CVS to purchase Aetna for $69 billion, in move expected to disrupt health care industry

By Gabriel Black
7 December 2017

CVS Health Corporation announced Sunday that it had agreed to buy Aetna, the nation's third largest health insurer, for $69 billion. The merger will create an unprecedented level of vertical integration in the health-care industry, and is expected to reshape how the industry as a whole operates.

CVS Health Corporation is the 7th largest US Corporation measured by annual revenue, taking in over $177 billion in net revenue in 2016. Its assets include almost 10,000 CVS Pharmacies nationally as well as CVS Caremark, which is one of the largest pharmacy benefit management systems in the country. It also operates medical clinics at pharmacy locations throughout the country that go by the name MinuteClinic. All told, CVS has 158,000 employees.

Aetna, the third largest health insurance company in the United States, has 23.1 million medical insurance members and works with 1.2 million health-care professionals.

The merger, the largest ever in the health insurance industry, follows several record years of consolidation in healthcare more broadly.

Among healthcare providers, 2017 is on track to outpace 2016 in the number and value of mergers and acquisitions. Last year 102 occurred, and by the end of the third quarter this year another 87 had taken place. Last year, four of those were mergers that involved companies taking in revenue exceeding $1 billion. Ten $1 billion-plus mergers have occurred so far in 2017.

In April of this year the Center for Health Policy at the Brookings Institution and Carnegie Mellon University's Heinz College published a white paper, "Making Health Care Markets Work," that argued that the growing consolidation of the health-care industry was both driving up healthcare costs and reducing the quality of care. This can be seen clearly in relation to hospitals.

Glenn Melnick, a researcher at the University of Southern California, found that the average price for hospital admissions in California increased 70 percent from 2004 to 2013. However, among the largest hospital chains it increased much more, by 113 percent.

In addition to the rising cost of hospitalization, drug prices are another factor driving up healthcare costs. Branded drugs rose 13 percent just last year, and it is just one of the many economic and political pressures that are pushing healthcare companies to scale-up into larger and larger conglomerates.

Modern Healthcare, a leading healthcare industry business paper, writes, "Scale can insulate providers from looming policy changes, prepare them for expected reimbursement cuts, accommodate rising labor, technology and pharmaceutical costs, allow them to take on more risk and help tackle new payment models in an evolving value-based industry."

The Aetna-CVS merger has been called a pre-emptive response to Amazon's anticipated entrance into the prescription drug market. Following Amazon's acquisition of Whole Foods in the summer, several major pharmaceutical middlemen, such as Walgreens and CVS, saw their stocks fall, a sharp warning from Wall Street. Bernstein analyst Lance Wilkes wrote in a note to investors that Amazon's "major advantages come from eliminating 70,000 retail locations (and related staffing and other expenses), which could be replaced by automated distribution centers with efficient pharmacist oversight."

Amazon, headed by Jeff Bezos, the richest man in the world, has upended all manner of traditional businesses that rely on storefronts. Amazon has emerged as one of the most important companies in the world by combining advanced logistics technology with the intense exploitation of hundreds of thousands of warehouse workers and deliverymen.

The merger of Aetna and CVS would give the companies a chance to bypass expensive hospital visits and instead encourage pharmacy and clinic visits, as well as in-home visits. This could put a huge downward pressure on prices throughout the whole healthcare industry, cutting into the revenues of hospitals across the country. While some aspects of this move might appear to benefit consumers, the overall quality of care will likely suffer. Given the increasingly unaffordable character of high quality healthcare for most Americans, cheap local clinics that specialize in prevention and routine care is all that is in reach for tens of millions.

In this vein, the CVS-Aetna merger is also a reaction to the growing use of digital doctors and nurses performing check-ups, as opposed to doctor-to-patient treatment. A study by Harvard Medical School and the RAND Corporation published last May showed that video consultation increased an average of 45 percent every year between 2004 and 2014 among rural Americans on Medicare. While this technology is in and of itself a progressive addition to healthcare, under a for-profit, corporate-controlled health system, it becomes a means of replacing quality healthcare with cheaper, makeshift alternatives.

Given the relentless drive by the government and corporations to cut health care costs through the continual erosion of Medicare and the elimination of employer-paid healthcare for workers, both the younger millennial generation and the so-called baby boomers who are now reaching retirement age will increasingly be forced to rely on cheap substitutes for their healthcare, as they will be unable to afford what they actually need.

Wall Street’s perspective on the merger is best summed up by the half billion dollars that outgoing Aetna CEO Mark Bertolini is expected to pocket as a reward for reaching this deal. This giant sum, however, would still be just a fraction of the profits that those who own these companies can expect. Aetna, like many major corporations, is primarily owned by major hedge funds and private equity firms like BlackRock, the Vanguard Group, and State Street Corporation, whose overriding concern is the stock valuation of the companies they hold.

Though the companies agreed to the merger Sunday, it has yet to be approved by the Trump Administration, which recently sued to block the merger of Time and AT&T. However, the CEOs of both firms don’t expect the Justice Department to block the merger. The deal will likely be finalized over the course of the next six months, and is expected to be fully in place and approved by regulators and shareholders by mid-2018.