

NEWS BRIEF

CVS Health is Said to Buy Aetna for \$69 Billion

On Sunday, Dec. 3, 2017, CVS Health, a large provider of pharmacy services, said that it had agreed to buy Aetna Inc., one of the biggest U.S. health insurers, for about \$69 billion. This proposed merger, according to industry experts, has the potential to transform the U.S. health care landscape. CVS Health and Aetna both said on Sunday that they believe that together, they can make health care more affordable.

How Will the Deal Affect the Market?

Combined, CVS Health and Aetna could provide care directly to consumers at CVS pharmacies and retail clinics. CVS Health and Aetna could also be able to offer one-stop health insurance shopping to employers. However, a CVS-Aetna deal could limit consumers' choices for obtaining health services or filling prescriptions if Aetna-insured consumers are forced to go to CVS for their care.

Deciding whether vertical mergers of this size will be advantageous for the consumer is not an easy task. A vertical merger, according to Investopedia, occurs when two companies that perform separate functions within an industry merge. There is a possibility that the merger could not only improve efficiency for both companies, but also improve bargaining power with hospitals and other suppliers. The net result could be lower prescription costs for consumers. The question is whether or not CVS-Aetna would pass these savings along to consumers. This may depend on other industry developments, such as Amazon's rumored entry into the pharmacy market and retail's growing entry into primary care.

What's Next?

The deal is expected to close in the second half of next year provided that it is approved by shareholders of both companies and federal regulators.

The combination of a drugstore company like CVS Health and an insurer like Aetna is traditionally considered to be less problematic than a merger of two companies in the same industry. However, the Justice Department sued last month to block the AT&T-Time Warner merger on the grounds that a union of the two massive companies would harm consumers and hurt competition. Despite this recent action by the Justice Department, CVS Health and Aetna have both downplayed the prospect of regulators moving to block their deal.

The fate of this deal currently remains unknown. As a result, brokers, employers and health care consumers should continue to monitor the news to keep up with the latest developments.

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