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Think Strategically

Guiding Puerto Rico's Healthcare Future Focusing on Wellness and Primary Care Innovation

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The Primary Care Dilemma: Lessons for Puerto Rico

We have decided to make a series of proposals on critical issues that our country needs to address directed towards all candidates for elected office, from the Governor, Resident Commissioner, Mayors, and Legislators, so that they can receive some recommendations to improve the quality of life of all Puerto Ricans. We present the second installment, which is dedicated to the state of Puerto Rico's health ecosystem.

Before we enter into the issues, there is a fundamental issue we must change locally, **the United States is the only developed country that does not consider access to health care as a fundamental human right.**

In contrast, the United Nations recognizes access to health as a fundamental human right. The U.N. Human Rights Committee has stressed that the right to life is intrinsically linked to equitable and accessible access to health services. Without such access, the possibility of a dignified and healthy life is seriously compromised.

The new public health policy must reflect this fundamental principle, ensuring that all people, regardless of socioeconomic status, can access the necessary health care. This paper presents the Way Forward for Puerto Rico's Healthcare Ecosystem.

In 2019, Retail giant Walmart launched the Walmart Health Centers to much fanfare. During their five-year lifespan, it seems to have impacted positively with patients while continuing to learn, pivot, and evolve.

Walmart's total assets for the July 31, 2024 quarter were \$254.054 billion, and Revenues for the twelve months ending July 31, 2024, of \$665.035 billion. It's a formidable corporation with robust capital and power.

Walmart Health's total revenues for the fiscal year 2024 were \$1.2 billion. When it closed on June 28, 2024, Walmart Health had 51 locations across the United States.

So when Walmart announced the closure of its Walmart Health centers on April 30, 2024, it sent shockwaves through the healthcare industry.

Almost no one could have anticipated this move. Walmart Health's operation of 51 centers across five states and a virtual care platform struggled despite its formidable size and resources. The company cited "**challenging reimbursement environments and escalating operating costs**" as reasons for the unsustainable nature of the business.

What exactly does a Challenging Reimbursement Environment mean? Let's delve into the specifics:

1. **Low Reimbursement Rates:** Primary care services often receive lower reimbursement rates than specialty care. Specifically, Medicaid and Medicare rates frequently fall short of covering the comprehensive costs of primary care, especially in low-income or underserved areas. This discrepancy can significantly impact financial sustainability.
2. **The complexity of Claims Processing:** Managing claims and navigating the insurance landscape involves a complex administrative burden. This includes dealing with intricate billing codes, obtaining pre-authorizations, and addressing claim denials and appeals. The time and resources required for these processes can erode profitability and strain operational efficiency.
3. **Payment Delays:** Insurers' reimbursement delays can severely impact cash flow. Extended wait times for payments create financial instability, making it challenging for providers to maintain smooth operations and financial health.
4. **Value-Based Care Challenges:** Transitioning to value-based care models, which emphasize patient outcomes over the volume of services, demands substantial upfront investment in care coordination and data management. This shift can be financially onerous for some providers, particularly when the returns are not immediately apparent or guaranteed.

Escalating Operating Costs

1. **High Fixed Costs:** Operating healthcare centers entails significant fixed expenses, including lease agreements, utilities, equipment maintenance, and staff salaries. Managing these costs becomes particularly challenging when revenue streams are inconsistent.
2. **Labor Costs:** The cost of employing healthcare professionals—such as doctors, nurses, and administrative staff—can be high. Additionally, attracting and retaining skilled talent in competitive job markets further increases labor expenses.
3. **Technology and Infrastructure:** Investing in and maintaining technology, such as electronic health records (EHR) systems and telemedicine platforms, requires substantial capital. Ongoing maintenance and upgrades contribute to continuous operational expenses.
4. **Regulatory Compliance:** Adhering to healthcare regulations and standards—including those related to patient privacy (HIPAA), quality reporting, and accreditation—incurs additional costs. Compliance often necessitates investment in training, systems, and processes.
5. **Insurance Costs:** Providers must carry malpractice insurance, which can be costly. Rising insurance premiums place further financial pressure on healthcare centers, impacting their overall viability.

This raises a critical question: if a retail giant like Walmart, with its impressive reach and supply-chain expertise, couldn't make primary care profitable, can anyone make it work?

The answer is Yes; Elevance Health, formerly known as Anthem, is a prominent health insurer in the United States, delivering medical benefits to **47 million members**. The company provides a variety of coverage plans, including those for employers, individuals, and government-sponsored programs. What sets Elevance apart from its competitors is its unique role as the largest single provider of Blue Cross Blue Shield branded coverage. It serves as the licensee for the Blue Cross Blue Shield Association in 14 states and offers Medicaid Advantage plans in 26 states. Through strategic acquisitions like the Amerigroup deal, MMM in Puerto Rico, and Blue Cross and Blue Shield of Louisiana, Elevance's footprint has increased. So when Elevance announced a new partnership with Clayton, Dubilier & Rice to "accelerate innovation in primary care" and improve health outcomes, unlike Walmart, Elevance doubled down on primary care.

The contrasting strategies of these two major players highlight the broader challenges facing healthcare in the U.S., and Puerto Rico can draw important lessons from this. Like the U.S., Puerto Rico's healthcare system struggles with high costs, unequal access, and an overemphasis on reactive care instead of preventive care.

To sustain Puerto Rico's health care in the long term, businesses, governments, and these health systems themselves must work with transparency to deal with the challenges, whether financial, demographic, loss of physicians, loss of workers, access to capital, or a combination of all five.

The golden rule is that numbers never lie. They usually tell the story for us. From March 15, 2020, when the pandemic began, to December 31, 2021, the published estimated losses to the Puerto Rico Healthcare ecosystem amounted to **\$1,085,185,711 billion**. The professional associations and our analysis estimated that the total bank and bonded debt of the Hospitals was just shy of \$1.5 billion. Meanwhile, the Puerto Rican government granted some \$300 million through the Cares Act, providing relief. A \$785 million hole in the finances of this healthcare ecosystem is hard to fill.

One of Puerto Rico's most significant threats is a systemic healthcare ecosystem risk that includes healthcare facilities and all providers.

Addressing the systemic risk in Puerto Rico's healthcare system, We have proposed two key initiatives:

1. **National Emergency Wellness Hospital Lending Program (NEW-HOPE):** This program would allocate \$1.5 billion in U.S. funding to support hospital operations, expand financing options, and increase healthcare capacity in Puerto Rico. In collaboration with the U.S. Treasury and the Federal Reserve, NEW-HOPE would invest in hospitals, provide loans, and guarantee long-term financing to help ensure these institutions continue operating and serving the island's residents.
2. **Treasury Investment Program (TIP):** This program would allow hospitals to issue equity, preferred stocks, warrants, or senior debt to the U.S. Treasury, providing financial flexibility while preserving their independence. By leveraging \$300–\$500 million from NEW-HOPE, the program could help hospitals regain economic stability and, over time, generate returns for the government as the sector recovers.

Together, these programs would offer much-needed financial lifelines to Puerto Rico's healthcare system, helping it survive and thrive through its ongoing challenges.

The Importance of Integrated Primary Care

Walmart's retail strategy relies on increasing consumer choice and lowering prices across various categories, from groceries to financial services. Walmart Health followed a similar model, offering routine primary care at low, transparent prices. However, the failure of this approach reveals a critical flaw: primary care on its own is rarely profitable, but it can dramatically reduce long-term healthcare costs by preventing acute care needs.

This is a critical point for Puerto Rico's healthcare system. Without an integrated approach combining primary care, Wellness, and specialty care, no investment in healthcare infrastructure will result in significant cost savings or improved outcomes.

The best example of primary and preventive health in Puerto Rico is the approximately 93 Primary and Preventive Health Centers, known as Centers 330 in Puerto Rico, which are a vital network of community clinics that provide primary and preventive health services to low-income populations and underserved communities.

These centers are funded primarily through federal funds under Section 330 of the Public Health Service Act, allowing them to provide accessible, quality health care regardless of patient's ability to pay. Their

contribution to public health is invaluable, as they offer a wide range of services, including primary medical, dental, mental health, and pharmaceutical care, as well as prevention and health promotion programs. This has significantly improved the health of the island's most vulnerable communities by reducing economic and geographic barriers to accessing health services.

This brief is part of a series of reports and proposals by Birling Capital on the challenges facing the health ecosystem and how to transform it.

Wellness Whole-Person Health: A Model for Puerto Rico

Puerto Rico has the opportunity to embrace a model that goes beyond transactional care, integrating primary care with broader social, behavioral, and preventive services. The approach taken by Elevance, which I refer to as "wellness whole-person health"—could serve as a model for the island. By focusing on the overall well-being of individuals and not just treating illnesses, healthcare providers can deliver better outcomes at lower costs.

Wellness is defined as being in good health, especially as an actively pursued goal. It is often used interchangeably with "health", but wellness is more active and process-oriented, while health is more of a state of being. Wellness encompasses the eight dimensions of wellness: physical, intellectual, emotional, spiritual, environmental, financial, occupational, and social.

This model emphasizes patient-provider solid relationships, supported by data insights, care coordination, and realigned incentives that reward preventive care.

Learning from Global and Local Examples

Global examples, such as Portugal's community health networks, show the effectiveness of integrating primary care with public health services. With significantly lower healthcare spending, Portugal achieves better health outcomes than the U.S. by focusing on community-based preventive care. Similarly, the U.S. Veterans Health Administration (V.A.) has successfully implemented a whole-person health model, achieving better outcomes at two-thirds the cost of Medicare.

For Puerto Rico, these examples underscore the need to shift from fragmented, transactional care to a more integrated system. Investment in primary care can help address the healthcare disparities on the island, lower total costs, and improve long-term health outcomes.

The Way Forward for Puerto Rico

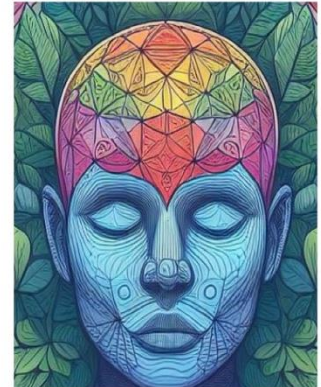
The failure of Walmart Health highlights the risks of treating healthcare as just another retail service. At the same time, the success of integrated models like Elevance and the V.A. show the promise of investing in whole-person health. Puerto Rico must focus on building a system emphasizing preventive care, Wellness, and solid relationships between patients and providers.

By learning from global best practices and adapting them to local needs, Puerto Rico can turn its healthcare challenges into opportunities for transformation.

In Puerto Rico, healthcare underfunding from Congress has resulted in a \$29 billion shortfall, impacting the quality of lives of all U.S. Citizens from Puerto Rico in a very meaningful way. Despite this, Puerto Rico's life expectancy rose to 80.69 years in 2023, up from 74.26 in 1995—a 7.96% increase and much better than the

The 8 Dimensions of Wellness

- Physical
- Intellectual
- Emotional
- Spiritual
- Environmental
- Financial
- Occupational
- Social



U.S. average life expectancy of 76.40 years. Our happy disposition, combined with a healthy dose of sun, fun, and chinchorros, helps us enjoy life.

The Final Word: Wellness: A Lasting Journey that Puerto Rico must embrace

The wellness market isn't just a passing trend—it's a lasting shift. Puerto Rico offers a unique appeal with its natural beauty, ideal weather, and rich culture, but its healthcare system faces severe systemic risk challenges. These issues existed before the pandemic and have only worsened:

1. **Disproportionate Spending:** 2-3% of patients consume 80% of medical budgets due to delayed treatment of severe conditions.
2. **Chronic Diseases:** Diabetes, heart disease, and other chronic illnesses are the most costly due to genetics and lifestyle.
3. **Insufficient Funds or Focus on Holistic Healthcare Model:** There is a critical need to restructure the healthcare system into a holistic model emphasizing preventive care. Educating the population to manage their health proactively is essential.
4. **Physician Shortage:** 5,000 or 36% of all doctors have left Puerto Rico in the past decade, disrupting care.
5. **Population Decline:** Emigration and declining birth rates have reduced patient volumes and the population by over 18.29%.

The question is not whether Puerto Rico can afford to prioritize Wellness but whether it can afford not to. Wellness is a commitment to long-term health, and Puerto Rico must seize this moment to embrace the wellness revolution. The good news is that Primary and Preventive Health Centers, or Centers 330, are at the forefront of preventive and primary care in Puerto Rico, providing essential services to underserved and low-income populations across the island, becoming a model that Puerto Rico needs to follow.



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