



The Daily Dish

ABJ Health

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Eakinomics: ABJ Health

Amazon, Berkshire Hathaway, and JPMorgan Chase & Co. (ABJ) stole the [headlines](#) yesterday when the three companies announced they were forming a health care company. Specifically, the goal is to focus on technology that can lower health care costs for the three companies' combined one million plus employees. According to the *Wall Street Journal (WSJ)*: "The ballooning costs of health care act as a hungry tapeworm on the American economy," Berkshire Chief Executive Warren Buffett said in prepared remarks. "Our group does not come to this problem with answers. But we also do not accept it as inevitable." Interestingly, the *WSJ* also reported that the startup company would be "free from profit-making incentives and constraints."

Start with the latter. The "why" are they doing this is clear — to reduce employee health care costs. But the bottom line is likely to be a little trickier. All three companies are likely self-insured — they pay for the costs of their employees' care — so at first blush the new company needs simply to save as much in health care costs as it costs to set up and operate. If so, then (collectively) it is a break-even operation. If it doesn't, then their collective profits will fall, something unlikely to be rewarded by investors.

But not so fast. The economic evidence is that when the cost of health insurance rises, it is offset by a decline in cash wages (at least over longer periods). If so, any health savings for ABJ will be offset by rises in cash wages. ABJ will have the same employee compensation costs and the cost of the new entity. The temptation to recoup those costs by selling the to-be-determined magic elixir more broadly will be overwhelming. It's hard to imagine money will not be an issue in the end.

The "how" of the new entity is even sketchier. One might imagine the new company managing the health care of their employees more carefully and using existing therapies

and treatments. But those employees are scattered across the globe, and this sounds perilously close to replicating the provider networks of existing insurers. Technological solutions could be actual therapies. Which ones? The “how” could also be some combination that genuinely lowers costs. It will be interesting to see.

The ABJ health startup is a fascinating headline. It will be even more interesting to see what develops.