

Capitalism in U.S. Healthcare: The Case of Walmart

The 2010 *Patient Protection and Affordable Care Act* (ACA), a/k/a Obamacare,¹ passed in response to untenable rising costs in the healthcare industry, commenced the latest iteration of U.S. healthcare reform. Although the ACA substantially decreased the number of uninsured Americans,² and instituted myriad value-based reimbursement programs (e.g., accountable care organizations),³ it has not been the panacea for the continuously rising cost of U.S. healthcare (projected to comprise almost 20% of the *gross domestic product* [GDP] by 2026) that was expected.⁴ As a result, the private sector, e.g., retail giants such as Amazon and Walmart, has taken up the mantle to solve what has been described as “*the single-most pressing American economic issue*” of the 21st century.⁵ In addition, with the recent repeal of the ACA’s *Individual Mandate* penalty⁶ and general efforts toward “*de-regulation*” of U.S. healthcare under the Trump Administration,⁷ new opportunities for alternative, non-traditional players in the healthcare market have expanded exponentially. Indeed, healthcare innovation has become a field now described by industry stakeholders as “*an emerging market in plain sight*.”⁸

Most recently, integration and consolidation among healthcare providers; payors; pharmacy benefit management companies; and, private retail have proliferated.⁹ On March 29, 2018, the latest in this merger/acquisition series—the commencement of preliminary talks regarding the potential acquisition of Humana by Walmart—was announced.¹⁰ Unlike Amazon’s January 30, 2018 announcement of a new joint venture, which is its first foray into the field of healthcare (see further discussion on this joint venture in the March 2018 issue of *Health Capital Topics*),¹¹ Walmart has been a long-time player in the healthcare market, with footholds most notably in pharmacies and retail clinics.¹² In 2014, Walmart implemented the “*Healthcare Begins Here*” initiative, which provided consumers with free health screenings; access to immunizations; and, assistance with the (then new) ACA health insurance exchanges.¹³ At that time, it announced its intentions “*to be the number one healthcare provider in the industry*.”¹⁴

Currently, Walmart operates pharmacies in most of its more than 5,300 U.S. stores, as well as several retail clinics in select states.¹⁵ Additionally, the retail giant has pioneered and supported innovative and successful programs that have resulted in cost savings for their

bottom line, as well as consumers’ pocketbooks, such as Walmart’s \$4 Prescription Program (which has purportedly saved consumers more than \$3 billion over the last decade),¹⁶ and participation in the *Employers Centers of Excellence Network* (ECEN).¹⁷ The ECEN, wherein employers directly contract with select hospital systems that provide bundled services to their employees at a 10 to 15 percent discount compared to standard *fee-for-service* (FFS) arrangements, has been shown to decrease out-of-pocket and overall healthcare costs; result in better quality outcomes; decrease the performance of unnecessary procedures; and, increase employee satisfaction.¹⁸

In its most recent expedition into healthcare, Walmart’s potential acquisition of Humana would not only be the largest acquisition in Walmart’s history thus far (estimated at approximately \$37 billion), it would instantly make Walmart one of the largest insurers in the U.S.¹⁹ Further, given Humana’s significant market share of Medicare Advantage programs,²⁰ and acquisition of a minority stake in Kindred Healthcare (one of the largest home healthcare providers in the U.S.),²¹ this deal is poised to particularly impact the aging *Baby Boomer* population.²² This type of vertical integration is primarily pursued to help control costs, but can also serve to diversify revenue streams and improve care coordination, as has been demonstrated by United Healthcare’s success with pharmaceutical benefit manager Optum, which it acquired in 2015.²³ While this move may be potentially transformative for Walmart consumers, it will ultimately depend on the determination of the legality of other vertical integration plans (e.g., CVS and Aetna, Cigna and Express Scripts) by the *Department of Justice* (DOJ), *Federal Trade Commission* (FTC), and other lawmakers, with respect to the potential anti-competitive effects of such relationships.²⁴

The Walmart-Humana deal, although just the latest in a string of recent consolidation talks, has drawn a significant amount of attention, in large part due to Walmart’s consumer footprint as the largest retailer in the world (with 2.3 million employees serving almost 270 million consumers each week worldwide);²⁵ with “*employees and customers [that] come from all demographic groups...Walmart has access to...Americans from all social classes, and not just the [one] 1 percent*.”²⁶ However, unlike the traditional healthcare delivery system, Walmart’s investment in

healthcare has not been based upon the ethics of the Hippocratic Oath (a required oath to uphold professional medical ethical standards),²⁷ but rather on the concept of “marketing 10. Go to where the people are.”²⁸ In continuing to broaden its reach into current healthcare delivery infrastructure, Walmart aspires to “build an ‘ecosystem’ [of]...referrals”²⁹ that can become a “one-

stop shop”³⁰ for consumers’ healthcare needs. As lawmakers consider the possible anti-competitive effects of recent proposals for vertical acquisition, Walmart’s newest venture into healthcare has the potential to provide an innovative view as to what the U.S. healthcare system could look like if it embraced the principles of capitalism.

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