Meet the Wall Street darlings ruining our health care

“There's no other country on the planet that allows these companies to run the healthcare system and even more for Wall Street to run the healthcare system, which it increasingly does in one way or another.” Wendell Potter, president of the Center for Health and Democracy

911. What's your emergency?

America's healthcare system is broken and people are dying.

Welcome to **Code WACK!**, where we shine a light on America's callous healthcare system, how it hurts us and what we can do about it. I'm your host Brenda Gazzar.

(music)

This time on Code WACK! How did **UnitedHealth Group,** America’s largest health insurer by revenue, make billions in profit in the second quarter of 2023? How do UnitedHealth Group, CVS and Cigna control 80 percent of the drug supply market -- and why should we be concerned? To find out, we spoke to **Wendell Potter**, a former health insurance industry executive turned whistleblower, the New York Times bestselling author of Deadly Spin and the president of the **Center for Health and Democracy.**

Welcome back to Code WACK! Wendell.

Potter: Thank you, Brenda. It's good to be back.

Q: It's great to see you again. For those who don't know you, tell us briefly about your journey from former communications executive for the healthcare insurer Cigna to whistleblower, who testified before Congress. What caused you to do an "about face" on the health insurance industry?

Potter: I was disillusioned with what I was doing for a living. I was able when I was at Cigna to be in a position that gave me great visibility into how companies like that get their money and what they do with it and in particular, I saw just how beholden the executives of the company are to Wall Street financial analysts and shareholders. They're the top stakeholders for any for-profit company and when it comes to health insurance, the consequences can be really dire for people who think they've got good insurance, but find out in many cases that it's not as good as they thought. I became concerned about the industry strategy of moving every one of us into a high deductible plan. I was expected to be a cheerleader for that. I went along with that for a while, but I knew that that was going to be a big burden for a lot of families.

And I saw what was happening in terms of these companies being much more aggressive in terms of denying requests for procedures. There's something called prior authorization that results in so many people not getting the care that they need because somebody at an insurance company says, 'no, we're not going to cover that,' even though the doctors say it's medically necessary, that continues to go on and it also had a consequence that really was the final straw that led me to leave my job. I talked about this some. A young woman in Los Angeles needed a liver transplant but Cigna said they would not cover it and her name was **Nataline Sarkisyan**. Her family made a big fuss about it and got a lot of media attention focused on Nataline's case to the point that it became a big PR problem for the company and I made sure the CEO and others were aware of what was happening.

And to try to make the bad story go away, the executives decided, 'well, we won't cover this after all.' But unfortunately, so much time had passed since the original request was made. We're talking about probably five days here. Naline got sicker and five hours after Cigna reversed that prior authorization denial, Nataline died and she was just 17.

So tragic!

Potter: And that was the final straw. I couldn't do it anymore. I couldn't handle any more of what we referred to as high-profile cases. So soon after that, I turned in my notice and I, some months later after that, began to think, what can I do to help advocates for healthcare reform? What can I share with them so that they can be better prepared and understand what the industry is always doing to try to defeat any kind of legislation or new regulations they don't like? So I wound up going to Washington a lot. This was in 2009, right after Barack Obama had been elected president and began to work with members of Congress.

And I ultimately was told that if I really wanted to make a difference, I needed to do something more than doing it behind the scenes. So they more or less pushed me into agreeing to testify before Congress, and I did during that debate of what became the Affordable Care Act, and that's what changed my life in a dramatic way in terms of doing kind of a 180 from what I was doing as an insurance company executive.

I pulled the curtains back so Congress could see more clearly how these companies really operate and how they are at the heart of so many of the problems we have and the cost of health care. And I've since then been able to write books and I've continued to be a very vocal critic of the health insurance business. I write a newsletter now, run a couple of nonprofit advocacy organizations and just try to raise a ruckus as much as I can and help people understand these are companies we cannot trust. We've got to change the system.

Q: Yes. And your Healthcare Uncovered newsletter is certainly raising a ruckus. The one about UnitedHealth Group's profits really caught our eye. What can you tell us about last quarter's profits of UnitedHealth Group, the country's largest health insurer by revenue and its vast Optum division?

Potter: Well, the company made enormous profits. I think they're getting close to making $30 billion in profits. It's just an enormous company. It has grown through acquisitions over the past several years to be the fifth largest company in the country. And actually, I think it's number four now, but it's right up there. CVS is right behind it, which owns Aetna now. But United(Health Group) has just become this behemoth in particular that has moved beyond health insurance into a lot of other areas. They own more physician practices than anybody else does. They employ now 70,000 doctors. They have clinics. They have their own pharmacy benefit management company, which is a big deal because it's the middleman in the drug supply chain that insurance companies have realized they can make a lot of money there as well, too.

So they're one of three big insurers. Cigna is another, and CVS is a third one. Together, those three companies control 80% of the drug supply market as middlemen, and they're making lots and lots of money, a lot of profit from that as well. So they just have figured out how to make enormous sums of money. I've often said these companies know how to do one thing really exceptionally well, and that's to make money. They also do exceptionally well at influencing members of

Congress and state legislators and governors as well, too. They spend a lot of the money that we spend in our premiums, you know, the money goes into the pockets of candidates and into lobbying activities at both the federal and state level and even local levels sometimes. So they make money hand over fist. They are a darling of Wall Street. Investors love them.

I read just this morning that by 2030 it’s expected, some people are expecting that it will be a trillion dollar company when you come, when you're talking about market capitalization, they're about half there now. And so we're talking about in just seven years, if the company grows at the current pace, it'll be one of the world's biggest companies, but it will be right up there near the very top with that kind of capitalization. Just incredible how much that company rakes in in various ways.

Q: Wow, incredible indeed. In your newsletter, you indicated that UnitedHealth's revenues went up 16%, but their profits went up only 13%. Why is that and what's the significance of that?

Potter: I think the discrepancy is because there was a bit of an uptick in the use of healthcare goods and services. So they were paying out a little bit more in claims than they had in the prior year, prior periods. That was kind of an anomaly of people after the worst of the pandemic returning to get care that they had postponed. So that probably is what's going on there. They don't give you enough, as they call it, granularity to pinpoint it exactly. But more than likely that's what it was because you're seeing most of these companies are showing in one way or another that they had spent a little bit more than they had the year before. Wall Street was anticipating this, and they were perfectly fine that the profits were not quite as much when we're talking about growth as revenue, but Wall Street was very happy with United's numbers.

Q: Got it. In a more recent post, you highlighted a different story about how Cigna suddenly lost 4% of their value in one day, yet they too reported higher revenues. Why the difference?

Potter: Well, I think for Cigna and it goes back to spending on medical care. It's referred to as the medical loss ratio, and that is the medical loss ratio is a measure of the percentage of premiums that big insurance companies pay out in claims and the Affordable Care Act or Obamacare had a provision that requires these companies to spend at least 80% of what we pay in premiums on our care. Eighty to 85% in some cases, 85% Cigna's medical loss ratio rose a little bit, which meant that they also paid a bit more for care than they had before. And I think for Cigna investors thought, well, maybe that's not as good as we expected. The other thing is earnings per share. The company was really quite profitable, but investors look to see how much the company is earning per share. That's a measure that's important to them, because if they own 10,000 shares of stock or a million shares of stock, that's meaningful and it was a little bit less than it was the same quarter a year ago.

And the other thing was that Cigna, unlike United and some of the other companies, did not say that it expected to earn more this year overall than what the company initially had said that they might earn. Wall Street likes it when these companies say, you know, as we are looking at the rest of the year, we think we actually are going to make more money than we thought we were going to make at the beginning of the year. Cigna didn't do that. They just stuck with what, you know, their estimates were and Wall Street was disappointed in that. They wanted Cigna to say that 'we've got everything figured out. We're going to make even more money than we said at the beginning of the year we had made.' That's how the game works, and it's a big game with lots and lots of money at stake.

And it's just an example of how Wall Street controls our healthcare system. They call the shots, the Wall Street financial analysts and the big shareholders, so we're not talking about you and me as an investor. Most of the stock is held by big pension funds and other institutional investors that already have boatloads of money, and they want to make sure that they're continuing to get a return on an investment that they think is appropriate for them, and when a company has a drop in the stock price on Wall Street, it means that some of the investors have decided to sell some of their shares and maybe sell all of their shares. So that's what happens when you see the share price go down in a given period of time. It means that there have been more sellers than buyers, and that happened to Cigna that day.

And I spent 10 years handling financial communications for Cigna so I know what that's like, and I know how top executives react because when that happens, when the stock price goes down the net worth of the top executives goes down as well too, because they get a very high percentage of their compensation in company stock in one way or another. So they're very, very constantly motivated from a personal financial point of view to make sure that those investors are always happy and they hate it when they disappoint Wall Street. That's the thing they always try to avoid doing.

Q: Wow. So it sounds like there's a natural incentive to make as much profit as possible and spend as little as possible on care. Is that right?

Potter: That's exactly right. Investors really want to make sure that these companies are doing what they can to avoid paying for care. The less they pay, the more is left over for profits to reward those shareholders and themselves, the top executives. It's something that we've accepted as the way things should be in this country, but the thing is very, very, very few understand even what we're talking about. They probably never heard this from anybody else about how these companies, what really motivates them. And that's why I write my newsletter at Healthcare uncovered to try to help people understand this is what's going on, folks. The people that really matter are the shareholders. They call the shots, the executives kowtow to them and do everything they can to make sure that that stock price continues to go up and it has over time. Since the Affordable Care Act has passed, these companies are making this stock price have increased in many cases, a thousand percent. So that's a big return on investment when you look at that period of time. They have done quite well since the Affordable Care Act has passed. It wasn't what Congress necessarily intended, but these companies know how to circumvent the intent of Congress or state legislatures.

Q: Right. It just seems like an inherent conflict of interest, right? Like, it's surprising to me that this is even legal.

Potter: Well, I know and it's not in most countries. There's no other country on the planet that allows these companies like this to run the healthcare system and even more for Wall Street to run the healthcare system, which it increasingly does in one way or another. There are a lot of hospitals who are part of publicly traded companies. There are lots and lots of private equity firms that have gotten into health care. It's all about the money in our system. That's not the way it is in most other countries, certainly not the most developed countries.

Q: Right, Lucky us.

Potter: Lucky us. We've been, you know, over the years have been sold on the notion that the free market is faultless, that it will always work in the favor of the public. Well, even they don't pretend that. It always works in the favor of the owners of these companies, the shareholders. But we have just bought hook, line and sinker the sermon that we have to allow the free market to work its magic, and it just doesn't work in health care like it does in other sectors of the economy. It works the exact opposite in too many ways.

Got it, and it's potentially catastrophic.

Potter: Oh, absolutely. Yeah. It's catastrophic for so many families, so many individuals in this country who have insurance. We have a hundred million people in this country who have medical debt, but we only have only 30 million people who don't have health insurance. But what that means is that those other 70 million have health insurance, but because of the way these insurance companies have structured their policies in recent years, they had to spend a ton of money out of their own pockets before that coverage kicks in in out-of-pocket cost, as we were talking about earlier. And these companies have made great use of what's referred to as prior authorization to refuse to cover care that is medically necessary. They get away with it.

Q: Right. Prior authorizations and claim denials. Wasn't Cigna the company that was using AI to deny care to thousands of patients at a time?

Potter: Yeah, they maintained that this was on the backend, that as they reviewed what they'd already paid for, they discovered, they said, that they had paid thousands and thousands of claims inappropriately. So then it's a burden for the doctor and the patient. The care is already, in this case, according to Cigna, the care was delivered, but they decided retroactively that it wasn't appropriate. And so they denied payment. So that means the doctors won't get paid or the hospital won't get paid, and of course, they intend to get paid, so they'll go after patients. It's just awful what these companies do not just to individuals, but to doctors. They're, in many cases, just completely burned out because of all the hoops they have to jump through to make sure they're able to care for the patients the way that they know they should be cared for and to get paid.

Q: So in light of all these issues, is there any movement to try and reign in these huge corporations?

Potter: Yes, believe it or not, there actually is bipartisan interest in Congress. A lot of Republicans, maybe I shouldn't say a lot, but there are some that are very concerned about the growth of corporations to the point that it has created a non-competitive environment and we're there in health care in many ways. But the other notable thing is that the Federal Trade Commission is looking at these companies now in particular because of their ownership of these pharmacy benefit managers and the ability of these three companies, Cigna, CVS, and United control 80% of the PBM market. The FTC is looking at that. They launched an inquiry at the beginning of this year and the Republicans and Democrats went along with that. So they're in the midst of an inquiry, and I've talked to some folks who are cautiously optimistic that the FTC will really crack down on this and conceivably could say that these companies need to be broken up.

Thank you, Wendell Potter.

Do you have a personal story you'd like to share about our 'wack' healthcare system? Contact us through our website at heal-ca.org.

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