Healthcare Law Blog

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Insurer to Purchase Vertically Integrated Medicare Advantage Plan/Provider

By Eric Klein and Aytan Dahukey

WellPoint, one of the nation's largest health insurers, has agreed to buy CareMore for approximately $800 million. WellPoint, which holds the license for Blue Cross in California and for Blue Cross Blue Shield in several other states, is the largest American health insurer in terms of patients covered, with one in nine Americans receiving coverage for their medical care through WellPoint's affiliated plans. CareMore, based in Downey, California, is a physician owned medical group operating Medicare Advantage plans in California, Arizona and Nevada with the majority of its membership in California.

CareMore's business model is focused on seniors and it has developed its own delivery system to complement its health plans. With a tight incorporation of employed physicians and other practitioners, 26 self-sufficient care centers clinics and well developed delivery systems, CareMore is considered one of the more vertically integrated Medicare Advantage systems in the country. With the acquisition WellPoint brings a management team on-board with significant and successful experience developing and growing Medicare Advantage business (the CEO of CareMore is one of the co-founders of PacifiCare) and also acquires a delivery system and physician network to significantly expand its MediCare Advantage business. The deal is scheduled to close by the end of 2011 and is subject to certain state and federal regulatory approvals and standard closing conditions.

It will be interesting to see how this transaction is viewed by WellPoint. In some ways this may signal the beginning of a new merger and acquisition push by MediCare Advantage plans seeking to vertically integrate with physicians in light of potential changes in the reimbursement system stemming from healthcare reform. WellPoint may also see this acquisition as focused primarily on the core Medicare Advantage plans owned by CareMore with the care clinics and physician relationships viewed as secondary assets. Given the major push for integration between plans and medical groups we are witnessing in California, the former is more likely than the later.

In fact, in a *Wall Street Journal* article published on June 9, 2011, WellPoint's chief financial officer Wayne S. DeVeydt was quoted as saying that the acquisition was not "simply buying membership" but rather a long-term strategy to integrate physicians and clinics with WellPoint's established plans. DeVeydt was quoted as stating that WellPoint planned to more than double CareMore's existing clinics over the next 2 to 3 years, including expansion in New York where WellPoint has two existing plans in place.

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