





# What Is the Health Care Utility Model, and How Can It Transform Health Care?

## A Q&A WITH SSM HEALTH'S LEAD FUTURIST CARTER DREDGE

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**A**ustin Schafer serves as the manager for Mission and Pastoral Care for the Good Samaritan Hospital region with TriHealth in Cincinnati, Ohio. He's also a student in Loyola University Chicago's Health Care Mission Leadership doctoral program. Schafer had Carter Dredge, the senior vice president and lead futurist with SSM Health, as a guest speaker for one of his classes, and wanted to further explore the health care utility model Dredge spoke about there, as his curiosity was piqued about its future applications in the Catholic health care ministry. Dredge advances SSM Health's research and development, innovation and new venture activities.

**Carter, welcome. First, would you share how you became involved in health care?**

I grew up in a four-generation home, surrounded by people who had a lot of health challenges. I had a mother who was paralyzed before I was born. I had a grandfather who was helping take care of my mother and me when I was young. And at the same time, he was also taking care of his mother, who was born in the 1800s. And I just became very passionate about how we take care of one another, particularly individuals who have a lot of health challenges and in many cases operate at the margins of society. I work for a Catholic health care system, SSM Health, which I truly love. I love the mission of the organization, and I'm in the business of alleviating human suffering. We're talking about health care utilities today, because I think they have significant promise to scale the way that we do philanthropic and ministry-oriented work in Catholic health care to an

entirely new level.

**Could you describe the basics of what a health care utility is for those who may not have heard about it?**

A health care utility is a new type of nonprofit organization that has a social mission to provide essential health care products and services at the lowest sustainable cost possible — in short, it's a powerful business model for doing good. The term "utility" is a reference to models for other commonly shared basic services like water or electricity. The mission of a health care utility is to make an essential service accessible to everyone at the same low cost.<sup>1</sup>

There are four main aspects that define a health care utility. The first is how it's structured and governed. Health care utilities are not owned by anyone, but they're managed by stewards — people who have responsibility to ensure the



Photo by GlobalSTL, Health Innovation Summit

Carter Dredge

services are delivered in the most appropriate way and at the lowest sustainable cost. Second, they're funded by those stewards/governing members, so they have a customer financing component, and they do so through debt and not equity. That's really important, because financing is designed to produce low-cost goods and services, not a return in and of itself. So, funding these businesses is a means to getting greater access for essential goods and services. They're set up to deliver critical access and services to the many, particularly those who are vulnerable, and for services that have become very costly.

Third — and this is where it gets its name “utility” — they provide the services at a transparent and low cost that's the same for everybody. They provide the services to everyone on equitable terms. It's not about squeezing out additional profit; it's about delivering health care at the lowest sustainable cost possible so that people can get access to these essential services. And fourth, it's about the market in which they operate. These entities are not run by the state or a government. Instead, they're a private enterprise that competes in the marketplace, which means they're dynamic. And while they are dynamic, they are access maximizers, not price maximizers.

Many times when businesses are setting up their marketing strategy, they will ask, “What is the price the market will bear?” That's not health care utilities. These entities are asking a fundamentally different question: “What is the lowest sustainable cost that I can provide this to the market?” As a result, it actually brings competition to the market.

The most widely known health care utility to date is Civica Rx. Major health systems and philanthropists pooled their resources to create a generic drug company that provides drugs used in hospitals for essential inpatient care at a lower cost than those sold by large pharmaceutical companies.

#### **How do health care utilities positively disrupt the health care marketplace?**

This type of collaboration is what we call disruptive collaboration. It is collaboration not to maintain the status quo, but collaboration to drive an innovative change. Sometimes, with disruptive innovation, you're talking about a new technology or a novel way of doing something, like an innovative technological process. In this case, with disruptive collaboration, what we're doing is we're bringing innovation to known essential products



by changing the way we work together. The collaboration is a structural innovation, not a technological one. So, for example, one of the things that we're doing is introducing low-cost insulin. It's not like we have to invent insulin; it's a product that already exists. However, there are certain elements of the current market that have been keeping insulin at a very high cost even though the medical application of insulin is 100 years old. Insulin is an essential product for people to live, but yet, the drug companies still demand an excessive — if not extractive — premium to the point where a quarter of Americans who rely on insulin have to inappropriately ration it.<sup>2</sup> The notion behind disruptive collaboration is this: by pulling together the scale of multiple institutions that then make long-term commitments to deliver low-cost services — focused on the needs of the community and the patient — it can positively disrupt the status quo and change health care for the better.

**Carter, that's a major and complex problem in health care — that people can't afford essential medications.**

Many times in health care, the reason something is expensive is because there's just a handful of firms that provide it. You could use the term oligopoly. If there's less than that, maybe it's a duopoly. And maybe if there's just one, it's a monopoly. In many of these instances, the economies of scale are significant, and no one individual organization, no matter how big they are — even the biggest health care system in the United States — can do it alone. One health system, for instance, doesn't have the scale to compete with pharma. But if you pull enough of them together, then you have the needed scale. And when you align that scale in a mission-oriented and patient-centric way to create low-cost, high-access services, then you can not only create scale that translates into low cost, you can create scale that translates into low price.

**In my doctoral course, you shared that almost all FDA prescription drugs and most health care technological innovations in the U.S. are developed by for-profit entities. And so, if Catholic health care doesn't increasingly enter this space to compete, I really think the ordinary fabric of U.S. health care is going to become more unaffordable, especially for the poor and vulnerable.**

**You spoke earlier about turning to the health**

**care utility model to offer insulin at a lower cost. Civica Rx, as a health care utility, was formed in 2018 by a group of health systems and philanthropies, many Catholic. What are the latest developments with Civica and its impact?**

For those not familiar with Civica Rx, it started with a group of 10 organizations: seven health systems — four of which were Catholic health care systems, two other nonprofits and one for-profit health care system — and three philanthropies. We raised \$100 million to create Civica Rx. Nobody owns Civica Rx. It's financed by health systems and philanthropies, not by external parties that are trying to create value in the financing itself. With the lower cost medicines that we produce, everyone gets the same price. Members of the management team were hired from the pharmaceutical industry and the health systems, and members of other organizations also sit on the board of directors.

We now offer more than 60 generic drugs to hospitals and have over 55 health systems as members. We also sell products to the U.S. Department of Veterans Affairs and the Department of Defense. This reach amounts to approximately a third of the total hospital inpatient capacity in the United States.

Additionally, a Civica subsidiary partnering with mission-aligned insurers and other organizations — called CivicaScript — is dedicated to lowering the cost of select high-cost generic medicines in the retail setting. It recently recommended that pharmacies charge patients no more than \$171 for its first retail medicine used to treat prostate cancer that has spread to other parts of the body. That is about \$3,000 per month less than the average cost of this medicine, Abiraterone, for many patients.<sup>3</sup>

**Do you get any political backlash? To me, it sounds like it's really the best of both worlds — it's helping the poor and vulnerable, but it's also something that is competing in the free market.**

The great news is that we absolutely have strong bipartisan support for these types of initiatives. Once we showed this was working, the federal government got involved as part of a multiparty grant — of which Civica was a member — to help build a dedicated pharmaceutical facility in Virginia.<sup>4</sup> We will produce essential medications at this new manufacturing facility and continue to supply both the market and the strategic national stockpile to ensure that we have an

end-to-end secure pharmacy supply chain process in the United States.

**That connects to our Catholic social thought tradition and the fact that health care is a universal human right and so critical for promoting human dignity and full human flourishing.**

One thing that I'm so passionate about, and just one of the many reasons that I'm so grateful for what CHA does, is that with the innovation of the health care utility model, it comes back to the roots, honestly, of how Catholic health care came to be. There's a tradition of religious orders for women and others in Catholic health care who have said, "We can't accomplish what we need to accomplish alone."

**Catholic health care systems have been great examples of innovation throughout their history because they've taken on problems that have not been easily addressable. Taking care of the poor and the vulnerable is an essential thing to do, but that doesn't mean it's easy.**

The first hospitals emerged when people realized the need was beyond that of individual groups, and communities came together to basically build the institutions we have today. In a similar analogy, we're realizing that some next-generation problems are beyond the scope of the individual institutions of today. We now need to come together again and solve these new and pressing problems. Our communities are counting on us.

**That's an incredible vision because it also connects deeply to the *Ethical and Religious Directives for Catholic Health Care Services*. The U.S. bishops state that Catholic health care "should distinguish itself by service to and advocacy for those people whose social condition puts them at the margins of our society." The health care utility model sounds like it does just that as it advocates for the common good, creates greater access to more affordable health care, and focuses on our call to stewardship. How are health care utilities connected with our Catholic mission?**

The utility model creates new operating com-

panies to accomplish very specific and focused objectives — with many of these objectives being extremely aligned with those of Catholic health systems. So, while the new health care utilities are not a Catholic entity, they include Catholic entities as founding and governing members, and therefore don't do anything that would violate the ERDs. These utilities focus on market failures that are hurting people. And that is very aligned with where we need to be: How can we alleviate suffering? Catholic health care systems have been great examples of innovation throughout their history because they've taken on problems that have not been easily addressable. Taking care of the poor and the vulnerable is an essential thing to do, but that doesn't mean it's easy.

**Is there a role for mission leaders in this work?**

As mission leaders and other leaders in Catholic health care become more deeply aware of how these new business models work, they're likely to be one of the most in tune groups of leaders to step back when looking at a problem and to ask, "Is this a utility problem?" This

is because they're already the ones who are personally engaging in their respective communities and seeing the problems up close. They will be able to see where the system is lacking coordination or scale to adequately solve a problem. They have the potential to catalyze their health ministries to see the value of this "disruptive collaboration" mindset and to see opportunities for them to join or create some of these utilities.

**What's the future for health care utilities beyond pharmaceuticals?**

We've identified over a dozen potential utility applications and think there could be even more; there will be more details as I can talk about them.

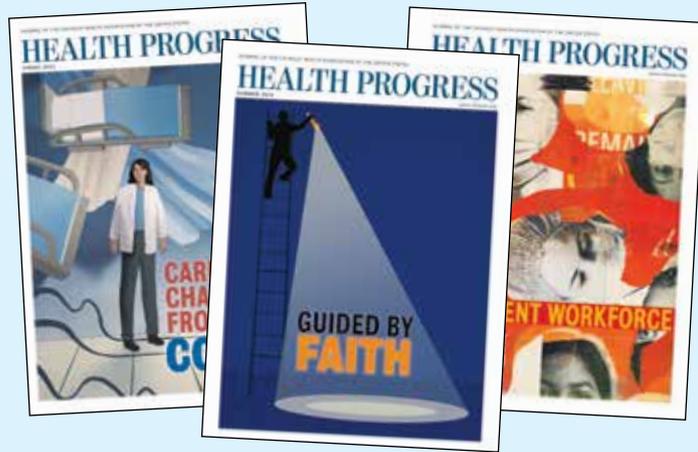
At a recent conference that SSM Health hosted in partnership with the University of Cambridge's Judge Business School in the United Kingdom, we brought together about 30 health care leaders from numerous countries to talk about new health care utility businesses and what's next.<sup>5</sup> We're also working to create a health care utility fund to increase and streamline the production of more health care utilities. This approach has the

potential to reduce human suffering and produce innovative nonprofit health care companies that will address some of the most pressing essential access challenges. When I see people engage in this type of utility work, I can see the flame of passion and selfless commitment like the collaborative spirit that helped create Catholic health care long ago.

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**NOTES**

1. Carter Dredge and Stefan Scholtes, "The Health Care Utility Model: A Novel Approach to Doing Business," *NEJM Catalyst*, July 8, 2021, <https://catalyst.nejm.org/doi/full/10.1056/CAT.21.0189>.
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