

Vertical Integration saves money. And CVS and its competitors use that to line their pockets, not provide healthcare

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I have several times referred to the concept of “vertical integration” in the health care/health insurance/pharmaceutical industry, most recently on March 28, 2026, [Everything is becoming more unaffordable, but health care may lead this list!](#). These posts often reference the posts of former insurance executive-turned-whistleblower Wendell Potter on his substack “Health Care Un-Covered”, including [“With CVS's Vertical Empire Under Threat in Tennessee, the Company Threatens to Leave”](#), which discusses the fact that CVS, most widely known as large pharmacy chain, also owns the Pharmaceutical Benefit Manager (PBM) Caremark. PBMs are add-on middlemen that negotiate better rates for insurance companies with pharmacies. CVS owns pharmacies, a lot of them. This may seem like conflict of interest (COI), but that is apparently a quaintly outdated concept in this era of mega-corporations.

Actually, the PBM-pharmacy COI is only a part of the CVS megalopoly. They also own one of the nation's largest health insurers, Aetna, so they have both ends *and* the middleman! And, to round it out, they own a large primary care provider group (Oak St. Health) and long-term care company (Signify Health) and urgent care provider (Minute Clinic). Just read the AI summary if you Google “Companies CVS owns”, but if you want it, the comprehensive list by the SEC is [here](#). This is what vertical integration is; you buy from yourself, and sell to yourself, set the prices (usually in a way that minimizes tax liability), and make a lot of money. The structure is not hard to understand, but it maximizes the conflict of interest. (For a discussion of why this is conflict of interest and not “potential” conflict of interest, see this blog post from August 20 2010, [The AAFP, Coca-Cola, and Ethics: Serving the public interest?](#). In brief, COI exists when a decider has interests in both parties, and a decision one way would help their other interest. The *conflict* exists whatever the decision is actually made. A judge hearing a case in which one party is a company in which they own a great deal of stock has a conflict of interest; it doesn't require waiting to see how they rule.)

To be clear, CVS is far from the only major player in the “healthcare industry” (quotes on purpose, and emphasis on “industry”) that is vertically integrated. The largest health insurance company in the US, UnitedHealth, also owns a PBM, (OptumRx), a primary care group (Optum) and a whole host of other companies (SEC listing [here](#)). So does CIGNA

(their PBM is ExpressScripts). So, there is competition within the “healthcare” sector; it is an *oligopoly* (few companies) not a complete *monopoly*. But oligopolies don't really compete in the way classic capitalist theory would have it; rather, they tend to set prices and divide up the market so they all do well (although they would prefer the other companies to go out of business, the existence of a few tends to forestall any governmental intervention that might occur with a true monopoly).

Is vertical integration bad? A major argument in favor of it is that it can, and often does, increase efficiency. If you own everything, from insurer to care delivery system to pharmacy, and all the other players in between, you can minimize the obstruction from a piece that is owned by someone else. Things can move more smoothly. Costs can be reduced significantly. These are the arguments most commonly put forward, to the public, by vertically integrated corporations that control a huge market sector, oligopolies as well as monopolies.

It is also the argument put forward to stockholders, particularly large stockholders like private equity firms. Especially the “reduced costs” part. This is very attractive to stockholders. It could also be attractive to those ostensibly served by the “healthcare” industry, those people needing – healthcare. After all, they are heavily burdened by the cost of their healthcare, which constantly goes up. This includes the portion that they are responsible for in the form of premiums, deductibles, copayments and “cost sharing” (meaning insurance only pays a part of the bill and you're on the hook for the rest). Another recent Potter piece, [The Bill That Never Ends](#), summarizes the situation and addresses the fact that deductibles reset every year, so people are constantly behind the 8-ball and can never pay it off. It reminds me of the compound interest that keeps former students in debt for decades even though they may have paid off far more than the original loan! It is an example of how our laws are set up to benefit large businesses, not regular people.

Which, of course, brings us to the issue of efficiency, and lower costs. To what use is this efficiency, this lower cost, put? *Cui bono?* There is an argument that such efficiency could decrease the overall cost of health care to the nation, as well as to the individuals who require care, which has actually been promulgated for decades by academics and others. There are fewer of them these days, as it has been demonstrated repeatedly that such an idea is frightfully naïve. Yes, money is saved, but it is all used for greater salaries and bonuses for management and greater profits for shareholders. If it were being used to lower premiums, decrease deductibles, lower the cost of drugs, or increase the availability and affordability of health care, we would have seen it. We have not. Too bad.

A weak, but possibly useful, analogy is to a family. The adults (usually) generate the income, and certainly choose how to spend it. This can be mainly to provide food and housing, education for children, health care (to the extent that it is available) and other benefits for the family. Or it could be spent on relatively transient pleasure for the adults

– alcohol, tobacco and other drugs, gambling, etc. Most of us feel that the first is better, a “good” thing, and the second is not good, is selfish, and even reprehensible. Apparently, such moral judgement is not applied to corporations, certainly not, in this case, those involved in “healthcare”.

I keep putting “healthcare” in quotes when applied to the industry. This is because it is not an industry that is at any significant level dedicated to providing healthcare to our people; when it does, this is a byproduct. It is an industry that is dedicated to extracting the most dollars possible from the rest of the economy and putting them in their own pockets. While this is, of course, the goal of most of our industries, it seems worse that “healthcare”, perhaps because of the veneer that come from ostensibly doing something good, seems to be particularly effective at it.

A single payer health insurance system only addresses coverage. A national health service, such as in Britain, is a more comprehensive manifestation of vertical integration. It doesn't always work well, mostly because it is starved of funds as a political act to demonstrate that the public sector does not run efficiently or effectively, thus an argument to privatize it, which has to some degree been done in the UK. And, like almost all efforts to privatize formerly public services, the cost goes way up, the service does not improve or gets worse, and

the money that could have been used to benefit the people is lining the pockets of *ganevem*. This does not seem like a good use of benefits of efficiency and decreased cost arising from vertical integration to me.

Maybe we can do something about it! Imagine if the phrase “healthcare” industry didn't have to be in quotes!

For more (or maybe just more terse):

“The health insurance company gets a cut, the pharmacy benefit manager gets a cut, the drug manufacturer gets a cut, and the patient...gets screwed!” Rep Alexandria Ocasio-Cortez, interviewing CVSHealth CEO David Joyner at a congressional hearing.

Also *“Federal rules require the insurer to spend a certain percent on care. But, when you own the care, when the insurer owns the pharmacy, owns the PBM, owns the drug manufacturer, you also own the health care cost.”*

The whole clip is not that long and makes the point about vertical integration very clear, including 1000% markups on some drugs! Thank you, AOC! If you have time to do nothing else, watch this video!

<https://ocasio-cortez.house.gov/media/press-releases/icymi-ocasio-cortez-calls-out-cvs-healths-corporate-strategy-monopolize>.