
Inc.

Through the Looking Glass

Glen Tullman envisions an upside-down world—one where health care isn't broken and patients get the treatment they need at a cost they can afford. Now all he needs to do is bring transparency to a system that, by design, is anything but clear.

By Bill Saporito

Photography by Kevin Serna

If you take

the drug Humira to treat the skin condition plaque psoriasis, the cost is $35,000 annually. If you have insurance where you work, as more than 156 million Americans do, it will foot most of the bill. That's $350,000 over 10 years. Yet a cheaper solution exists, a handheld light-therapy device called Zerigo that is just as effective at a 10th of the cost. Most patients and employers don't know about it, because their insurer doesn't approve this treatment. So you and your company pay too much.

The deductibles, the coverage limits, the life-sapping paperwork that adds stress to whatever is actually ailing you. (Their inability to approve an equally effective, far cheaper device.) Employers hate them, doctors hate them, hospitals hate them, for raising costs while usurping billions in profits.

"You're never going to see UnitedHealth saying, 'Next year, we're going to reduce our earnings and reduce our profits to help the health care system operate more efficiently.' It's the opposite," he says.

For years, the serial entrepreneur from Chicago has channeled that bile into startups tackling problematic pieces of the puzzle. (Zerigo doesn't just exemplify the illogic of our health care system; it's also one of his disruptive investments.) Now, Tullman aims to make health care cheaper and better, full stop. So, he's attacking the insurers directly.

Last year, he and a group of reformist VCs launched Silicon Valley-based Transcarent, to put consumers on equal footing with "the payers," as health insurance companies that administer self-insured plans are known. Transcarent promises to give employees the information they need to make well-informed decisions about their health care. Thus armed, they'll be able to find the highest quality care at the best price—and get better outcomes. Think of it as Travelocity for all of your health needs. The companies save money and Transcarent keeps a percentage of the savings that employers derive. Employees pay nothing. Or so the theory goes.

You'd think spending less for better care would be a no-brainer. You'd be mistaken, says Tullman, Transcarent's CEO. The industry doesn't work that way. Not that Tullman, 63, is against profits. He's made two billion-dollar exits already. "I'm a capitalist," he says, "but there's something wrong here."

What's wrong, he says, is a system that doesn't operate in the best interests of customers. Consider that last year, UnitedHealth Group's insurance division reported $12 billion in operating profits. Anthem reported $7.5 billion. Aetna, part of CVS Health: $7.4 billion. Cigna: $7 billion. Looking at these numbers cynically, that's about $34 billion in health care Americans didn't get. Last summer, UnitedHealth even sought to retroactively *reject* all ER claims, before retreating after the blowback.

"You don't have to be a rocket scientist to figure out what's going on. They're taking that savings," Tullman says. "We want to give those savings directly to the actual people paying the bills. And those are the large self-insured employers."

For Tullman, lowering health care costs is as much mission as it is a business case. He sees health care as fundamentally at risk for most Americans. He is not a radical, content to hurl rhetorical thunderbolts. An earnest-talking Midwesterner who studied anthropology at Oxford and economics at Bucknell, his approach is more tidal: build a company with enough market power to force change.

U.S. spending on health care increased 9.7 percent to a record $4.1 trillion in the plague year of 2020, according to the Centers for Medicare & Medicaid Services. That's 19.7 percent of GDP. Yet the U.S. ranks worst among rich nations in patient outcomes. "There's no question we pay too much for health care," says Bradley Ellis, senior director at Fitch Ratings, which covers payers such as UnitedHealth. "In comparing ours with other developed countries, it's sort of off the charts in terms of quality outcomes."

Yet health care insurance is the definition of entrenched. Ellis rates the debt of UnitedHealth, CVS, Anthem, and others highly because their networks grant them a seemingly unassailable competitive position. So strong that the U.S. Department of Justice just sued UnitedHealth to stop its takeover of analytics provider Change Healthcare, alleging it would gain unfair advantage over the industry.

Tullman is not alone in attempting to tackle this problem. Some large companies have already tried to throttle their insurers, and come to grief. In 2018, Amazon, Berkshire Hathaway, and JPMorgan

5 Trailblazers to Watch

1. Ro
HQ: NYC
Funding: $1B

Ro's virtual primary care requires no insurance and offers affordable health, weight-loss, and other services, plus cheaper, generic drugs by mail.

2. PayZen
HQ: SF
Funding: $20M

PayZen uses A.I. to determine how much of a medical bill a patient can afford to pay and create a zero-interest payment plan. PayZen claims nearly 90 percent of patients stick to their plans.

3. Gravie
HQ: Minneapolis
Funding: $147M

An insurance marketplace for employers, Gravie offers

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“What matters is, what’s the experience?” Tullman says of Transcarent’s approach.

Chase, which spend billions annually on health care, formed Haven, a company built to aggregate employee health care data and rationalize costs. Even getting the data proved daunting. Despite their size, the trio didn’t have enough concentrated market power to gain any leverage.

Haven was pronounced dead last year, unable to crack the code. “Big players who have run at health care have mostly failed,” says Sam Glick, global leader of health and life sciences at the Oliver Wyman consultancy. “What they tried to do is play in the system. What we see now is startups saying: ‘We are going to create our own system.’” Tullman is coming at them with an industry insider’s knowledge and powerful backers, including hospital systems and Walmart.

He’ll need them.

ANYONE WHO’S EVER required surgery knows well just how broken the system is. Take Steve, from the greater Seattle area, who busted his knee last year. After endless hours on the phone trying to schedule a surgery, he still didn’t know the cost. Simple question—vexingly hard answer.

The idea behind Transcarent, says Tullman, is to put customers, not insurers, at the head of the line—so patient experience is like user experience in the rest of the service economy. In providing a dashboard to comparison-shop providers by quality and services by price, he believes Transcarent can change the relationship, granting the customer both information leverage and buying leverage—because Transcarent, you see, can also direct care choices.

Open the app and you get several options: Check your symptoms, chat with a doctor, find top-rated doctors, or talk with a guide to get expert medical advice. Your symptoms are alarming? You get connected immediately to a doctor. Your arthritic knee is flaring up? You can set up an in-home physical therapy session. You need surgery? Transcarent will assume the cost of a second opinion, negotiate the procedure’s price in advance, and—if the best surgery center is out of state—pay for you to get there.

As for our patient, Steve: Transcarent informed him he could save $1,500 to $2,000 on a surgery through the same group that evaluated his knee, leading him to note that he “got more information from [Transcarent] without any hassles or wasted time than I got by doing this on my own.”

Indeed, the system is designed to be proactive. If it notices you are forking over a $15 co-payment for a $10 generic drug, it might direct you to Walmart as an alternative. To find the best care, Transcarent gives customers access to proprietary analytics from a half-dozen data sources, including Motive Medical, that rate providers, pricing, quality, and other inputs.

The pitch to the more than 100 companies such as Delta, Albertsons, Target, and UNFI that have signed on is that they will bear little to no financial risk for their employees’ decisions. But when, say, a Delta worker chooses the less expensive and presumably better route recommended by Transcarent, Transcarent earns a percentage of what Delta saves.

Transcarent’s leverage comes from directing business to its preferred providers, including its BridgeHealth unit, which offers prenegotiated rates for surgeries at designated “centers of excellence.”

So far, that’s working out. The company is on track to hit more than $50 million in revenue in 2022, and it’s growing at triple-digit rates. Transcarent pegs the immediately addressable market at $226 billion.

Tullman hasn’t attracted just VCs to this mission. His backers include hospitals, such as Northwell Health, Intermountain Healthcare, and Rush University Medical Center, that are dying—pardon that word—to break the payers’ grip on their operations.

“It’s about accomplishing two simultaneous goals," says Hemant Taneja, managing partner at General Catalyst, one of Transcarent's investors and a longtime partner of Tullman's. "The first is transforming the experience by putting the consumer in charge: They are in control of their health. The second is to collectively reduce the GDP of health care."

You know, just a total overhaul of the system.

THE PROJECT WOULD be easy to dismiss as Sisyphean if Tullman didn't already have a history of pushing boulders over impossibly high hills. He has, in fact, spent his career running headlong at the industry—with Taneja by his side. General Catalyst financed Tullman in 2014 at Livongo, which took a humanistic approach to managing diabetes, a chronic condition that absorbs an inordinate amount of health care dollars. People with diabetes must monitor their blood glucose levels and take insulin, which is irrationally expensive.

Mountain View, California-based Livongo gave customers free test strips if they uploaded the data into the cloud using a wireless device, also provided at no charge. There were no co-pays. "We had to convince people that it made sense to give away strips," says Tullman. "Why would you ever put a co-pay in front of something you want somebody to do?"

The idea was to help people live with diabetes as opposed to treating them only when things went sideways, which often leads to ER visits or hospitalizations. For instance, Livongo's 24/7 counseling service offers advice and connects members with a doctor immediately if needed, while an A.I. program analyzes the uploaded data. If test results go out of range, a counselor may call or text to check in.

"It did three things that are important," says Tullman. "Their experience improved, so they wanted to use it. They didn't like it—they loved it. Number two, we could show that we actually improved their life clinically. And last but not least, we did it for less money. I mean, that's the dream, right?"

Certainly it is for employers, who paid the company a monthly fee for each employee in the program. By the time Tullman took Livongo public in an IPO that valued it at $3.4 billion after its first day of trading in July, it had solid profits and half a million patients. In August 2020, Teladoc bought Livongo in an $18.5 billion takeover deal.

Livongo was, in fact, the *second* game-changing health care company Tullman has helmed. In 1998, he invested in and became CEO of Chicago-based Allscripts, then primarily a profitable, if sputtering, specialty pharmacy benefit manager (PBM). Tullman sold off Allscripts because it couldn't compete with much larger PBMs, and focused on its promising electronic prescribing technology and, later, electronic health care records (EHRs).

The industry resisted initially, in part because of the technology investment required. But it also needed a way to cut down on the medication errors that were causing thousands of deaths each year, because of doctors' illegibly handwritten prescriptions and pharmacies' disorganized records.

Tullman didn't win every battle. Having made several, ever larger acquisitions at Allscripts that got the company deeper into EHRs, he wanted to make another, transformational buy, but his own board resisted. He left Allscripts in 2012. A year later, he formed 7wireVentures, a health care VC firm, in Chicago, with Lee Shapiro, the former president of Allscripts. 7wire invests in what Tullman calls the "informed connected health consumer." That includes firms such as RecoveryOne, which operates a virtual physical therapy platform for people with musculoskeletal conditions.

He has pursued tech transformation his entire career, but in health care he sees the biggest challenge and potential reward. He's a moonshot kind of entrepreneur and Transcarent is his riskiest one yet.

Tullman says he's always been led by an intuitive sense of whether a new process will work. What he can't make any claim to is timing. "I can do this in almost every industry," he explains. "I can tell you what's gonna happen, but I can't tell you when." That's why so many solar energy startups have gone bust, for example. The key, he says, is to have the right technology and enough money to hang around until the cost curve and the social curve intersect.

THAT MIGHT EXPLAIN why other ventures—even those with approaches like Transcarent's—have generated modest results. Patient navigation companies such as Accolade, Patient Navigator, and WithMe Health are well established. Grand Rounds Health,

"I'm a capitalist, but there's something wrong here."

—Glen Tullman

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its own benefits plan, with no deductibles or co-pays, that covers common services like primary care, specialists, and generic prescriptions.

4. MedArrive
HQ: NYC
Funding: $32.5M

MedArrive's 50,000 EMS workers make at-home visits to patients, letting them shorten pricey hospital stays. The startup's investors include 7wire and Kleiner Perkins.

5. Cityblock
HQ: NYC
Funding: $900M

Cityblock delivers 24/7 health services remotely and in-person to underserved populations that rely on Medicare and Medicaid. The big idea is to work with those providers to address gaps in customers' plans and split with them the savings that come with better care.
—KEVIN J. RYAN

Tullman with physician and Walmart executive VP of health and wellness Cheryl Pegus.

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which started as a navigation service, merged last year with Doctor on Demand to form Included Health, a remote primary care platform. Companies contract with navigators for monthly subscriptions, but employee usage is hardly universal. "Why not fix the system rather than trying to keep navigating everyday people through it?" asks Tullman. So Transcarent works with client companies to market directly to employees, rather than having them languish in front of an online menu of benefit add-ons.

The pandemic, as it has done for many industries, is accelerating change—in this case, the transition to online medical care. Mobile phones can reconfigure how health care is delivered. The doctor you need at any given moment could be 1,000 miles away.

Or at your local Walmart, which counts 220 million customer visits per week, and recently signed a deal to become one of Transcarent's preferred providers. Walmart offers primary, dental, mental health, and optical care, although not at all 5,342 stores. If you can get a routine vaccine on a Sunday while out grocery shopping, you've saved time and money and improved community health. Transcarent's role might be to remind you that Walmart has these services, or that you can get an eye exam or lower-cost insulin. "Walmart wants to work with people who say health care should be affordable and accessible," says Cheryl Pegus, a physician and its executive vice president of health and wellness.

Walmart already works with local employers in many of its locations. This latest partnership means it can use Transcarent to tout its expanding health care business and counter efforts by competitors.

That message hasn't been lost on the big health insurers, which are getting deeper into services, from surgery centers to clinics. Look no further than CVS Health, parent of Aetna, which is expanding in primary care through its in-store MinuteClinics. UnitedHealth's Optum division, which already offers a raft of health care services, is buying home health care provider LHC Group for nearly $5.4 billion.

The incumbents, in other words, are muscling up. They have the networks and the contracts, and benefit from customer inertia. (You may not like your health plan, but it's what your company offers.) Still, the time has never been better for true disruption. "Health plans are set up to be in the 'no' business," says Glick, "of telling people what they can't get. You have a lot of fed-up people saying: We will try a new system if you will give us one."

TRANSCARENT IS DOING just that. And therein, Tullman hopes, lies the secret to his company's future success. Taneja labels this emerging system "health assurance," designed around access and wellness as opposed to sick care. Transcarent is not the only one. Taneja cites more than 50 startups, some of which his General Catalyst fund has backed, including health testing platform Ixlayer and medical software company BrightInsight.

As there was in the dot-com era of the late 1990s, the VC warns, there will be a high mortality rate, but within the next five years, these dozens of firms will radically change how we use the health care system. And out of that, a health care version of Google or Uber might emerge. In Transcarent, Taneja thinks he has one of the winners. In January, it completed a $200 million C round that values it at $1.62 billion—in other words, investors expect hypergrowth.

Think of what Transcarent is doing as a giant arbitrage play. If the U.S. is spending $1 trillion more on health care than it should, there's an opportunity to trade against this disparity. But if incumbents respond in kind, the price gap will narrow—get traded away. Which could mean that if Transcarent succeeds in lowering health care costs, it could ultimately face diminishing returns as a business.

That might be OK with Tullman, who has spent most of his career knocking heads with the health care status quo and getting rich doing it. "We're in a rush to fix this mess," he says. And he has other agendas, too. He just donated $15 million to Civica, the nonprofit generic-drug maker, to support affordable insulin, and is investing in a $1 billion scholarship fund for Chicago high school students. (He's also pledged to give away 95 percent of his assets.) Mountains need to be moved to cure our health care problem, but Tullman is in the moving business: "We learned this past year, more than ever, how important health is. And so, doing important work is what gives your life meaning. And I don't think there's anything more important than that."

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