(PLEASE NOTE: Transcribed automatically by Vimeo; mistakes are possible/likely. Our apologies.)

TRANSCRIPT - GR 09 06 24 ***"United Healthcare: Anatomy of a Behemoth"*** Jeff Goldsmith, PhD from Health Futures, Inc.

Internal Medicine Grand Rounds

- All right. Everyone. Well, welcome to our kickoff medicine grand rounds for the 2,024, 2,025 academic year. I'm Dr. Brian Outlaud, Residency Program director and Vice chair of education. We are pleased to have Dr. Jeff Goldsmith kicking off Dr. Rosner, will give that introduction momentarily, but for our faculty and attendance just to Orient you to some new processes for claiming cme credit for this year.
- So I'm going to walk you through a little bit of that. So each week, on grand round. Some of the accreditation information will show up before our presenter and speaker slides. So this should be an improved process for claiming Cme. Credit faculty this year. So you have multiple different ways to to claim credit. So feel free to snap a photo of these next several slides. So you can text your attendance to the Cme platform. If you text your email address to the 8 5 5 number here, that'll link your email address and your Cme account and your phone number. So you'll be able to then text the Cme activity which changes each week to the logging platform. All right. So next method, so here's today's cme activity code. So again, snap snap that you can use the Uva dot. Cloud, cme.com website to log your Cme activity. If you don't want to do the text message version alright, and then door number 3, you can download the cloud. Cme app from the app store. Enter Organization Code Uva, and then you'll be able to link your Cme account there and again enter the that that activity session from each week's grand rounds. So 3 different ways. Hopefully, we'll make it easier for everybody to log attendance and cme credit as always you can reach out to Tony Brinkman, who coordinates grand rounds with me. And then Justin Deleo is the Uva Cme program manager all right over to Mitch.
- Alright, thanks, Brian. Did everybody get that? I think I'm just gonna call Tony all right. Well, welcome to the 1st grand rounds back after the summer hiatus. We're really thrilled to have Jeff Goldsmith here. Jeff is a good friend and resident of Charlottesville, and just as a little bit of background he received his Phd. From the University of Chicago in Sociology, and then spent his early career at the University of Chicago in leadership positions there, then, moving on to more of the consulting and healthcare business world where he really became a leader in that area.
- He writes extensively on issues in healthcare, mostly on the business side. But I think what's unique about Jeff is that he really understands the perspective of us as providers and the human aspect of medicine, and how it's so important, and really should drive the business aspects as a primary goal.
- That is really, I think, a unique perspective that I have really come to appreciate in his approach. He's a well known contributor to health affairs and also to the Harvard Business Review, and I think he's going to touch on some really provocative issues. I think around where we're going in healthcare, using united

healthcare as an example of some of the things that I think as providers and as consumers. We need to really be aware of.

- So, Jeff, thanks for joining us. It's really a great privilege to welcome you, and I'll turn it over to you.
- Thanks, thanks a lot, Mitch, for the kind words and for this invitation to to talk to you. I'm grateful for a talk, any talk that I can drive to as opposed to fly since I'm a you know I'm out of here a lot. I'm also grateful to this Medical Center for inviting me here back during the Jurassic period, when I was still at the University of Chicago, in 1,982, to come and give a medical center hour on.
- Do for profit. Organizations belong in medicine, and I was the maybe we ought to give him a chance. Person. Bob Heisel. The was the CEO at Hopkins was the person who said, You know. Get him out of here. So this medical center led directly to putting Charlottesville on my radar as a potential place to live, and I and it took a while to get here. But I'm here 27 years, and I'm really grateful for for this community and for your your work in it.
- So what are we going to talk about? I don't read all my slides. You guys can read, or you wouldn't be here.
- For many years biologists believed that the largest living thing on Earth was the great blue whale until some plant biologists discovered the Pando Aspen Grove in Central Utah which is a 106 acre, 47,000 tree organism a single organism genetically. I thought this was a great metaphor for United Health Group a 400 billion dollar healthcare enterprise, the largest in the world that is basically all around us, and we don't even see it. And part of why I began doing this work.
- This work may end up leading to a book. I've got a book in my head called A User's Guide to the Medical Industrial Complex. A great chunk of it has been about this company and its peers, and what their role has been in medicine.
- So they're no longer under the radar. A kraken many of my colleagues in healthcare think about united healthcare as a kraken kind of, but no longer below the below the radar unite health group is a diversified health insurance and health services enterprise based in Minnetonka, Minnesota. It's 50 years old. It was founded in 1,974. We'll go into some of the details about its founders and what they what they wanted to accomplish.
- It's the 5th largest company in the Standard and Poor's 372 billion dollars in revenues last year.
- It is larger, both in revenues and in cash in the bank, including investments than Exxon Mobil and earned 32.3 billion dollars in profit last year.
- Round numbers generating about 3 billion dollars a month in free cash flow.
- United's market capitalization, which is its worth in the stock market. If you multiply the number of shares times, the share price is greater than all of the other publicly traded healthcare companies, both insurers and care providers that Td. Cowan, one of my friends in in healthcare covers as investors. You can't read any of those things but the little you know the little, the little tiny numbers include companies like Hca. That little, you know. Light green thing in the middle of the chart is Hca. Of, you know, the Blue Cross giant elephants used to be known as anthem.
- It's sort of the single payer here in Virginia.
- But I guess the name was anthem wasn't pretentious enough, so they changed it to elephants, is also in there.

- United. United is equal to the sum of the market caps of the rest of those companies. So it's a big deal. I spent a good portion of 2,023 trying to explain United's business model in a single slide.
- And here's the slide. That large gray egg is their health insurance business, which in
- fiscal 21 was about 223 billion dollars.
- So round numbers 223 billion dollars, generating 12 billion dollars in profit from their insurance activities, which was the original business of United health group.
- But then there are 3 pieces of united that are not health insurance that United does business with but also do business with just about everybody else in the healthcare system, including people that compete with united.
- One of those pieces is called optumrx which is a pharmacy, benefits management firm that organizes processes and pays for drugs both for united and for other people.
- And the point of this chart is to show you the piece of optumrx that comes from inside united. In other words, the business that united does with itself to process pharmacy claims for United's members is inside that ochre colored egg, and the lighter colored part is the contribution and revenues. Roughly, 35 billion dollars. They do about 35 billion dollars worth of pharmacy benefits managing for competitors of its of its health insurance business. So that's part number one.
- This is the least profitable part of the service delivery part of optum part number 2 is optum health which has doubled in size since fiscal 21. It's now about a hundred 10 billion dollars but you can see there the split between. And this is optum. Health is doctors and physician groups.
- It's home health care providers. It's Med Med express type.
- Urgent care centers and surgery centers all over the United States and actually their only significant presence here in Charlottesville are the 2 met expresses that they own both over on Pentops and end up 29 north and that contributes another 4.5 billion dollars in in profits to United. And then, 3, rd the most to me the most interesting and scariest piece of united is something called optum insight optum insight is a business intelligence and services organization that provides consulting services that manages everything from revenue cycle operations to information technology services to purchasing. They also run physician groups both for united and for other people.
- That piece of optum is the most profitable piece, 20% plus operating margin.
- And it also was the home of change healthcare.
- What turned out to be a explosively dangerous subsidiary that processes a huge percentage of all the medical claims in the United States. So when you put all those together you've got an organization that is both in the health insurance business and in the services business with a significant percentage. Roughly, 60% overlap between the 2. That's the closest I can come to explaining how this business works in a sentence.
- This is a this is the fiscal 23 egg.
- 372 billion dollars in revenues last year. So almost 100 billion dollars of growth in, you know, the couple of years and 32 billion dollars in operating profit where did this critter come from?
- Well, believe it or not, it came from Federal health policy during the early 19 seventies in the Nixon Administration. It was decided that we didn't want to have national health insurance the whole Teddy Kennedy thing if we didn't want to nationalize our health system or nationalize the financing of health care technocrats

and idealistic physician leaders like Paul Elwood came up with the idea of creating health maintenance organizations and having those health maintenance organizations compete with one another to enroll people and to contain health care costs.

- And the theory behind this model was the Federal Government would fund, you know, developing these Hmos. In the 1,973 Hmo Act put out billions of dollars both in loans and grants to help local communities. Medical societies. Hospital systems create their own Hmos model on the Kaiser permanente medical care plans with which I'm sure many of you are familiar. It resulted in creating hundreds of organizations all across the United States.
- And that, of course, the theory was there were these were they were going to compete with one another. They were going to work together to try and manage down healthcare costs at its peak in 1993 roughly, 30% of the roughly half the country that have private health insurance were enrolled in Hmos.
- So a 3rd of a half a very large number of people were enrolled in these health plans.
- In the late 1990 S There was a political backlash against Hmos.
- Funded and supported in part by organized medicine, but also the hospital lobbies a lot of folks from, you know, who still wanted us to have a more national form of healthcare instead of a competitive form of healthcare and that backlash damaged this movement.
- You had any willing provider laws passed so that these health plans could not close their panels and toss physicians off.
- If they didn't bargain effectively with them, it significantly reduced their bargaining power and we also saw a pushback from not only indemnity insurers, but also from Blue Cross plans to create managed care organizations that were not closed panel that were open panel, broad network style plans like traditional blue cross but with a managed care overlay. So those 2 factors, the managed care backlash, and a lot of the laws that were passed to prevent Hmos for doing what they they were supposed to do, and also the rise of an alternative less invasive, less threatening model of health insurance badly damaged the Hmo movement, and then in 1,998. During the latter part of the Clinton Administration we had something called the Balanced Budget Act, which dramatically reduced Medicare spending and hammered health plans that were contracting with the Medicare program rendering a lot of them not viable as businesses.
- These things in combination with the Reagan Administration's desire to create a market for Hmos.
- So a way for the Federal Government to get the loans repaid.a way to get the investors in Hmos to get their money out there emerged a market for these health plans that did not exist before, and many of them converted to for profit status. This is where United came in because 50 years ago United began its organization as something called Charter Medical which was a for-profit management services organization that ran Hmos.
- So for profit entity, that medical societies, hospital systems, and other folks that had sponsored an Hmo. They could hire this for profit, entity to run them, but still remain nonprofit, and of course, one of Charter Med's largest customers and one of its 1st customers was the physicians health planB in Minnesota that was sponsored by the Hennepick County Medical Society was a physician, sponsored entity that hired Charter medical to run it.
- The founder of this company, now a billionaire, was a man named Richard Burke.

- And in this wake of the managed care, backlash and the rise of alternative forms of managed care that were not as as frankly well organized.
- United went on to use investor dollars to acquire a significant fraction of the Hmos in the United States. That's a short list.
- There were dozens of them large and small. Not all of those acquisitions had to be disclosed because they weren't big enough to be quote material, close quotes in financial reporting.
- The 2 most significant of those acquisitions were Pacificare health plan a provider sponsored health plan from Southern California. That was one of the leading innovators in Medicare advantage that is managed. Care for older folks and Sierra a health plan in Nevada that happened to have its own physician group when united, bought Sierra they came into possession of a physician group and got into the business of delivering care, not just paying for it and because they did not have a place for Sierra's medical group to go. They put it in a part of the business that eventually grew into optum and has become a 250 billion dollars business with Pacificare something else of very great significance happened. Pacifica was an originator of a delegated risk model of of capitation where, instead of employing its own docs or contracting with a large physician group like the ones that existed inside of Kaiser they would make capitated contracts with physician organizations out in the communities that they served in Southern and Central California and basically delegate risk and responsibility to them for managing the cost of care.
- As a result, Southern California became one of the most extraordinarily sophisticated and complex managed care markets in the world and created a lot of organizations that had a degree of sophistication in both quality, assurance, and care management that was fully equal to that of Kaiser.
- It was direct that whole infrastructure directly competed with Kaiser to enroll people that wanted to be in a managed care environment and to hire physicians that wanted to practice in that type of a collegial environment. I hope I'm not going too fast.
- But those 2 acquisitions, the Sierra acquisition, because it got united directly into the business of providing physician care and the Pacifica business which got them directly into the business of delegated risk capitation fundamentally changed the strategy and operations of United and led to the growth that we have seen since when they acquired Pacificare United Health Group was a 45 billion dollars organization. It has grown almost tenfold in the ensuing 18 years not only, and this this chart, I'm sad to say, is probably not readable but that medium dark blue, long bar represents the Hmo growth and shrinkage and you can see what took its place. Ppos. And then, as you got on into the aughts consumer directed health plans, high, high, deductible health plans.
- Those were the 2 entities that replaced the Hmo. And that led to this market shift that made it possible for United to grow. Now we've talked a little bit about optum is what differentiates united from the rest of the health insurers in the In. The in the Us.
- A couple of organizations, notably cigna and anthem slash elements, are in the process. Very late in the game of trying to create their own version of optum, they are grossly overpaying or assets that do sort of the same things that United does. But, you know, United has been building optum for the better part of 20 years into what is now a 250 billion dollar business that's actually bigger than the British National Health Service. It's roughly the size of Costco and slightly larger than

Microsoft and it has been the principal driver of United Health Group's earnings growth for most of the last decade 60% of optum's revenues are about 150 billion dollars are coming from contracting with United itself to provide services to united subscribers that now number about 50 million.

- So united subscription base. The people that are participating in their Medicare advantage plans, or, you know, their employer based coverage or Medicaid Medicaid managed care activities are roughly, what a 7th of the total population of the Us.
- We talked about the 3 pieces of optum and since 2,019, with the nearly 3 billion dollars a month in free cash flow united has been out there aggressively buying healthcare businesses, nearly all of which have ended up in optum.
- So since 2,019 United has spent roughly 52 billion dollars buying companies in one of the 3 spaces that optum participates in either pharmacy benefits, management care, delivery, medical groups surge centers, etc. or business intelligence and consulting services.
- Opt an insight only 20 billion dollars. Did you hear how that rolling off the tongue. It's like 4 times the size of this medical center formally, ingenics provides business intelligence meaning data to make decisions and services to use that data business process outsourcing, meaning being able to run.
- You know the revenue cycle operations of a place like this. Or you know, it's it services or whatever, and also consulting services.
- And a pretty good consulting operation so it can contract with a place like Uva to run the most complex and involved pieces of this business on an at-risk basis.
- Also, in 18 months, from late 2,019 to 2,021, United made 3 huge acquisitions in medical claims. Management, boom, boom, change, healthcare, equin, and navihealth, which works in in long term long-term care services and in the process of so doing ended up owning in effect, the plumbing that provides about 1 3rd of all the cash flow of the entire health system.
- They're not the businesses that aren't that big but roughly, a billion and a half dollars
- a trillion and a half dollars. Excuse me, I'm missing 3 zeros, a trillion and a half dollars a year flow through the optum insight entities that are involved in claims, processing and management. On 1 3rd of us, health spending flows through unitedhealth group and 5% of our total Gdp of the country.
- The reason why this is important we kind of learned back in February. But we'll get to some of the details in that a little bit later.
- Optum health has grown to an entity bigger than Kaiser this year. It'll be about 110 billion dollars. It employs 10,000 physicians. They pretended for it to be a lot bigger to make it scarier. But it's really only about 10,000 physicians.
- They earn 25 billion dollars in premium income, that is, capitation from providers other than united. In other words, it is at risk for the total cost of care for a huge number of people that are not enrolled in United's own insurance operations. In effect, United's competitors are using optum health as a managed care vehicle to try and and take care of patients.
- They also render about 16 billion in services under a fee for service basis, where they're paid per unit of service together. Competing health plans provide optimal 37% of its revenues and an unknown percentage of its profits. But a significant percentage of its profits. And we're talking about. We're talking about organizations like Blue Shield of California, Blue Cross in Massachusetts, Horizon, Blue Cross in

New Jersey. These are some of the competitors of united that are contracting with optum to to manage the care for their populations of patients.

- Optums, care systems
- United's management claims take care of about 22 million people on a continuing basis. So it's not a small, it's not a small operation.
- This is a map at late 21.
- That shows where optum assets are. It's a little difficult to read it, but the red dots, the sort of magenta colored dots or med expresses.
- You can see? That's all they've got here in Virginia is Med Express.
- The green dots are surges, centers. They're just scattered all over the United States. But basically, in major metropolitan areas. There's a couple 100 of those and then the light orange dots are medical groups and if you add all those up there's a little more than 10,000 docs participating in those. There is no particular logic to where these things are located, and when some consulting friends of mine went and looked at. Is there some relationship between where united subscribers are particularly Medicare advantage subscribers? And these resources? There was almost no overlap.
- It was really weird. And yet, you know. Still, 150 billion dollars of business being generated by it.
- If you're a hospital and you've got all this stuff going on in your market. It's frankly kind of scary because a hospital could find itself in a position where it hadB optum insight running its revenue cycle and it operations, while another piece of optimum insight the claims management software that we talked about a minute ago is regulating its cash flow by denying or repricing medical claims not only for united but for other payers as well, and the health insurance part of United is bargaining with the hospital to try and drive down its rates so they can make more money on their contracts and united steering patients away from the hospitals, physicians, and services to optum providers that they control in the market. All of those things could be going on theoretically at the same time.
- So it's it's sort of like that you know, critter coming out of the depths with the hip, the tentacles that we showed you at the beginning of the talk.
- Now change healthcare.
- That's you know it's actually not a funny thing to say but the closest thing our health system could possibly have had to an acute myocardial infarction happened to it in February of this year when all of a sudden a trillion and a half dollars worth of money stopped falling to physician practices, and the hospitals all over the United States, and there was no logic to it at all. My friends down in in Roanoke at Carillion had no impact at all, because the health plans that they dealt with didn't use change healthcare. You guys had, what was it? 15 1 million dollars a month more? It just went away that you had to dip into your resources to pay your salaries. So you know, it's change. Healthcare is the largest electronic claims management Clearinghouse in the world It was a roll up of dozens of small firms that were created by the administrative simplification provisions of hipaa in 1,996, to try and transition us as a medical care system from paper process claims to electronic process claims. A whole bunch of little companies were created to do this that ended up being rolled up into a single organization called Change Healthcare. It was purchased by Blackstone, a private equity organization. In 2,011. They merged it with a another cluster of companies that worked for Mckesson. Sort of Mckesson's version of optum.

- They put it into change. Healthcare changed the name took it public in 2,019, and a little bit less than 18 months later were bought by United Health Group for 20 for 12 billion dollars change was a roll up. It was sort of like a giant conglomeration of smaller companies, each one doing little slightly different things in the claims, management, space dozens of different databases and remarkably diverse security provisions united, had partially converted this huge
- Kluge of poorly integrated applications to Amazon web services and in the process of so doing, was trying to upgrade its data security to the point where it, you know, could actually run its business safely.
- And then it was hit in February of 23 by this horrendous, by the largest most significant cyber attack we've seen so far in the world anywhere.
- That cyber attack interrupted about 200 billion dollars in reimbursements flowing to doctors and hospitals all over the country over a 3 month period and also exposed 85 million patient records to whoever we still don't know who has got those records to today. 7 months later what happened here?
- I actually had friends that participated in the migration of change. Healthcare systems to Amazon web services and united, was in the process of chiselling on the staffing.
- To enable the code to be written to make this whole data system safer. What apparently happened was that a hacker from Russia
- got access to credentials of a fairly high level person in change healthcare they were able to infiltrate into dozens of different databases inside changes, operations exfiltrate all of the data from those silos, and then delete the backups.
- So their provider directories, all of the medical records, all of the claims. Histories just went poof! And they were asking united for well, it turned out to be a surprisingly small amount of money. Given the amount of damage that was done. 21 million dollars when united, paid them, one of the hackers stole it before it could get to the person that was sitting on all that data. We still don't know what's happened to it now. So it's pretty obvious that this growth.
- 52 billion dollars worth of acquisitions in a relatively short period of time created tremendous enterprise risk for this organization. And so I'm kind of asking the question. I'm almost done with my talk here, and I'm going to have time to time to for questions. What could stop united from doubling yet again and potentially turning into a trillion dollar business. I think the odds are that by 2,026 this company will be 10% of our healthcare system.
- Roughly, 470 billion to 500 billion dollars inside a single company. I think that its earnings or growth is leveling off which is eventually going to hit its stock price.
- I think it's also running out of the creative transactions that is, transactions that don't dilute their earnings.
- They can't buy another significant health plan of Humana and Cigna have both been for sale for 3 years. They can't buy them. They can't really buy any more health plans and they bought pretty much all the physician groups that are for sale out there other than the ones owned by hospitals and they seem to have stopped at the water's edge and not wanted to buy hospital based. They looked at Stewart healthcare. You guys have been following the scandal in Massachusetts. They looked at buying Stewart's Medical group, large medical group and decided not to do it.

- There's a lot left in home care. There's a lot left in service centers. But I can tell you I don't think there's 3 billion dollars a month worth of places to put their money. So I think that's going to create a problem.
- And a lot of investors are going to say, well, you've got all this cash piling up. Why don't you give it back to us by increasing our dividends or create some real enterprise value by maybe putting optum out separate and giving a huge chunk of that back to to shareholders.
- So the extent that United's earnings falter its investors are going to begin putting pressure on this company to change its strategy.
- Congress is also focusing increasing attention on 2 places that generate about half of United's 3 billion a month.
- One of them is the pharmacy benefits management business, which frankly stinks to high heaven.
- We can talk about that in the discussion period and the other is the Medicare advantage program, where, until last year, United was generating a 5% operating margin, taking care of us seniors.
- But in quotes there is also the potential for a second managed care backlash. Only this time it's a backlash against algorithm driven care denials rather than care denials by the medical director of a health plan.
- There is an increasing feeling on the part of individuals that they don't really have health insurance anymore, that there's a robot out there scanning their health information and deciding what care they can or cannot get that is politically dangerous for this company, because it potentially could interfere with their most profitable market segment. Believe it or not. Medicare advantage is is basically a cartel business.
- 4 large insurers control 64%, almost two-thirds of the managed care of the Medicaid Medicaid.
- The Medicare managed care market and several of those. You know, in United's case, Medicare advantage.
- It's 60% of their health insurance revenues. So it's a huge chunk 60% of their revenue is generating a 5% margin.
- Congress has begun restricting the business practices of organizations like United and Humana and cigna and elephants, and trying to get some greater degree of accountability for taking care of us that's going to hurt.
- If you ask United's management, why are you? What are you trying to do?
- How are you creating value for the society? These are the 3 things I know, they tell you, because I've heard them talk.
- One is, they believe they can hold. They have enough market leverage with nearly 10% of the health system to be able to hold down the rate of increase in health spending in a community across entire markets and not just markets where they have significant health plan presence.
- They can also use AI to identify members, health risks and help them be healthier.
- They are attempting to do this.
- How effectively remains to be seen! I'd like to see the numbers and finally, they can also steer patients to what their systems believe are the safest and most efficient providers in the markets. Those are not negligible potential benefits but simply to assert that you were achieving them because we're 400 billion dollars. I really want to see the data. And so far we haven't seen it from a policy concern standpoint. So if I were the Chairman of the Senate Finance Committee or the Health Advisor and

incoming President these are the questions I'd be asking about United. Is it a responsible steward of one-thirdrd of our health system's cash flow and I think the cyber attack in February conclusively answered that question. They are not.

- I actually wrote a piece for health affairs, basically saying, we need to completely restructure how claims are managed so that there are no targets like change healthcare left in the environment. I think that's work to be done.
- Another question I'd be asking is, is its integration of insurance and care delivery having anticompetitive effects in some of the markets, where they have a significant presence either in insured lives or care. Provision is united, generating a defensible rate of return in its public managed care segments, Medicare and Medicaid.
- I would argue 5% margin in an environment where we have a 7% budget deficit for the country. Gdp as a whole that's not a sustainable state of affairs. What's an appropriate rate of return? And how do you get there? And how do you hold these organizations accountable for improving the health of those tens of millions of of poor and and vulnerable older folks. And then, finally, is it using its personal health information in a way that respects personal privacy. Great question, don't know the answer.
- So I think the big problem is, no one loves Godzilla no one. We like watching and lay waste to, you know, movie sets. But we really don't like Godzilla in our bedroom. We don't like Godzilla in our markets. We don't like Godzilla in our institutions. The biggest vulnerability for united of all is that it has a net promoter score. That is the relationship between people that want to use the company's services in the future, and those that recommend not using it of minus 5.
- You want a plus 40 or a plus 50 net promoter score, not a minus 5 score. I think there's tremendous vulnerability here, ultimately, in the people that are receiving care from or health insurance coverage. From this organization
- I think the people that are managing this vast enterprise have their work cut out for them that's all I got for you. Your comments, questions, brick bats, contrasting views. Just don't throw anything.
- Yeah, thanks so much. That was a really great presentation. Appreciate it. I'm just curious, like the banks before it.
- Is it too big to fail if you tried to try to take it apart.
- Would that completely disrupt where we are now?
- Well, I don't think it's too big to fail. And I also think the political environment is so hostile to vast enterprises that that there's probably political gain from cutting it up.
- But the issue is, do patients benefit? Do clinicians benefit from doing it? That's the tricky question.
- I don't believe this. I think this organization has grown to the point. It's outgrown its nervous system.
- In other words, I think it's large enough that the people in Minneapolis don't really have a really good feel for what it like. It's like to be a doc in one of those physician groups that they've acquired or what it's like to be a patient. And I think the issue of the appropriate scale somewhere between 5 billion 400 billion is probably the answer real quick.
- I think it'd be useful for people to hear a little bit about the Pbm pharmacy benefit. And that world, because it's okay with a lot of people. And once you learn about it yeah, I mean, I've tried a half a dozen times to create a simple here's how Pbm's work slide like the business model slide I showed you about United and have been unable to do it.

- Basically, what Pbms do is they negotiate to try and
- get the cost of what of the drugs that they provide down, but they do it in a way that they are rewarded for the size of the spread between the negotiated price and what they actually pay.
- So there are perverse incentives in there that actually end up creating more cost for the people that are actually receiving the drugs, and also a huge amount of bureaucratic interference with both the prescribing and dispensing part of the business. The Pbms have basically destroyed the retail pharmacy business, and they have damaged the pharmaceutical business and organizations like this by sucking a lot of the margins out it. A significant fraction of United's earnings are from rebates paid by the drug companies to make sure that their drugs are included in their formularies. And it is a business model. We can thank the George W. Bush administration for this because they did not want when they created a Medicare prescription drug benefit to have a federal drug formulary, the obvious solution to the problem.
- So they basically gave a huge chunk of business to these Pbms to manage the pharmacy benefit for us seniors instead.
- And it's the 3 largest Pbms are now owned by 3 of those 4 cartel members that I showed you a minute ago. So they've been absorbed into the health insurance business, and they're providing a huge flow of cash that frankly shouldn't be there.
- The Pbms make me really angry, and the more I know about them the angrier it makes me.
- Thanks. We have a question in the chat. So the administrative costs of healthcare have increased by 40% since the pandemic alone. What is the responsibility of a company like united healthcare to reduce the ever increasing cost of healthcare administration.
- It's huge. A great big chunk of what those claims management process of claims management businesses do is enable, united to manage its own cash flow and when, when we had our our pan, our pandemic with the, you know in the spring of, you know, when the pandemic broke in the spring of 2,020 medical utilization and medical costs went down like this.
- Do you know what United did? They turned off the denials?
- Just click. They just flipped a switch, and all of a sudden they were green, lighting every single thing that came through their system, and it, and it enabled them to avoid having a more than one quarter's worth of windfall profits from the fact that you were all busy saving our lives.
- So you know, I think it's. I think, that the fact that you guys are spending half your time or more typing. To justify your clinical decisions when you could be seeing us is completely indefensible public policy.
- And I've written aggressively about this. I've tried to, you know, like raise this issue of administrative simplification to a 1st tier policy issue for incoming administrations. It just isn't as hot as as some of the other things that people might want to do.
- We are squandering the most scarce resource in our medical care system, which is your time by exposing you to all of this administrative hassle
- we need to. We need to systematically cut back a lot of the kudzu that has overgrown medical care decision making and in the course of so doing maybe take a little bit of profits out of United's claims. Management business.
- Thanks, Dr. Colville Smith. I appreciated your talk, and I I found it fascinating, and I I enlightening you, could say depressing as well, and I not not that it's anything that I

haven't felt before, but it does feel like there's kind of a an identity or a face behind. Sometimes the lack of autonomy. We feel as physicians as speaking, for, like us as we're moving as trainees out to the workforce. What is it? What do you think it looks like to regain some of that autonomy, or to feel like we're not just being controlled by frankly, one organization.

- I think it's a political challenge as much as anything else. I don't think that organized medicine has done a very effective job of telling its story. To be perfectly honest, and I think to the extent that it has done it. It has come across as self serving. I think you need to put in human terms how you would rather be spending your time typing or listening to us and helping us deal with disease risk. I think the more effectively you can personalize the impact of all this nonsense on us, your patients, the more effectively you're going to be able to raise the political constituency necessary to begin pruning it back. I think it's as much a political challenge as anything else. You think that the Government should create an organization to regulate this kind of organizations? You know that's a great question for those of you in the back of the room that couldn't hear it. Do you think the government ought to create an organization to regulate critters like this? We know it's interesting in the most sophisticated or second, most sophisticated managed care market. In the country there is a branch of California State government called the Department of Managed Care. That does exactly that regulates the business practices of these organizations to make sure that they're kosher that evaluate their earnings. And you know their rate structure and all the rest of it. So it's it. There are precedents out there for creating regulatory entities that can that can do this.
- But again, remember, citizens united in the citizens United World that company, that 400 billion dollar company is a person and the money that they spend in checks to people's campaigns is considered to be protected speech under the 1st amendment. So I think until we go back and begin. I don't know how you legislate your way out of the citizens. United decision that was made a few years ago. That basically left, you know, an interest group democracy at the mercy of large, wealthy enterprises like this, until we figured out a way to undo citizens united. It is not a fair fight.
- They spend a fortune on lobbying. Jeff. Great talk as always. So we're fortunate at Uva to have you in our community and be so generous with your time to have a national thought leader on healthcare policy and healthcare strategy. So thank you. One quick comment, and then just a question. And for those who don't know know me, I'm Jason Lenny part of the leadership team. I lead strategy for the health system. So I had known Jeff a long time and really respected his. His voice and opinion and expertise nationally for a number of years just since you mentioned change health during your talk, just wanted the team to know it really was a moment of success for Uva health. That vendor had served Uva for a long time as our claims processor, and when that cyber attack occurred we very quickly had to decide as a leadership team. Do we stick with that vendor where they couldn't tell us how long the outage would occur, or do we just make the decision to quickly find a different vendor cut bait with change. Health and then, you know, find another clearing house to work with. We ultimately made that decision very, very quickly. We were very fortunate because another vendor in the space was led by a Uva grad called Availity health. And so Dr. Kent got on the phone and got connected to this CEO, this other organization, and they put us at the head of the line because every hospital in the country was calling them to switch their business to this other

vendor. So we got put ahead in the and then our revenue cycle team, just to give them a shout out. It usually takes 3 to 4 months to switch over the the all of these intricate kind of claims. Processes.

- They they work tirelessly 14 days they got done. So what usually takes 3 months, our team just work night and day. So just to shout out to the revenue cycle team. So that was my comment. Since you mentioned it then the question so obviously, we're not just a community hospital. We're a large academic health system with with more than a patient care mission, but a teaching mission, a research mission, a commitment to community. Just curious your thoughts. We know that united health has actively trying to grow in the State of Virginia. Do you think that they embrace our our tripartite mission? And what are the implications for us. I know a big question, but maybe just a couple of your thoughts you know, when you look at what they own. It's basically everything but hospitals and in that managed care world, and in sort of the managed care DNA. Inside the organization there's a belief that controlling what you do is a central part of their business.
- Well, they don't view you as a partner. They view you as an adversary. There may be discussions, you know. There may be rhetoric around it, but the reality is they really believe that you are responsible for excessive health care costs, and their job is to try and hold you down to make sure that you make responsible decisions, and that they pay you as little as possible for the care that is provided to their members. So I don't see a lot of opportunities. You know you've got a sales force out there now, trying to sell you services and I'm sure they've been around to talk to you about. You know. Maybe we can run your revenue cycle better than you can but you know, as far as their core business, their core business is about keeping people away from your clinics and out of your institution and it's not clear that they have the leverage to actually do that. The right way was to address the underlying. You know, drivers of of morbidity in the community.
- I don't think they're going to be able to do that. That's 1 man's opinion.
- Well, the optimism is, I'm no longer an investor in this company. I don't think they're gonna get to where they want to go. I think that they have assumed way too much risk. I don't think there are economies of scale in this business.
- I think there's going to be an enormous Schadenfreude opportunity up here fairly shortly. I don't know if that's optimism, or revenge, or something. But I wouldn't be an owner of their stock.
- Thank you.