna and the Cigna-Express Scripts mergers will now be able to compete more effectively with other integrated benefit organizations, such as UnitedHealth Group, which has physician practices, surgery centers, urgent care clinics, and a PBM (ie, OptumRx).⁵ Although we often expect disruption to come from innovative start-up companies, transformational change can also take place among bigger, more traditional healthcare service providers. These mega organizations have a unique opportunity to revolutionize patient care, by not relying on physician services as their core offering.⁶ Integrating benefits around the patient should result in affordable access and lower overall healthcare costs. A study conducted by Aetna’s analytics team showed that members with an integrated pharmacy and medical benefit plan visited the emergency department less often, were hospitalized less frequently, and had higher engagement rates with care management programs than members without an integrated plan.⁶ Specifically, members with 6 of the most costly chronic diseases (ie, diabetes, rheumatoid arthritis, HIV, hypertension, coronary artery disease, and chronic heart failure) had a 2% to 17% decrease in medical costs when their medical and pharmacy benefits were integrated, resulting in up to $117 per-member per-month reduced medical costs for these beneficiaries.⁶

Blue Cross Blue Shield (BCBS) conducted a similar study with its PBM, Prime Therapeutics, which showed that members with integrated medical and pharmacy benefits had an average savings of $330 annually in 2010 and 2011.⁷ BCBS members had 9% fewer hospitalizations and 4% fewer emergency department visits than members who had separate medical and pharmacy benefits during those 2 years.⁷

The CVS-Aetna merger is an effort at vertical integration, which, in theory, could eliminate middlemen and potentially offer consumers more choices and lower prices.⁴ With the medical benefits and pharmacy benefits under one roof, CVS-Aetna will be able to analyze patients’ medical files and pharmacy records to understand how medications are administered, and whether the insurers can help offset other medical costs. So far, only a small group of integrated healthcare systems, including Kaiser Permanente, Intermountain, and the Mayo Clinic, have delivered better care and lower costs.⁸ By integrating claims, CVS and Aetna may now

---

¹ Prices. 4 With the medical benefits and pharmacy benefits under one roof, CVS-Aetna will be able to analyze patients’ medical files and pharmacy records to understand how medications are administered, and whether the insurers can help offset other medical costs. So far, only a small group of integrated healthcare systems, including Kaiser Permanente, Intermountain, and the Mayo Clinic, have delivered better care and lower costs.⁸ By integrating claims, CVS and Aetna may now

---

Mr Branning is Associate Professor, Rutgers Graduate School of Business, and President, Managed Market Resources, Mt Olive, NJ; Ms Vater is Senior Client Consultant, Managed Market Resources.
Regardless of your point of view, integrating medical and pharmacy benefits creates a single view of the cost drivers for an entire patient population.

in the years ahead.

After the megamergers of Humana-Aetna and Anthem-Cigna were blocked by US District Court rulings in 2017,\(^1\) the proposed Cigna-Express Scripts and CVS-Aetna mergers may face intense scrutiny from regulators, especially as rising pharmaceutical costs continue to make headlines. Although health plans and PBMs are not direct competitors, these deals may receive a skeptical response from antitrust enforcers, because they raise the risk for the coordination of medical care and pharmacy benefits, which, in turn, elevates their advantage in the already competitive healthcare insurance market. In addition, having 2 of these deals occurring simultaneously significantly raises the antitrust risk for these 2 concerns, according to industry experts.\(^2\)

Because individual patients are treated at the local level and benefit from healthcare interventions tailored to their unique circumstances, we (the authors) are wary of enormous conglomerates making population health decisions at the national level. In this case, however, we are cautiously optimistic. Although the mergers will not allay concerns about continued consolidation, some analysts have predicted that better coordination between health plans, which manage medical costs, and PBMs, which manage pharmacy costs, could help lower overall healthcare costs.\(^3\)

According to industry research, integrating medical and pharmacy benefits can save payers and employer sponsors hundreds of dollars per member annually and address the key components of value-based care, including:\(^4\)

- Lowering spending
- Improving member engagement
- Enhancing member satisfaction
- Increasing care coordination
- Managing population health.

Adding more touchpoints to the member management process through the integration of medical and pharmacy benefits allows payers to offer low-cost, high-impact services, such as home delivery of medications and counseling from pharmacists.\(^5\) In addition, payers can control costs by encouraging the use of generic drugs and gaining leverage in negotiations with brand-name drug manufacturers.\(^6\)

Regardless of the ultimate outcome, the CVS-Aetna and Cigna-Express Scripts mergers will provide valuable insights for the healthcare industry. For example, if the CVS-Aetna merger succeeds at treating patients in a low-cost, convenient setting and improves patient outcomes, it will serve as a model for other vertical mergers; if it fails, it will be a lesson learned. The new companies will face meaningful competition in all their business lines, so the CVS-Aetna and Cigna-Express Scripts mergers may help spur innovation and efficiency throughout healthcare.\(^7\)

Regardless of your point of view, integrating medical and pharmacy benefits creates a single view of the cost drivers for an entire patient population. This integration can help achieve the Triple Aim of the Centers for Medicare & Medicaid Services to improve the experience of care, improve the health of populations, and reduce the per-capita costs of healthcare. Exactly who benefits from that enhanced value, however, remains to be seen. If a marketplace is created in which fewer, more powerful insurers extract additional price concessions from drug manufacturers but do not share those savings with their members, consumers will feel those price increases acutely.\(^8\)

References