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COMMENTARY HEALTHCARE

How Obamacare Is Changing the Startup World

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As Americans begin to decide how to vote in 2016, one of the many questions they are asking is: how well is the Affordable Care Act working?

The natural inclination is to look backwards—to judge whether the ACA has measurably improved the health care system in the last 6 years. Here, the answer is clearly yes. Nearly 19 million people have gotten insured. And health care inflation has been lower than at any time in the last 50 years, although drug costs are going up faster. Not bad.

A better way to evaluate the ACA is to look forward—to assess whether the law is setting the framework for a higher quality and lower-cost system. The best window on the future is the health care start-up sector. These are the companies that will shape the care we all receive in the next decades. And the picture provides good reasons to be optimistic.

Overall, 2015 was a record year for medical investing, including in biotech companies making new drugs. But it was also a record year for investing in start-ups aimed at improving quality or reducing costs. In 2011, just after passage of the ACA, about $1.1 billion was invested in “technology-centric, health-related companies that facilitate healthcare administration, delivery, or access.” In 2014 and 2015, that figured skyrocketed to over $4.3 billion.

Where is all this money going?

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A lot of it is going where you might expect: new apps and technological innovations to deliver care more efficiently. There are many companies, for example, devoted to scaling up telemedicine so that patients can see their doctor without going into the office. Others are working to improve medication compliance with new gadgets like “smart” pill-bottle caps. Still others, like Omada Health, are using gamification and virtual communities to promote diet, exercise and health living among the chronically ill.

But, perhaps surprisingly, many of these start-ups are working to redesign and reimagine parts of the health care system that already exist but aren’t working well or have been long ignored. Many Americans are already familiar with Oscar, the irreverent, insurance start up targeting hipsters in New York and now Los Angeles and Texas. But in Colorado, there is also Bright Health Plan, a start-up picking up the pieces of the state’s co-op to launch a low-cost, narrow network health plan.

Similarly, several companies have dedicated themselves to modernizing primary care practices by using big data. VillageMD is currently operating in Houston, Indiana and New Hampshire, soon to be in Ohio and Illinois. They provide physicians with data on their patient panels and builds support teams that include pharmacists, nurse managers, and care coordinators, all focused on coordinating care and improving patient results. A team of clinicians make home visits on high-risk patients. While pharmacists do home delivery of chronic medications with medication reconciliation at time of delivery. The physicians have data not only on their own performance but also on the specialists and hospitals they use, helping them identify the highest quality and lowest cost specialists to use. Village MD has been able to raise primary care physician salaries, which helps attract more into the area. Another example is Aledade, which has organized over 500 primary care physicians in 11 states with 80,000 patients. The company claims lots of improvement in vaccination rates, preventive services, 24/7 access that have reduced emergency room use to 6% and hospitalization rates by 4%.

There are a string of new companies working to improve another problem area: mental and behavioral health. Lantern provides patients with customized assessments in laymen's terms and offers tailored online programs such as cognitive Behavioral Therapy. Ginger.io links people to a coach and if necessary a licensed therapist. Quartet is trying to bridge the gap between mental health care and primary care. For patients, it utilizes a set of online assessment and diagnostic tools to determine appropriate referrals and deploys online counseling which is has proven more beneficial than many anticipated. For therapists, Quartet provides treatment guidelines matched to proven therapeutic interventions, and uses phone-based reminders and other techniques to reduce the extremely high rate of no-show patients that exacerbate a universal problem of scarce therapist appointments.

Still, others are rethinking traditional care using the Uber model. One company, Dispatch, is developing technology that allows patients to call for emergency room-level care in their homes so that they avoid expensive trips to the hospital. Another company, Aspire, with the guidance of former Senator and physician Bill Frist, is trying to identify terminally ill patients and connect them to a nurse practitioner trained in palliative care.

The goal is to treat their symptoms and provide counseling in order to keep patients symptom free, out of the hospital, and at home with their families. Preliminary evidence suggests they cut hospital admissions by as much as 50%.

The ACA is also unleashing a flood of talented entrepreneurs into health care. As venture capitalists endlessly repeat, when it comes to new companies, “people are everything.” Entrepreneurs who used to go to traditional Silicon Valley start-ups focused on search, shopping, sharing, and software are now migrating to health care. David Ebersman, the former chief financial officer of Facebook, has a new health care start up. Jini Kim, who was an early Google employee, created Nuna health and along the way, she was one of the six Silicon Valley techies who saved healthcare.gov in November and December 2013. Nat Turner and Zach Weinberg created an advertising start up for You Tube in their University of Pennsylvania dorm room and sold it to Google (GOOGL). In 2012, they created Flatiron, a company that provides a user-friendly electronic medical record specifically for oncology. The company also mines the data to help drug companies streamline identification of patients for clinical trials. Lots of other senior executives with no or limited health care experience from Yammer, Reputation.com, Yahoo (YHOO), IDEO, and other companies have come into health care.

Undoubtedly, there will be booms and busts. Many of these start-ups will fail. Few will become $1 billion unicorns. But the amount of creative energy entering the health care space is a good sign that the ACA created predictability that is necessary for investors, and incentivized innovation to reduce costs and increase quality. Like all the activity that brought us Google, Facebook (FB), Amazon (AMZN), and the others, this activity offers a good reason to be optimistic about the future of health care in the USA.

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