

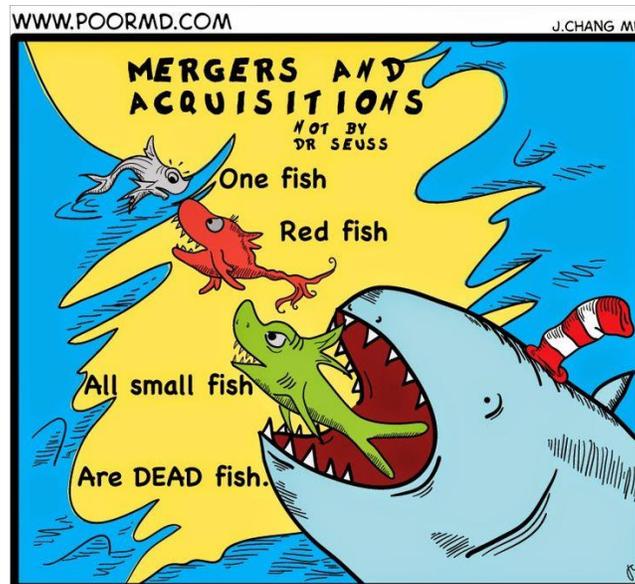
Is this not the craziest political season in your memory? Even if you wanted to escape it, you couldn't. It is all around us, from television and radio, to casual conversations with friends. Private Practice Doctors does not endorse candidates. What we do, though, is support the private practice of medicine. This is not for political reasons, but because we believe this is the best way to care for our patients, period. With this in mind, I thought I might put a little primer together to help you evaluate all the candidates' positions on health care. These items are open for discussion, but I think you will agree, that no matter what party you affiliate with or which candidate you support, these are important principles for the future of private practice and healthcare in general.



Of the utmost importance is to realize that the change in the landscape of the healthcare industry has been utterly remarkable. The vastness of these changes have not been well represented in newspaper headlines, the lead items of TV reports, or even really discussed by the candidates. You would not know that we have seen more changes in the healthcare industry in the last few years than we have seen in decades. All the change has been in one direction, namely consolidation. Let me draw you a picture.

Big Pharma

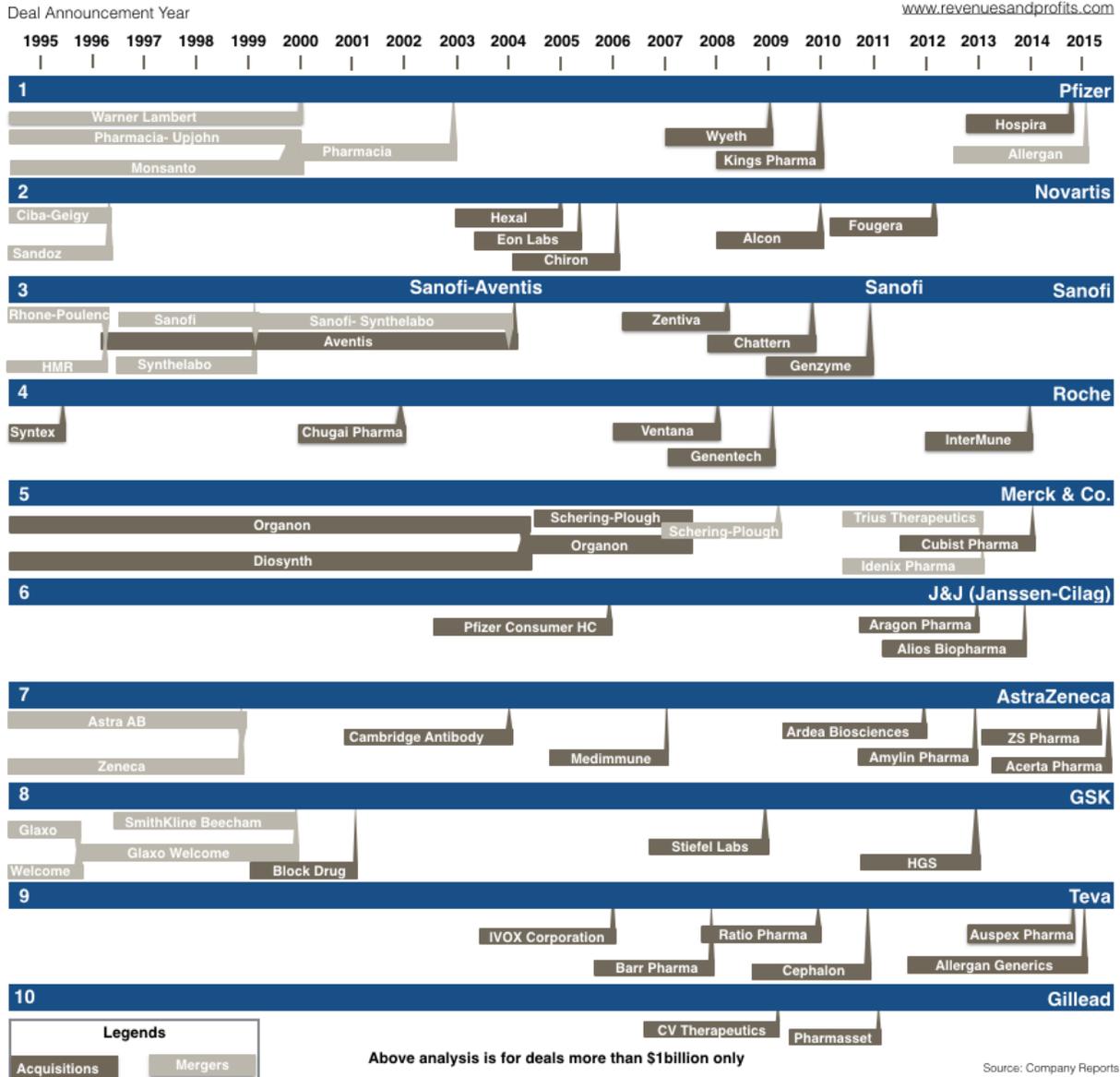
If you don't keep up on drug company news, you may not realize the amazing consolidation taking place in the pharmaceutical industry. Take, for example, the Pfizer and Allergan merger. It happens to be the biggest drug company merger ever! (This involves drugs such as Lyrica, Enbrel, Viagra and Allergan's Botox and Restasis). The deal will move New York based Pfizer to Ireland, allowing the



company to slash its federal tax burden. If you hear candidates talking about tax inversion, this is a classic example whereby larger American companies buy smaller foreign companies and move their headquarters abroad to avoid significant taxes. This is not uncommon and has been happening a lot. Another example of tax inversion outside the healthcare industry is the case of Burger King which bought the Canadian doughnut chain Tim Hortons and moved its address to Canada.

Take a look below to get a sense of what has transpired over the last two decades in the pharmaceutical industry. If you read carefully, you will find the answer to the riddle, "How do you make 60 companies into 10 without really trying?"

Pharma Industry M&A 1995-2015



The ramification of fewer and fewer pharmaceutical companies, is less and less competition. As believers in free enterprise and competition, we believe this merger mania is not in the best interest of patients. If it should continue at the current pace, we will surely see further consolidation and further lack of fair competition. Furthermore, encouraging companies to flee the United States because of tax laws is a recipe for disaster. Tax dollars and skilled jobs are moved off-shore, never to be seen again. Therefore, we encourage you to look for candidates that:

- Encourage start-ups and growth of new pharmaceutical companies.
- Make the business environment fair for smaller companies as well as large companies.
- Adjust the tax code to encourage business entities to remain in the United States.
- Give tax credit to companies who provide jobs in the US rather than abroad.
- Discourage tax inversions through simplification and correction of the US tax code.
- Encourage foreign companies to invest in American products via fair trade laws.
- Most important: *Allow American citizens to purchase drugs at the same price as other citizens of the world. We realize that research and development takes billions of dollars. But the recipients of those research dollars benefit everyone, not just Americans. Americans should not pay one price while the rest of the world gets a far lower price.*

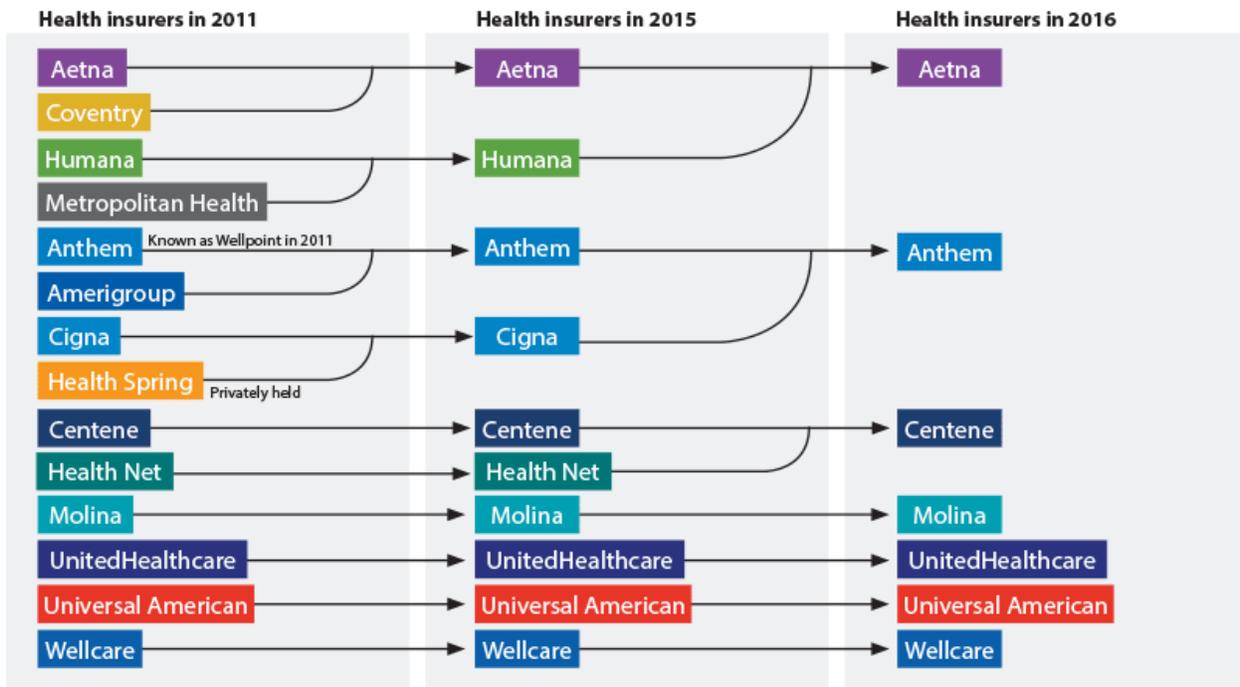
Big Insurance

If you believe Big Pharma has undergone consolidation, you “ain’t seen nothing yet”. The five biggest insurers last year have gone on acquisition steroids so that one really only needs talk about the big three.



Sure there are a few other small players, but the market greatly tilts toward the triumvirate at the top. Anthem is buying Cigna for \$50 billion and Aetna is buying Humana. Don’t feel bad for United Healthcare since they are delving into the

pharmaceutical business. Take a look at the graphs below to see some insurance mergers.



In actuality, we really have only three Big players:

- United Health with revenues of \$154 billion and membership of 45.8 million
- Anthem with revenues of \$117 billion and membership of 53.2 million
- Aetna with revenues of \$115 billion and membership of 33.5 million

As the market continues to shrink, old solutions will not solve the crisis. Merely selling insurance across states lines will no longer solve this problem if the same three players are selling health insurance in the next state over under a different name. We believe the following suggestions would be ideal for a candidate interested in the survival of the private practice of medicine.

- Limit any further consolidation of the health insurance industry as the current consolidation is anti-competitive and against anti-trust laws.
- Encourage the development of smaller regional insurance players to compete with the big three.
- Make marked change to the healthcare law, and roll-back Obamacare which has caused all these consolidations.

Our suggestions for a new health care law would contain elements of the following and we look at candidates that would support this foundation.

- Allow employer based insurance to continue in a way that it is not taxed as a benefit to the employer. This would be a basic plan healthcare plan.
- Allow those without employer based insurance to personally purchase the same basic insurance as those with employer based insurance with a tax credit.
- Grant basic health insurance to those unable to afford basic health insurance using a graded payment scale according to ability to pay.
- Anyone wishing to purchase additional levels of care beyond the basic plan would be free to purchase this from a myriad of companies.
- If someone declines to buy insurance, they would simply be giving back any funds that were allotted to them for the benefit of all the others. There is no punishment, only benefit.
- Finally, we strongly encourage health savings accounts where the consumer is in charge of their own healthcare dollars. We strongly believe the individual, not the government, knows best about his/her healthcare needs.

Big Drug Retailers

The insurance companies and the drug companies are not alone in their consolidation and merger madness. As previously mentioned, United

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**“This is one of those new miracle drugs.
If you can afford it, it’s a miracle.”**

Health, the largest insurance company has a pharmacy benefit manager known as Optum Rx. United Health just bought a fast growing competitor to Optum Rx and expect to process more than one billion prescriptions through it.

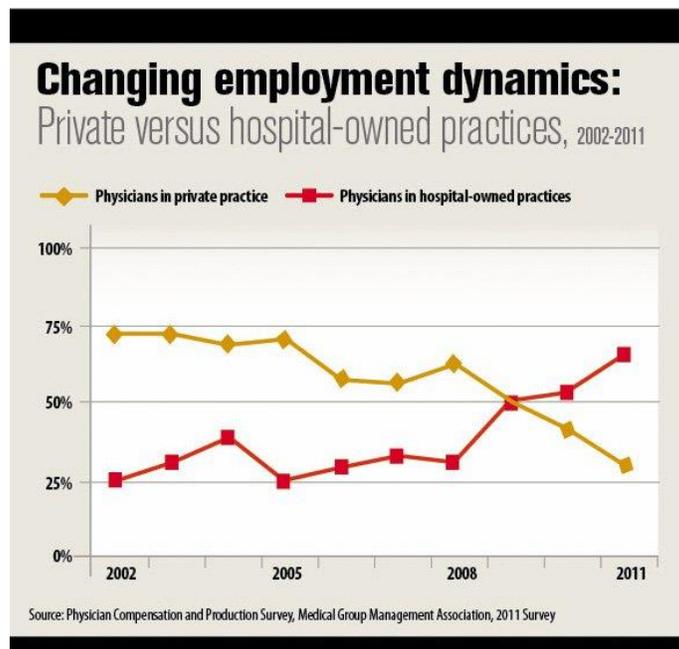
You are already familiar with industry giants Express Scripts and CVS Health. You should know that CVA Health operates CVS/Caremark, in addition to its drugstores. If you didn't know, CVS acquired Omnicare and bought 1700 pharmacies from Target.

Oh, please don't forget that Walgreens is planning on buying Rite Aid. My, that should help competition.

Private Practice Doctors once more urges support of those candidates who prefer free markets and more competition. How many times have we heard complaints about the big box drug stores, who may have better rates, but fail miserably in service to the patient?

Big Providers

The number of healthcare provider and hospital acquisitions and mergers has literally exploded over the last 5 years, a result of the alteration of the medical landscape by Obamacare. As we are all aware, physicians have sold their practices to hospitals. Smaller hospitals have sold out to larger hospital chains and health



systems have merged with other health systems to create regional and national mega-health systems.

Below is a list of mergers just for 2015. Choose a number (press CNTRL + click) and it will take you to an example for just the year 2015.

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This does not even hit on the local physician acquisition taking place in each and every community in America.



He had taken a roundabout route,
but the paperwork continued to pursue him.

Rather than tell you about something you already know, I thought I would lay out some facts about hospital acquisition of private practices that highlight the problem.

- Physicians initiate the majority of acquisitions – about 70% of acquisitions are initiated by the physicians.

- Most acquisitions are primary care. This may not be true in our community because of the large Cedars based organizations already present.
- Other types of practices hospitals have acquired include (in order of quantity):
 - Cardiology
 - Orthopedics
 - General Surgery
 - Endocrinology
 - Gastrointestinal
 - Urology
 - Oncology

Marriages are not always made in heaven. Newly bought physicians are used to making their own decisions and having total control of their practices. Therefore, they often find it difficult when they are no longer the primary decision maker. Many newly acquired physicians find it very difficult when they no longer have the ability to choose their staff. Many say that productivity goals limit time spent with patients. One particular quote struck me, “I was used to cooperating with the administration. Now I was expected to comply.”



“Would you mind if these junior managers have a go at assessing the profitability of your treatment?”

Once more though, the end result is that patients may be left out in the desire or need to merge. The personal touch of a private physician frequently falls victim to productivity goals.

Private Practice Doctors encourages you to support a candidate who will support the personalization of health care, not the treatment of “populations”. Support the candidate that allows the most patient choice when it comes to physician and healthcare choice. A free society is based on freedom of information and choice.

Big Medical Supply

And then there were two. With the acquisition of Physician Sales and Services by McKesson and the acquisition of Cardinal’s physician office division by Henry Schein, physicians are left with only two national distributors of medical products. How could such a needed link in the healthcare chain be so dramatically reduced to 2 giant corporations? These acquisitions will make it much more difficult for physicians to negotiate prices for medical supplies as the number of salesman from different entities decrease to near critical levels. As physician costs increase, even more pressure will be placed on physicians to turn to big providers and more regional monoliths to control costs.



We can only hope that the remaining two vendors will continue to compete on a price basis and will not utilize their position in the market place to further squeeze private practice doctors.

Conclusions

As one can see, the past few years have seen tremendous consolidation in the pharmaceutical industry, health insurance providers, large pharmacy chains, and the medical supply industry; this, in addition to the acquisition of physician practices by hospitals.

Through government regulations, healthcare laws, and lack of proper oversight, the losers have been the American people. The cost of their care has continued to skyrocket and the quality of their care has been turned into a population based statistic eliminating the goal of individualized care.

We urge you, no matter which party you support or which candidate you back, to consider choosing candidates who you believe will:

- Encourage free and open competition.
- Watch carefully for unfavorable movements in an industry to the gain of just a few major players.
- Lower health care costs by giving Americans the right to low cost pharmaceuticals.
- Encourage a health care plan that will not continue to drive insurance prices ever upward.
- Encourage a health care solution that allows choice by each and every individual to determine their health care needs.
- Eliminate penalties for non-participation in various health plans.

We believe we have laid out some excellent solutions. It is up to you to take them forward. We look forward to your comments.

Finally, let private practice doctors help you save your practice. Just write me at reed.wilson@privatepracticedoctors.com .