Pennsylvania Hospital in Philadelphia, PA, is the nation's first hospital and on the National Register of Historic Places

United Healthcare and U.S. Healthcare Business Models: A Tradition Of Change

Healthcare in the United States hasn't been the same since it started...

Take a close look at the picture. It is the first hospital in the United States. Known as “Pennsylvania Hospital”, it was founded on May 11, 1751 by Benjamin Franklin and Dr. Thomas Bond. It is located in Philadelphia, Pennsylvania and is on the National Register of Historic Places. From the beginning, the United States has taken healthcare very seriously; the first cornerstone of the building was laid in 1755, before the American Revolution. The contemporary hospital we know of today looks greatly different than Pennsylvania Hospital and United Healthcare's business model has mirrored this path of change.

New medicine, new business models…

The healthcare industry is steadily moving away from its traditional business models. Patient care clinics in CVS Health, Walgreens, Walmart and other pharmacy retailers are one example. Another example is the growing number of increasingly advanced procedures performed outside of hospitals and conducted by independent surgical centers. United Healthcare's business model has exploded past its original borders as a health plan organization and has taken on new roles as a care and healthcare services provider.

UHC as a healthcare provider...

Last year, United Healthcare (UHC) acquired MedExpress for $1.5 billion dollars. MedExpress operates urgent care centers in 14 states: Alabama, Arkansas, Delaware, Florida, Illinois, Indiana, Kansas, Maryland, Massachusetts, Michigan, Minnesota, New Jersey, Oklahoma, Pennsylvania, Tennessee, Virginia and West Virginia. The organization became part of UHC’s Optum business unit which operates 9 urgent care facilities located in Kansas and Texas (known as Optum Clinic + Urgent Care). Optum also has a large scale PBM, a home infusion and a healthcare data provider unit within its business. The data unit provides analytics and insights across an array of healthcare stakeholders including employers, physicians, hospitals, researchers, pharmacies, governments and other entities.

Urgent care centers typically provide a wider and more advanced selection of services than the typical care provided by clinics in retail pharmacies. The urgent care facilities are often staffed with a medical doctor whereas the retail pharmacy care center clinician is typically nurse practitioner. Often outfitted with additional staff and equipment, such as x-ray machines, urgent care centers can treat more complex cases.

The "org chart" is getting deeper and wider ...

UHC’s position as an insurer and provider is rapidly materializing and defining itself. To date, their model does not include a hospital. It does have a home infusion unit, AxelaCare, which it acquired last year. This organization is also part of UHC’s Optum unit. AxelaCare operates in 44 states and has 34 pharmacies.

The urgent care clinics are also distributed across multiple states. In a recent earnings call, a UHC executive implied their plans for expansion would reach into 75 markets. While the total number of patients and dollars in care do not approach the scope and quantity of the larger integrated delivery networks, UHC's role as a provider has advanced significantly in a short amount of time.

For comparison…

Two very established plan and care provider organizations are Kaiser Permanente and Intermountain Healthcare. Each has been round for years with strong regional and select metropolitan market positions. They serve as good examples plans may choose to follow if they choose to enter the provider sector. A third, more recent example of a plan also becoming a provider is Highmark. Highmark is an independent licensee of the Blue Cross Blue Shield Association and it acquired West Penn Allegheny Health Systems in 2013 for about $1 billion dollars. West Penn Allegheny Health System, now known as Allegheny Health Network, is comprised of 7 hospitals, 1,700 physicians and 17,000 employees. It was having financial issues prior to it being acquired by Highmark but reportedly cleared a modest profit roughly a year after its acquisition was approved by regulators.

A new approach to the business and clinical sides of healthcare…

For UHC, controlling costs and standardizing care is now more within their grasp. By operating their own provider organizations, they can more closely align care, benefit designs and protocols for more types of patients and conceivably better manage total costs. An additional consideration for UHC and the addition of urgent care facilities is emergency room visits. Treatment in the emergency rooms of hospitals is traditionally very expensive. By offering a selection of advanced care procedures via the urgent care setting, UHC is able to service a wider variety of patients to bring in more revenue plus avoid paying the higher cost of an emergency room visit. They can also provide care for other health plan members, not just UHC plan members.

Possible plans for the future in the provider sector...

Based on these details, in a short amount of time, UHC has taken limited but assertive steps in reducing the amount of claims paid to outside provider entities and widened its revenue streams to include dollars from members outside of their own plans. There is plenty of room for more acquisitions for UHC or other entities to make inroads as a care provider via urgent care centers. Nextcare, FastMed, AFC Doctors Express, CareSpot, Patient First and Doctors Care are urgent care provider chains with more than 50 units each.

Another large, less likely target is Concentra. Formerly owned by Humana, they sold it back to the investment company it was bought from; Carson, Anderson & Store and their partner, Select Medical Holdings (a rehab hospital operator), for just over $1 billion dollars in early 2015. Surgery center chains, such as AmSurg, Constitution Surgery Alliance, Merritt Healthcare and United Surgical Partners may also be options for UHC and other plans to integrate provider care within their organizations.

Pluses and minuses…

For patients, employers and clinicians, the integration/verticalization of health plan and provider has pluses and minuses. It offers efficiencies and convenience in the continuum of care which may lead to lower cost and better care if properly orchestrated. These organizations can also leverage themselves in certain markets against other health systems and other plans to compete on terms of care, cost and convenience. Conversely, they can also leverage themselves based on coverage/cost/care against consumers and employers as they can dictate the cost and access to care based on being a healthcare benefit plan and provider of care.

Uncertainties for clinicians…

For physicians, it’s a mixed bag. They may or may not have the freedom to practice as they wish if they are employees of a vertically integrated plan/provider organization. In some cases it may be easier to practice as they may not have to be so deeply concerned certain charges they assign to patient care will be carved out, challenged by the plan, and potentially reduce their reimbursement. Some physicians may not be comfortable with such an organizational structure that aligns with the “corporatization” of healthcare that can be perceived as detracting from true individual patient care.

Via acquisition of a non-profit business model plan, UHC grows further...

As it was integrating the provider acquisitions over the course of the year, it further expanded its plan business but via a regional, non-profit acquisition. In mid-2016, UHC acquired Rocky Mountain Health Plans (not to be confused with Intermountain Healthcare). While this acquisition was clearly not UHC's largest deal, it was unique in several ways. RMHP's business is very concentrated in western Colorado and comprised of about 300,000 lives and also features Medicaid. Another different aspect are the necessary buying arrangements involved. Since RMHP is non-profit, it will have to convert its business model from non-profit to for-profit and then sell its shares to UHC for the deal to be completed.

For 2017, another UHC business model emerges: a national ACO…

For 2017, UHC is launching a nationally branded accountable care organization (ACO) as part of a value-based care push designed to attract self-funded employers. Called “NexusACO”, it has a national network of UnitedHealth’s “Tier 1” doctors already meeting the insurer’s quality and efficiency measures in place to care for patients. The plan and its goals are designed to guide enrollees to providers with better outcomes and lower costs. While UHC already has contracts with more than 800 ACOs across the country, it is still seeking more assertive ways to improve care/cost balances and grow their business beyond traditional health plan offerings and business models.

Healthcare has come a long way…

Take another look at Pennsylvania Hospital. Think about where we started healthcare in the United States and how much change has taken place although clinical and financial complexities continue to spiral upward. Plans and providers have had numerous changes and challenges to consider since 1751. Let’s look forward to future changes in healthcare as inevitable and unstoppable but let's also appreciate the incredible advancements in care and service along the way.

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