VERALON

HEALTHCARE MANAGEMENT ADVISORS

Why is Kaiser/Geisinger Such a Big Deal?

John Harris, Managing Director **Danielle Bangs**, Principal

A colleague asked, “Why is the Kaiser/Geisinger announcement such a big deal? There have been a lot of mega mergers.” An excellent question. This was more than just a $95B insurer/health system acquiring a $7B one.

Here’s why:

- Kaiser Permanente has long been recognized as an iconic leader in value-based care, but they have largely been insular –optimizing their unique, closed network model and growing it organically. Kaiser has been less effective in non-core markets and with open network models. By creating Risant, Kaiser is acknowledging that it needs a different strategy anchored by a strong value-oriented health system – operating on a multi-provider/multi-payer model – to grow and achieve value-based care success outside of its core market.
- The acquisition of Geisinger into the newly formed Risant, which will exist in parallel to the closed network Kaiser model, is unique. While major acquisitions are a common strategy for diversification in other segments of the healthcare industry (as we’ve seen much of this year with CVS, Amazon, Walgreens, etc.), we have not historically seen major health system mergers or acquisitions as a catalyst for major business diversification. But that is essentially what this is – Kaiser is not integrating Geisinger into its core operations, but rather establishing or leveraging Geisinger as the lead health system to drive its new multi-payer strategy/”product” through Risant, with Geisinger’s leadership at the helm.

- It’s not just Geisinger, but the commitment to investing $5B to add “five or six” additional systems to Risant, targeting $30-$35B in revenue in five years. Presumably, these will be systems with a similarly strong commitment to value-based care. It’s reasonable to assume that Kaiser and Risant already have a sense of who these additional systems are, but the announcement of Risant is stimulating health system executives and boards across the country to ask, “Should we try to join?”
- Unlike United Healthcare, Kaiser will include inpatient beds in their Risant delivery model. United’s OptumCare unit has succeeded by aggregating physicians and outpatient services, squeezing hospitals on rates, steering referrals to lower cost settings, and capturing risk contract savings.
- This strategy has worked as hospitals are desperate for enough patients to operate profitably. But what if hospital beds are in short supply? Will United struggle to find bed capacity for their members? Kaiser’s Risant health systems are likely to believe, as Geisinger does, that including hospitals “inside the tent” can yield better results, as long as those hospitals have the right operating philosophy and value orientation. Additionally, its likely Kaiser is learning from its own operating history here – in areas where Kaiser has aimed to introduce its health plan without an acute care presence, it has underperformed.
- Health systems have struggled to build truly efficient and effective physician networks. Can Risant – with Kaiser’s intellectual property, best practices and capital – drive the transformation of health system employed and aligned physician practices to the next level of effectiveness and value?
- Risant will be a collection of health systems serving their local markets very well. As Risant adds systems in new cities to the Kaiser network, at the margin more self-insured employers will find that the Kaiser network is a fit. This does not create for Kaiser a comprehensive nationally distributed network of providers able to serve the needs of all large self-insured employers, but it’s an improvement.
- From our perch as a Pennsylvania headquartered consulting firm, this deal is of particular interest. Philadelphia has resisted the entry of three highly competitive value-focused Pennsylvania health systems/insurance plans - Geisinger, UPMC and Highmark. Will Risant give Geisinger the opportunity to enter the Philadelphia market through acquisition? Such an entry could be a great opportunity for Risant and pose a significant competitive threat to Independence Blue Cross and health systems across the region.

But there are headwinds.

- Change is difficult. Even if Risant attracts strong systems that are committed to the shift to value-based care, and those systems benefit from Kaiser intellectual property and capital investments, the on-the-ground transformation to higher value models of care will still encounter resistance.
- The core Kaiser business model is a closed system of care serving an insured population. Even a sophisticated, value-focused system like Geisinger is dealing with a much messier reality: Independent physician groups alongside their employed group, and multiple payers rather than one. Will Kaiser's insights and innovations transfer effectively to this messier environment? Or perhaps will Kaiser learn more from Geisinger on a model to better serve more rural markets?

Geisinger and the other systems likely to join Risant have been taking their value-based care vision as far as they can. Maybe the infusion of Kaiser intellectual property, best practices and capital will create new levels of value and sustainability for forward-thinking non-profit health systems. Only time will tell.