MarketWatch

Could a CVS-Aetna deal actually benefit consumers?

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Published: Oct 28, 2017 7:19 a.m. ET

The rumored deal could still fall through due to antitrust concerns

Getty Images
CVS' reported plan to buy Aetna could send more customers through its doors.

The rumored merger between CVS Health Corp. CVS, -5.89% and Aetna Inc. AET, -3.07% may not be a perfect deal, but experts say it shouldn't cause consumers to have a heart attack.

CVS has offered to buy the health insurer for more than $200 per share or more than $66 billion, The Wall Street Journal reported Thursday based on information provided by unnamed sources. Talk of the potential deal has already elicited praise from many analysts who view the potential merger as a way for CVS and Aetna both to fend off increased competition.

In particular, the deal would come at a time when Amazon Inc. AMZN, +13.22% has reportedly received approval to be a wholesale pharmaceutical distributor in multiple states.

For consumers, the merger could bring a host of benefits, according to most experts. But others say it might not be the panacea for the soaring health care costs plaguing patients.

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Aetna and America's Health Insurance Plans, the trade association representing the health insurance industry, declined to comment on the merger speculation. CVS Health did not return a request for comment.

Here's what consumers should look out for, if the deal comes to fruition:

Typically, consolidation in health care leads to higher costs…

Worries about higher costs came up in 2015 when CVS purchased Target's TGT, -2.82% pharmacy business and even consolidation among hospitals. Generally, mergers involving health insurers aren't good for consumers. The 1999 merger between Aetna and Prudential Healthcare caused premiums to increase roughly 7% from their baseline between 1998 and 2006, according to a 2012 study published by the American Economic Review. That premium increase equated to roughly $34 billion a year in higher costs, or $200 per person.

…and yet consumers could see lower insurance premiums and drugs costs

Because Aetna and CVS operate in different parts of the health care sector, many experts said that the merger could be a net positive for consumers. "The cost for consumers is going to be negligible," said Dexter Braff, president of health care merger and acquisition advisory firm The Braff Group. "In fact it may actually wind up being something that's a little bit cheaper for them."

To lure new people onto Aetna plans and CVS drugstores, the combined company may entice them with discounted prescription drugs, Braff suggested. Existing Aetna members could benefit since they would likely have their prescription drug coverage through CVS Caremark, the retailer's pharmacy-benefit manager unit, following the merger. That could put pressure on other insurers to lower drug costs.

The larger company and the clout that brings in the market might also give it more leverage in negotiating prices with pharmaceutical companies.

The combined company could help people stay healthier

Following a merger, Aetna members might also be provided greater access to MinuteClinic, CVS' chain of walk-in clinics, which could allow them to receive preventive care more easily. "They may be looking at it as a way to triage patients to avoid more costly trips to the emergency room," Braff said.

CVS-Aetna's would have access to more customer data. In particular, the merged entity may have better ways of ensuring that patients receive the treatment they need, said John Quelch, dean of the University of Miami School of Business Administration.

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In developed countries only 50% of patients adhere to prescribed treatment regimens, research has shown. And sticking to a medical care provider's treatment plan is seen as the key determinant of whether the treatment is successful.

"Aetna would like to understand consumers better," Quelch said. "CVS is at the forefront of research into how the intervention of pharmacy can improve patient compliance with treatment regiments."

That said, the merger could be a wash for consumers

Others argue that the deal may have little impact at all. "I don't see negative repercussions for consumers, I just don't see a lot of positive repercussions for them either," said Jeff Goldsmith, health-care analyst and national advisor at consulting firm Navigant. "I'm just baffled by the deal."

For starters, Goldsmith is skeptical that the combined company would have all that much leverage to lower drug costs. And the merger could also prompt employers and smaller insurance companies who currently use Caremark as the pharmacy-benefits manager to turn elsewhere, further reducing any power a merged CVS-Aetna would have.

Plus, the combined company would have difficulty dropping the price of medication at CVS much, since that would endanger its earnings. "I'm not seeing how it's going to make it more attractive for me to be an Aetna customer than a Cigna customer," Goldsmith said.

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Others were skeptical that CVS-Aetna would offer enough to persuade customers against defecting to Amazon's pharmacy services. Additionally, employers have the choice to opt into a health insurer's pharmacy benefits program or carve out their own separate — many companies that get their insurance through Aetna may continue to get pharmacy benefits elsewhere "if they wanted something different than what Caremark and CVS can deliver to them," said Leemore Dafny, a professor at Harvard Business School.

Plus, the deal might not even go through

There's still a good chance this deal could fail like many other health care consolidation efforts since the election.

Perhaps the biggest roadblock Aetna and CVS would face is the retailer's existing relationship with insurer Anthem ANTM, +2.14% Earlier this month, Anthem and CVS inked a deal as part of the insurer's plans to form its own pharmacy-benefits manager, IngenioRx. Under the agreement, CVS would fill prescriptions and process claims for Anthem members beginning in 2020.

If CVS were to buy Aetna, it would then have exclusive relationships with two of the country's largest insurers, which could prompt antitrust concerns, said Thomas Greaney, a professor at the University of California's Hastings College of Law. "That might be very problematic in terms of how it affects their competitive interactions and the sharing of information," he said.

The Department of Justice generally handles concerns regarding insurers, while the Federal Trade Commission regulates pharmacies. It's unclear which would take jurisdiction over this deal.

Regardless, both agencies have quashed recent merger attempts in the health-care sector. Federal courts blockedtwo proposed insurer mergers earlier this year — one between Aetna and Humana HUM, +2.96% and the other between Anthem and Cigna CI, +1.61% And FTC scrutiny has been cited as the reasoning behind Walgreens' choice to buy more than 2,000 stores from Rite Aid RAD, -5.99% rather than purchase the company outright.

"I could see there being a pretty extensive investigation at least," Greaney said.

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