The New York Times | https://nyti.ms/2GuXbBp

TECHNOLOGY

Amazon, Berkshire Hathaway and JPMorgan Team Up to Try to Disrupt Health Care

By NICK WINGFIELD, KATIE THOMAS and REED ABELSON JAN. 30, 2018

SEATTLE — Three corporate behemoths — Amazon, Berkshire Hathaway and JPMorgan Chase — announced on Tuesday that they would form an independent health care company for their employees in the United States.

The alliance was a sign of just how frustrated American businesses are with the state of the nation's health care system and the rapidly spiraling cost of medical treatment. It also caused further turmoil in an industry reeling from attempts by new players to attack a notoriously inefficient, intractable web of doctors, hospitals, insurers and pharmaceutical companies.

It was unclear how extensively the three partners would overhaul their employees' existing health coverage — whether they would simply help workers find a local doctor, steer employees to online medical advice or use their muscle to negotiate lower prices for drugs and procedures. While the alliance will apply only to their employees, these corporations are so closely watched that whatever successes they have could become models for other businesses.

Major employers, from Walmart to Caterpillar, have tried for years to tackle the high costs and complexity of health care, and have grown increasingly frustrated as Congress has deadlocked over the issue, leaving many of the thorniest issues to private industry. About 151 million Americans get their health insurance from an employer.

(Why will health care be so difficult for these companies to untangle? Analysis from The Upshot.)

But Tuesday's announcement landed like a thunderclap — sending stocks for insurers and other major health companies tumbling. Shares of health care companies like UnitedHealth Group and Anthem plunged on Tuesday, dragging down the broader stock market.

That weakness reflects the strength of the new entrants. The partnership brings together Amazon, the online retail giant known for disrupting major industries; Berkshire Hathaway, the holding company led by the billionaire investor Warren E. Buffett; and JPMorgan Chase, the largest bank in the United States by assets.

They are moving into an industry where the lines between traditionally distinct areas, such as pharmacies, insurers and providers, are increasingly blurry. CVS Health's deal last month to buy the health insurer Aetna for about $69 billion is just one example of the changes underway. Separately, Amazon's potential entry into the pharmacy business continues to rattle major drug companies and distributors.

(Here's a look at how even the threat of Amazon's entry into an industry can rattle stocks.)

The companies said the initiative, which is in its early stages, would be "free from profit-making incentives and constraints," but did not specify whether that meant they would create a nonprofit organization. The tax implications were also unclear because so few details were released.

Jamie Dimon, the chief executive of JPMorgan Chase, said in a statement that the effort could eventually be expanded to benefit all Americans.

"The health care system is complex, and we enter into this challenge open-eyed about the degree of difficulty," Jeff Bezos, Amazon's founder and chief executive, said in a statement. "Hard as it might be, reducing health care's burden on the economy while improving outcomes for employees and their families would be worth the effort."

The announcement touched off a wave of speculation about what the new company might do, especially given Amazon's extensive reach into the daily lives of Americans — from where they buy their paper towels to what they watch on television. It follows speculation that the company, which recently purchased the grocery chain Whole Foods, might use its stores as locations for pharmacies or clinics.

(We asked health care experts to imagine what the three corporations might do.)

"It could be big," Ed Kaplan, who negotiates health coverage on behalf of large employers as the national health practice leader for the Segal Group, said of the announcement. "Those are three big players, and I think if they get into health care insurance or the health care coverage space, they are going to make a big impact."

But others were less sure, noting that the three companies — which, combined, employ more than one million people — might still hold little sway over the largest insurers and pharmacy benefit managers, who oversee the benefits of tens of millions of Americans.

"This is not news in terms of jumbo employers being frustrated with what they can get through the traditional system," said Sam Glick of the management consulting firm Oliver Wyman in San Francisco. He played down the notion that the three partners would have more success getting lower prices from hospitals and doctors. "The idea that they could have any sort of negotiation leverage with unit cost is a pretty far stretch."

Even the three companies don't seem to be sure of how to shake up health care. People briefed on the plan, who asked for anonymity because the discussions were private, said the executives decided to announce the initiative while still a concept in part so they can begin hiring staff for the new company.

Three people familiar with the partnership said it took shape as Mr. Bezos, Mr. Buffett, and Mr. Dimon, who are friends, discussed the challenges of providing insurance to their employees. They decided their combined access to data about how consumers make choices, along with an understanding of the intricacies of health insurance, would inevitably lead to some kind of new efficiency — whatever it might turn out to be.

"The ballooning costs of health care act as a hungry tapeworm on the American economy," Mr. Buffett said in the statement. "Our group does not come to this problem with answers. But we also do not accept it as inevitable."

Over the past several months, the three had met formally — along with Todd Combs, an investment officer at Berkshire Hathaway who is also on JPMorgan's board — to discuss the idea, according to a person familiar with Mr. Buffett's thinking.

The three chief executives saw one another at the Alfalfa Club dinner in Washington on Saturday, but by then each had already had dozens of conversations with the small in-house teams they had assembled. The plan was set.

Mr. Buffett's motivation stems in part from conversations he has had with two people close to him who have been diagnosed with multiple sclerosis, according to the person. Mr. Buffett, the person said, believes the condition of the country's health care system is a root cause of economic inequality, with wealthier people enjoying better, longer lives because they can afford good coverage As Mr. Buffett himself has aged — he is 87 — the contrast between his moneyed friends and others has grown starker, the person said.

The companies said they would initially focus on using technology to simplify care, but did not elaborate on how they intended to do that or bring down costs. One of the people briefed on the alliance said the new company wouldn't replace existing health insurers or hospitals.

Planning for the new company is being led by Marvelle Sullivan Berchtold, a JPMorgan managing director who was previously head of the Swiss drugmaker

Novartis's mergers and acquisitions strategy; Mr. Combs; and Beth Galetti, a senior vice president at Amazon.

One potential avenue for the partnership might be an online health care dashboard that connects employees with the closest and best doctor specializing in whatever ailment they select from a drop-down menu. Perhaps the companies would strike deals to offer employee discounts with service providers like medical testing facilities.

"Each of those companies has extensive experience using transformative technology in their own businesses," said John Sculley, the former chief executive of Apple who is now chairman of a health care start-up, RxAdvance. "I think it's a great counterweight to what government leadership hasn't done, which is to focus on how do we make this health care system sustainable."

Erik Gordon, a professor at the University of Michigan's Ross School of Business, predicted that the companies would attempt to modernize the cumbersome process of doctor appointments by making it more like booking a restaurant reservation on OpenTable, while eliminating the need to regularly fill out paper forms on clipboards.

"I think they will bring the customer-facing, patient-facing thing into your smartphone," he said.

Amazon has long been mentioned by health care analysts and industry executives as a potential new player in the sector. While the company has remained quiet about its plans, some analysts noted that companies often use their own employees as a testing ground for future initiatives.

The entry of Amazon and its partners adds to the upheaval in an industry where much is changing, from government programs after the overhaul of the tax law to the uncertain future of the Affordable Care Act. All the while, medical costs have persistently been on the rise.

Nationwide, average premiums for family coverage for employees rose to $18,764 last year, an increase of 19 percent since 2012, according to the Kaiser

Family Foundation. Workers are increasingly paying a greater share of those costs — they now pay 30 percent of the premium, in addition to high deductibles and growing co-payments.

“Our members’ balance sheets speak for themselves — health care is a growing cost at a time when other costs are either not rising or falling,” said Robert Andrews, chief executive of the Healthcare Transformation Alliance, a group of 46 companies, including Coca-Cola and American Express, that have banded together to lower health care costs.

Other major employers have also sought more direct control over their employees’ health care. Walmart contracted with groups like the Cleveland Clinic, Mayo and Geisinger, among others, to take care of employees who need organ transplants and heart and spine care. Caterpillar, the construction equipment manufacturer, sets its own rules for drug coverage, which it has said saves it millions of dollars per year, even though it still uses a pharmacy benefit manager to process its claims.

Suzanne Delbanco, the executive director for the Catalyst for Payment Reform, a nonprofit group that mainly represents employers, said controlling rising prices is especially hard in markets where a local hospital or medical group dominates. While some have tried to tackle the issue in different ways, like sending employees with heart conditions to a specific group, “it’s piecemeal,” she said.

She added, “There are so many opportunities to do this better.”

The issue is not solely a 21st-century concern: In 1915, Henry Ford became increasingly worried about the quality of health care available to his growing work force in Detroit, so he opened the Henry Ford Hospital. It is still in existence today.

Follow Nick Wingfield, Katie Thomas and Reed Abelson on Twitter: @nickwingfield and @katie_thomas and @reedabelson.

Nick Wingfield reported from Seattle, Katie Thomas from Chicago and Reed Abelson from San Francisco. Michael J. de la Merced contributed reporting from London, and Emily Flitter from New York.

A version of this article appears in print on January 31, 2018, on Page A1 of the New York edition with the headline: 3 Giants Form Health Alliance, Rocking Insurers.