NOV 10
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Primary care entrants' Medicare Advantage revenue growth could be stymied by ongoing DOJ investigations

Article

The news: Primary care disruptor **Oak Street Health** reported its Q3'21 revenues hit **$388.7 million, a 78% year-over-year increase**.

The bigger picture: Oak Street Health's strategy is different from most primary care providers, as it encourages doctors to spend more time than usual with patients, and it could be driving higher patient satisfaction—and recommendations—because of it.

Oak Street Health says it doubles the typical time spent with patients, which is likely fostering the patient-physician relationship and driving patients to return back to their offices:

- The company boasts a **97% patient retention rate**, for instance.

A high retention rate like means patients are recommending the organization to their family and friends—a key way Medicare patients find care options:

- About **39% of US seniors say they ask a family member or friends to better understand Medicare options** available to them, per a 2020 survey by Healthinsurance.com

A less rosy Oak Street announcement: The primary care disruptor also revealed that as of Nov 1, it was notified by the **DOJ** that it will be under investigation to determine whether it violated the False Claims Act (which holds companies liable for defrauding any gov't programs like Medicare).

Why it matters: Oak Street Health isn't the only company to get investigated by the DOJ as the CMS cracks down on alleged fraud in its Medicare Advantage program.

For context, Oak Street Health is tied to the CMS through the new direct contracting program, which pays participating value-based care organizations (including Oak Street, **VillageMD**, and **Clover Health**) a monthly fee to deliver care to incentivize providers to focus on health outcomes rather than fulfilling a high volume of services.

The DOJ has accused major insurers and primary care organizations of elevating patient risk scores to inflate members' care needs, and in turn, receive higher payments from the CMS.

- For example, in late October, the DOJ alleged **Kaiser Permanente** submitted claims to make patients appear sicker than they were. Kaiser Permanente denied these allegations.
- And in late August, health system **Sutter Health** agreed to pay **$90 million** to settle allegations of risk adjustment fraud.

Zooming out: If the allegations are true, Medicare-focused insurers and primary care disruptors like Oak Street Health could face hefty financial penalties.

- If Oak Street is in violation of the False Claims Act, it could result in a **civil penalty between $5,500 and $11,000 for each claim submitted**, which could quickly rack up per patient.

However, it's likely the investigation could blow over and not leave a long-term revenue impact on the likes of Oak Street Health: CEO Mike Pykosz said "it's unclear what the DOJ is specifically investigating" during the call.