Private Equity and Corporatization of Health Care

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Nov. 11, 2023

PNHP Conference Session: Problems with the Commodification of Health Care

My journey down the PE rabbit hole:

The NEW ENGLAND JOURNAL of MEDICINE

March 26, 2020
N Engl J Med 2020; 382:1189-1191
DOI: 10.1056/NEJMp1916443

Perspective

Stalled Federal Efforts to End Surprise Billing — The Role of Private Equity

Erin C. Fuse Brown, J.D., M.P.H.

The NEW ENGLAND JOURNAL of MEDICINE

Perspective

Corporate Investors in Primary Care — Profits, Progress, and Pitfalls

Soleil Shah, M.Sc., Hayden Rooke-Ley, B.A., and Erin C. Fuse Brown, J.D., M.P.H.

Article Metrics

5 References

January 12, 2023
N Engl J Med 2023; 388:99-101
DOI: 10.1056/NEJMp2212841

The NEW ENGLAND JOURNAL of MEDICINE

Perspective

SEPTEMBER 14, 2023

A Doctrine in Name Only — Strengthening Prohibitions against the Corporate Practice of Medicine

Jane M. Zhu, M.D., M.P.P., M.S.H.P., Hayden Rooke-Ley, J.D., and Erin Fuse Brown, J.D., M.P.H.

October 2021

Private Equity Investment As A Divining Rod For Market Failure: Policy Responses To Harmful Physician Practice Acquisitions

Erin Fuse Brown, Loren Adler, Erin Duffy, Paul B. Ginsburg, Mark Hall, and Samuel Valdez

USC-Brookings Schaeffer Initiative for Health Policy

USC Schaeffer
Leonard D. Schaeffer Center for Health Policy & Economics

Economic Studies at BROOKINGS

SSRN

Private Equity and the Corporatization of Health Care

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Georgia State University College of Law, Legal Studies Research Paper Forthcoming

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The Missing Piece In Health Care Transparency: Ownership Transparency

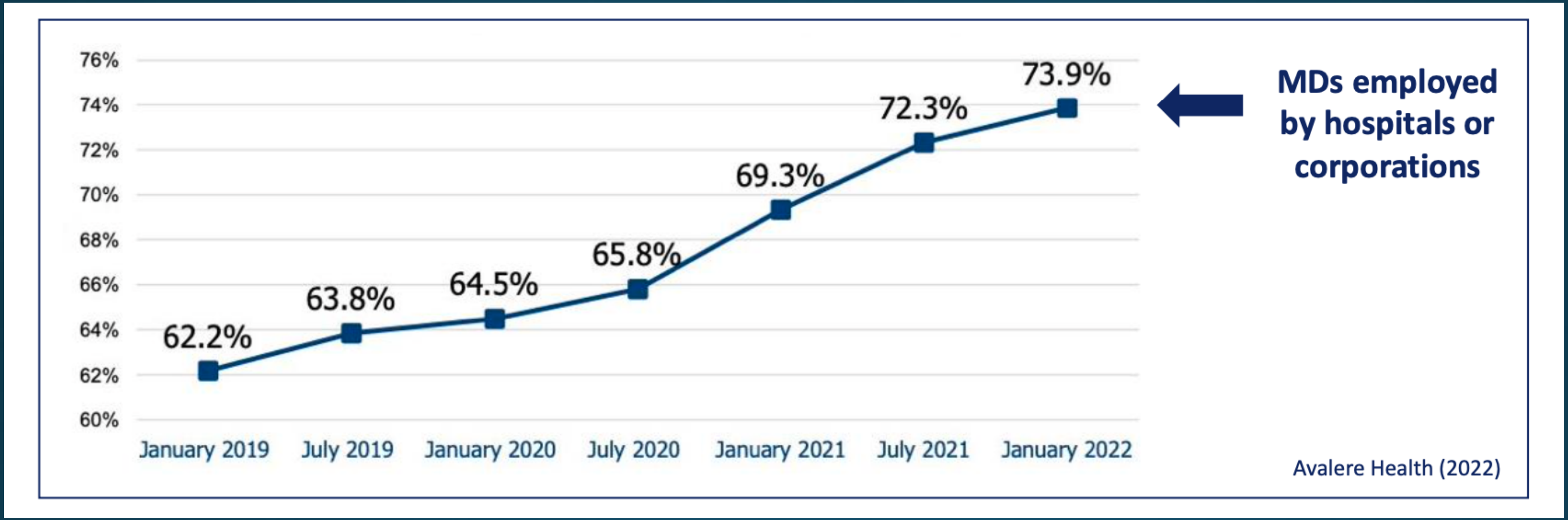
Yashaswini Singh, Erin C. Fuse Brown

SEPTEMBER 22, 2023
10.1377/forefront.20230921.886842

Overview

- Trends in corporate investment in health care, the PE model
- Potential harms of PE investment in physician practices
- Policy levers to address PE and corporate entry into health care markets

Changes in Corporate Ownership of Physicians



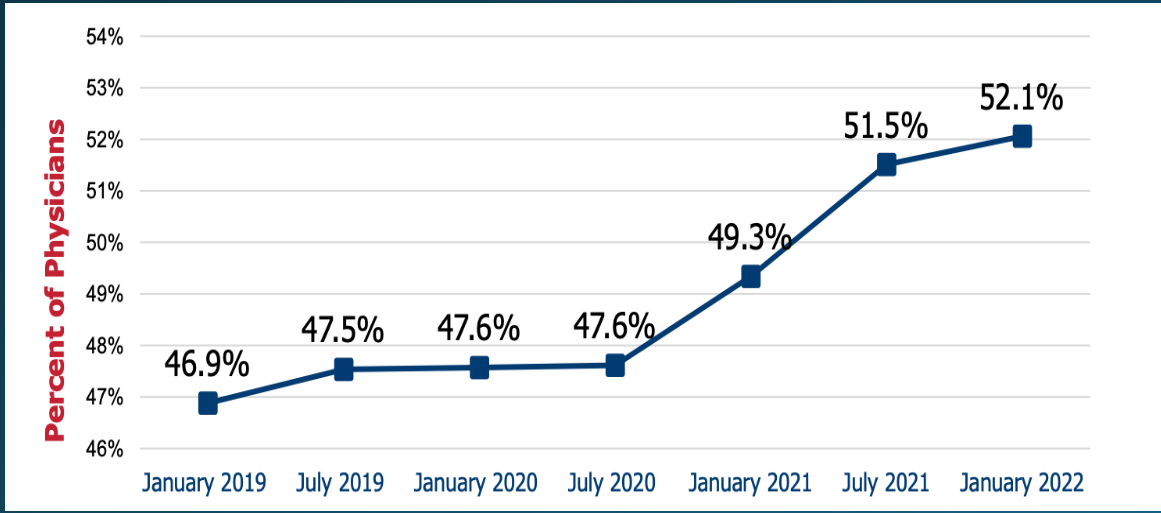
Types of Corporate Owners:

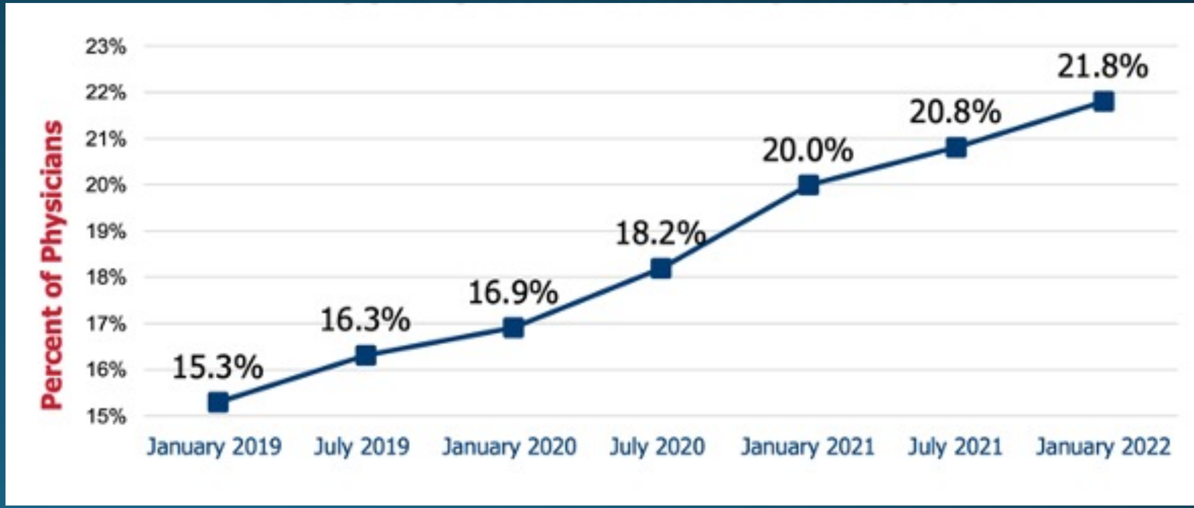
1. **Hospitals and Hospital Systems**
2. **"Other" Corporate Entities: Private Equity, Health Insurers (e.g., UnitedHealth Optum), Retailers (e.g., Amazon, Walgreens)**

Hospital and Other Corporate Ownership

As of 2022, *51%* of MD's were employed by hospitals, an ***11%*** increase during the three-year study period

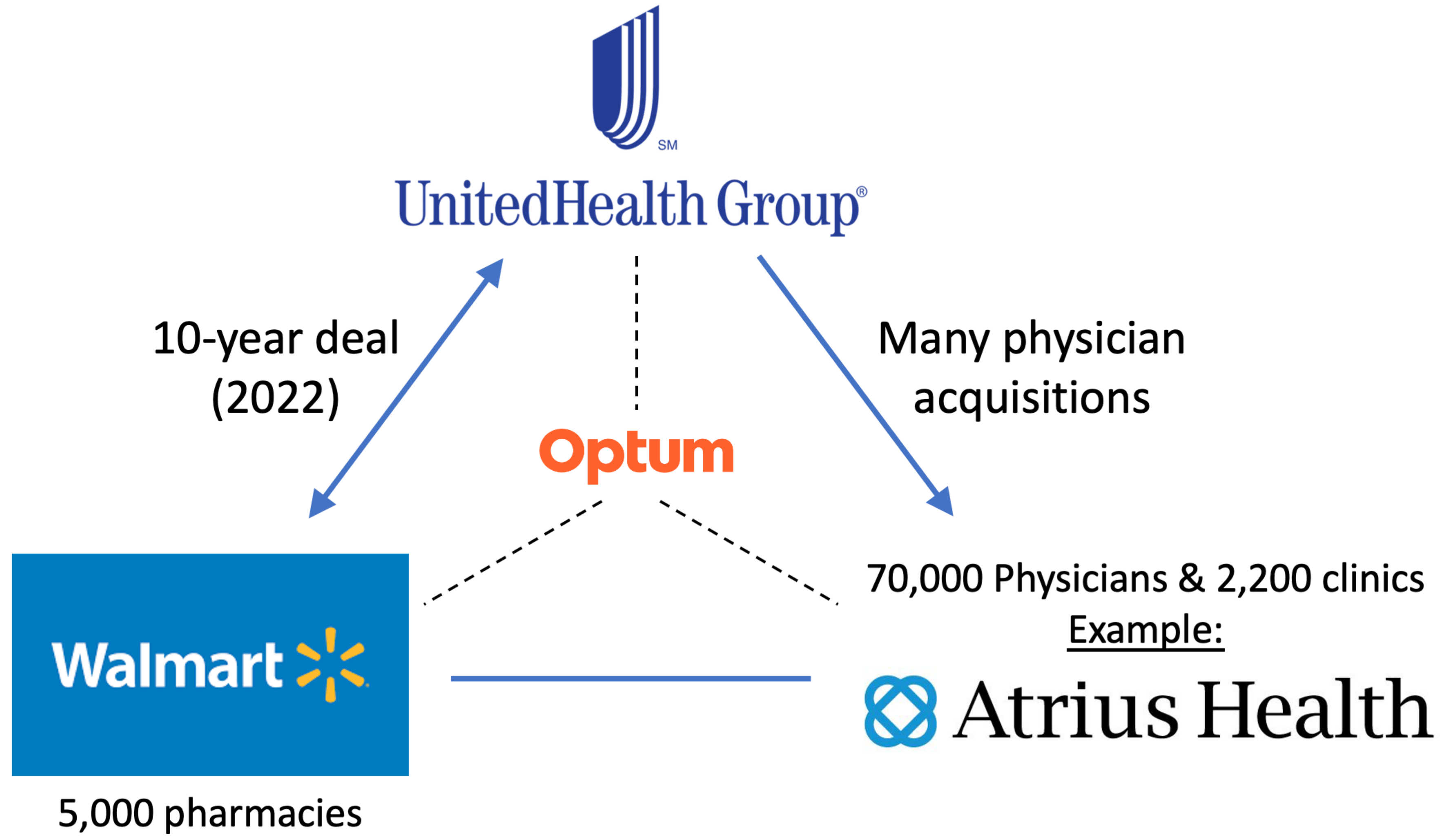
As of 2022, ***21.8%*** of physicians were employed by "other" corporate entities, a ***43% increase*** over a three-year period





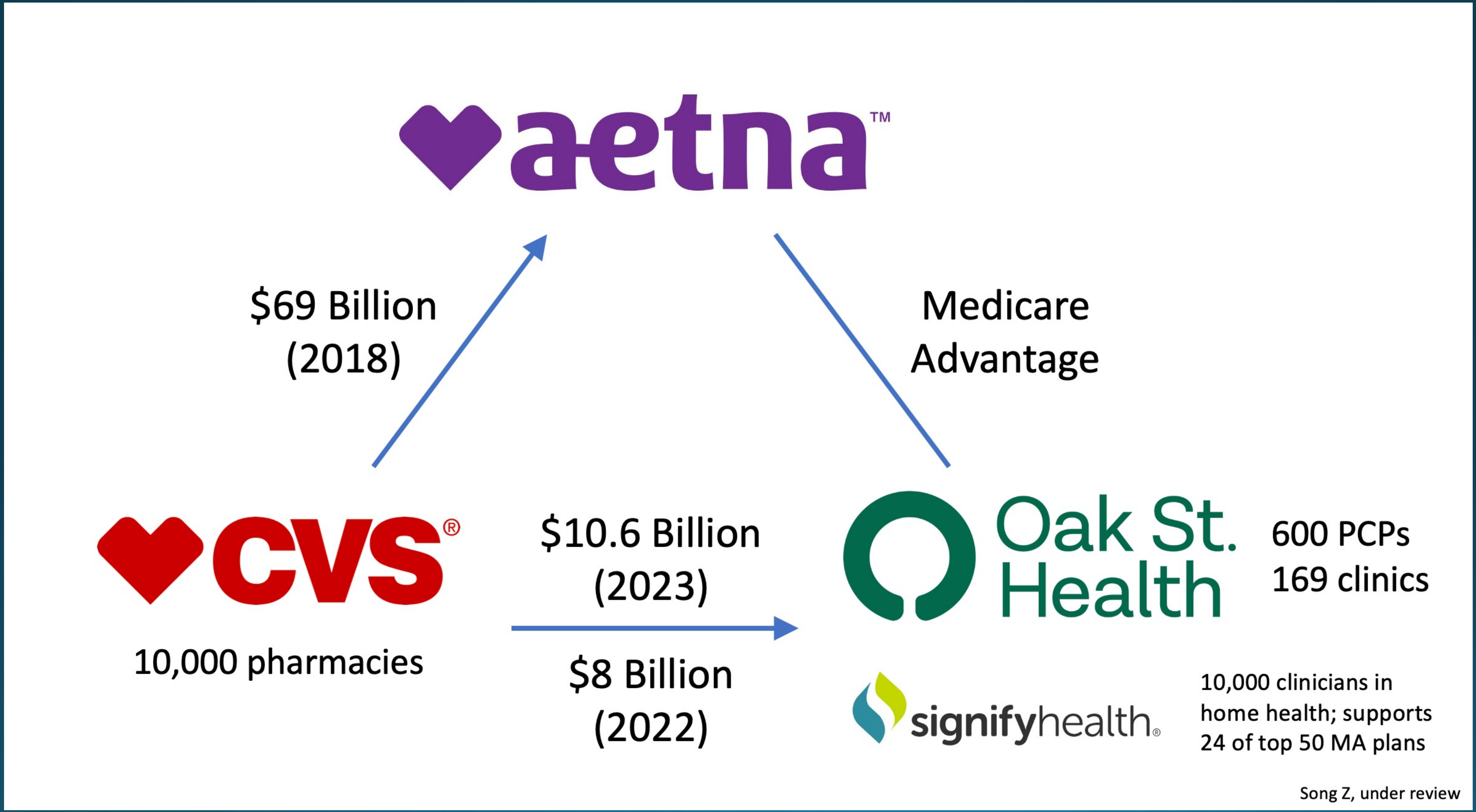
Avalere Health (2022)

Insurers + Pharmacy + PBM + Physicians = "Pay-vider"

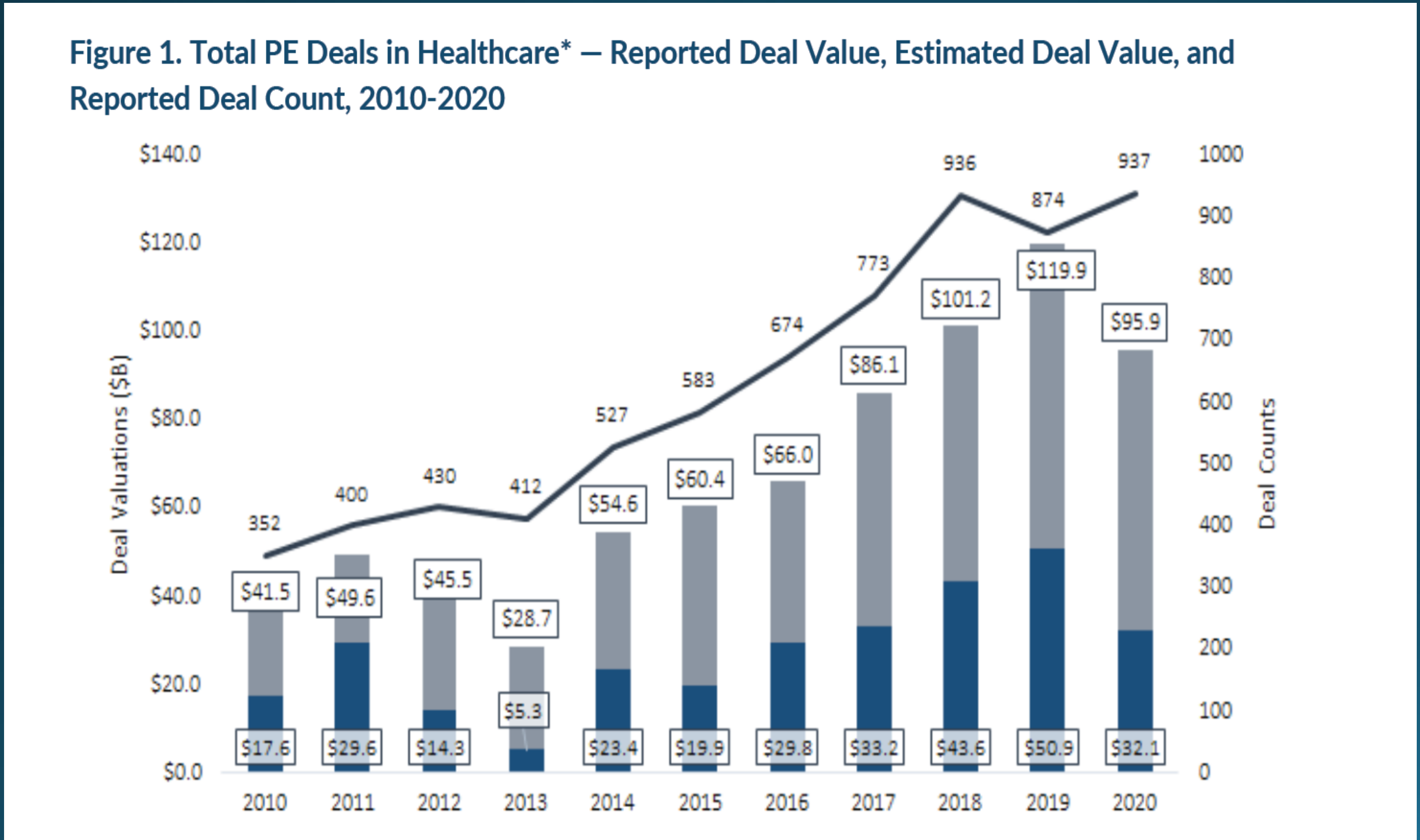


Song Z, under review

Insurers + Pharmacy + PBM + Physicians = “Pay-vider”



Private Equity investment in health care



R. Scheffler et al. 2021

- PE capital investment in health care grew from $5 billion in 2000 to $100 billion in 2018
- Total value of health care deals 2010-2020: $750 billion
- Physician practice acquisitions grew from 39 to 221 deals annually 2010-2019 (1,283 deals in total the decade)

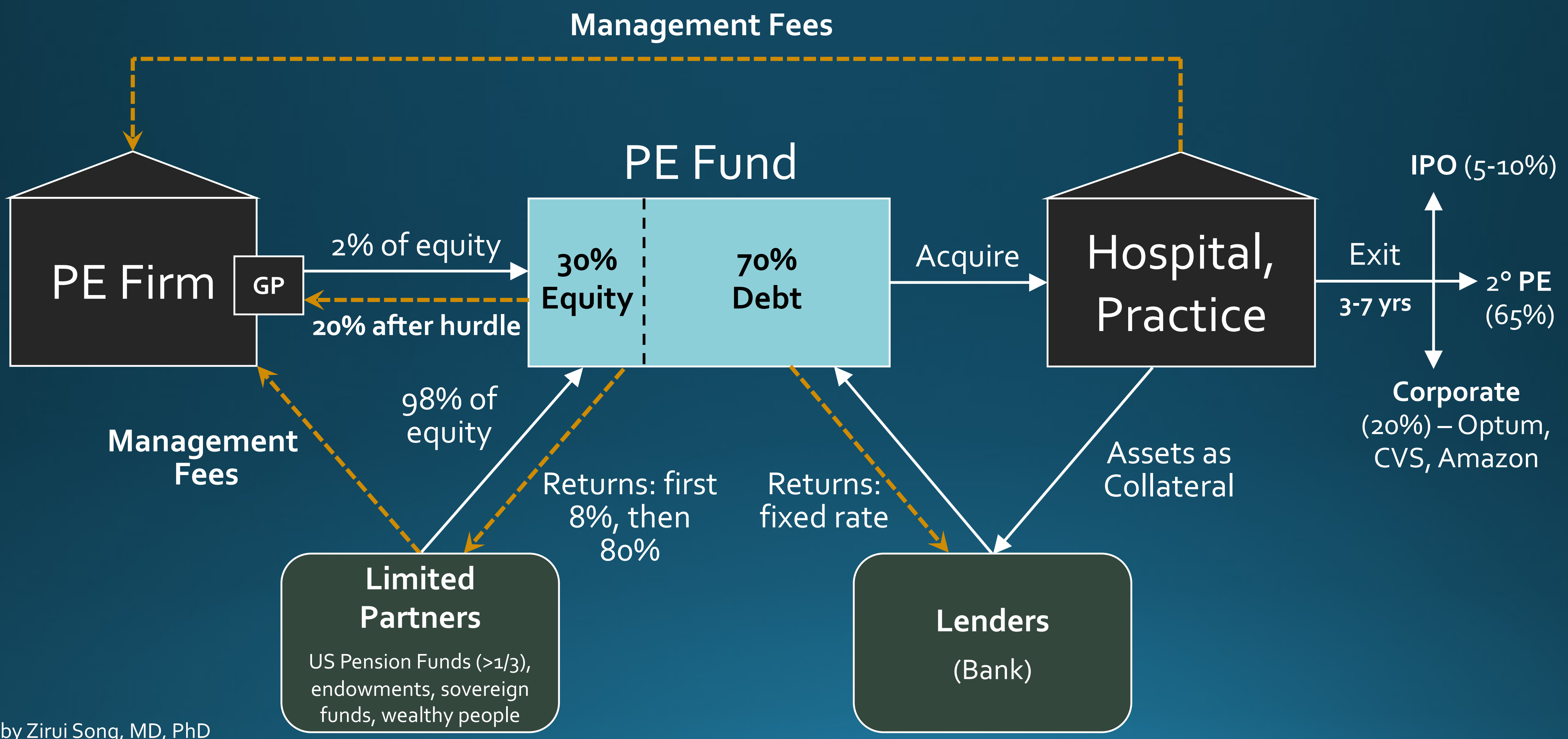
Table 1. Non-Health System Physician Practice Acquisitions, 2010-2020

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Hospital-Based												
Anesthesiology	5	5	11	10	16	23	35	15	12	10	10	**152**
Hospitalist	14	17	4	9	12	9	6	3	1			**75**
Radiology		2	1			3	5	14	19	10	5	**59**
Emergency Medicine	2	2	2	9	6	7	9	5	11	6		**59**
Neonatology	8	1	1	5	1	2	2	2	1	2		**25**
Office-Based												
Dermatology			1	3	6	13	31	53	59	30	25	**221**
Ophthalmology			3	3	1		3	18	41	68	47	**184**
Gastroenterology						4	4	7	9	17	10	**51**
Orthopedics		2	2			2	2	3	3	7	7	**28**
Pain Management				3	1	1	2	4	10	5		**26**
Other Office-Based		2		1	1	2	3		8	3	11	**31**
Value-Based Payment & Primary Care												
Primary Care	3	4	1	3	6	7	6	15	10	22	16	**93**
Women's Health/Fertility	2	4	3		1	3	3	8	9	7	12	**52**
Multi-Specialty	1	4	7	3	4	5	6	10	6	4	1	**51**
Pediatrics	3	3	11	1	1	3	5	4	3	2	5	**41**

- PE acquisitions of physician practices increasing in last 5 years
- We lumped these into 3 main categories:
  - Hospital-based
  - Office-based
  - Value-based payment & Primary Care

Data source: Irving Levin Associates

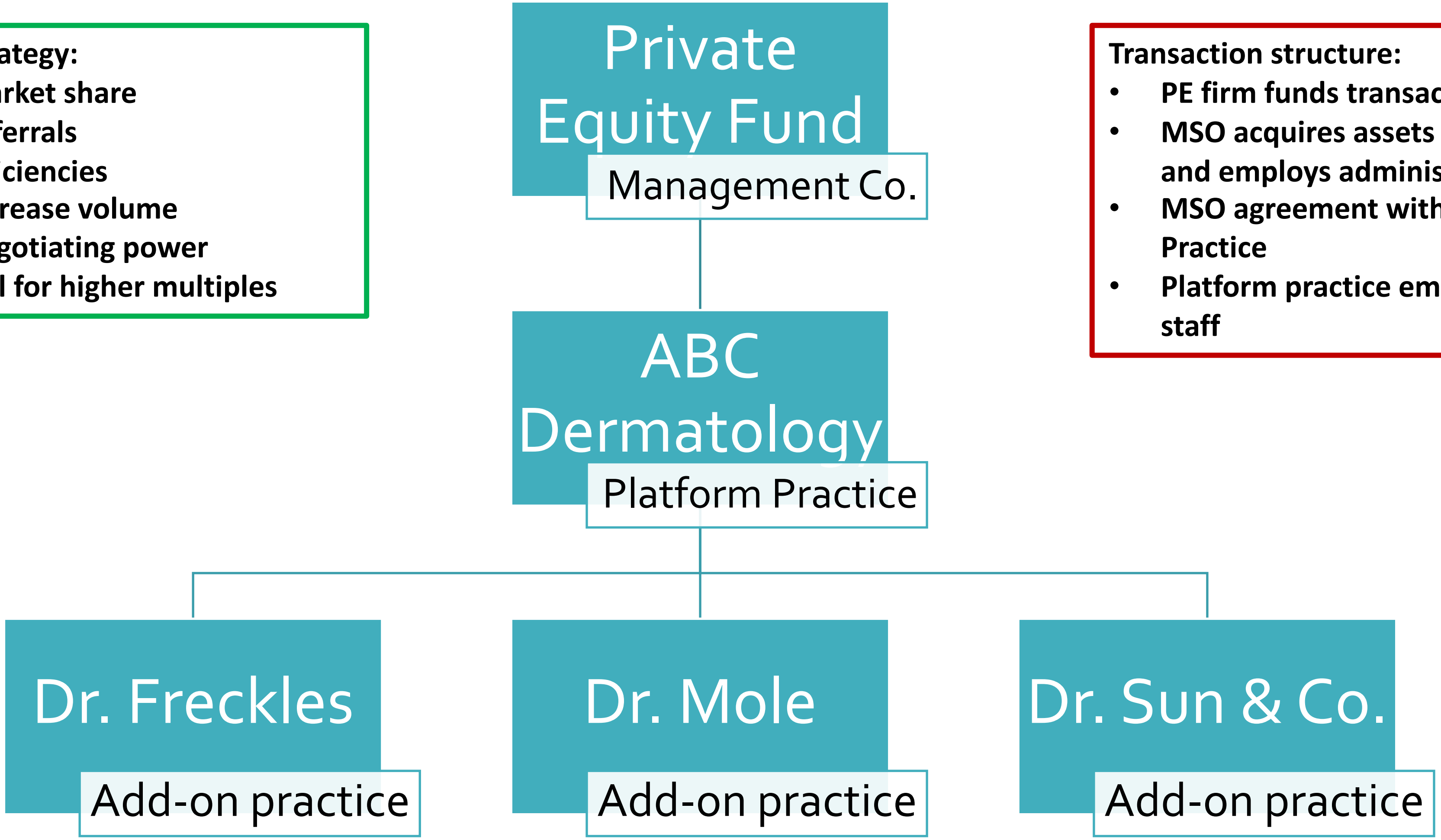
Classic Model of a Private Equity Acquisition



Slide by Zirui Song, MD, PhD
Harvard Medical School
Massachusetts General Hospital

Building Market Share: Platform + Add-On Model

Strategy:
Market share
Referrals
Efficiencies
Increase volume
Negotiating power
Sell for higher multiples



Transaction structure:
- **PE firm funds transaction**
- **MSO acquires assets from practices and employs administrative staff**
- **MSO agreement with Platform Practice**
- **Platform practice employs clinical staff**

Source: Zhu and Polsky (2021) NEJM; Gandhi and Song (2019) JAMA

How is PE different than traditional corporate investment?

Private Equity	Traditional for-profit buyers, publicly traded corporations
Highly leveraged: Target receives less capital, mostly debt.	Transaction does not typically add to target's debt burden
Short-term horizon: increase value and exit 3-7 years	Going concern – exit is not necessary to generate returns
Moral hazard: PE firm can profit even if target fails. Plenty of upside, little downside risk. - Debt on target's balance sheet - Losses limited to small equity investment - Minimal hit to reputation	Investors' fortunes are tied to the target's success. Public company's share values, credit ratings, etc. are pegged to performance of subsidiaries. Repeat or institutional actors have regulatory and reputational capital to maintain.

Adapted from: Atul Gupta, NIHCM Webinar, Understanding the Growth & Influence of Private Equity in Health Care, June 6, 2023.

Potential Harms

Harm 1: Consolidation, Cost increases

Concentration of market power, up-coding, aggressive risk-adjustment.

Harm 2: Patient Care

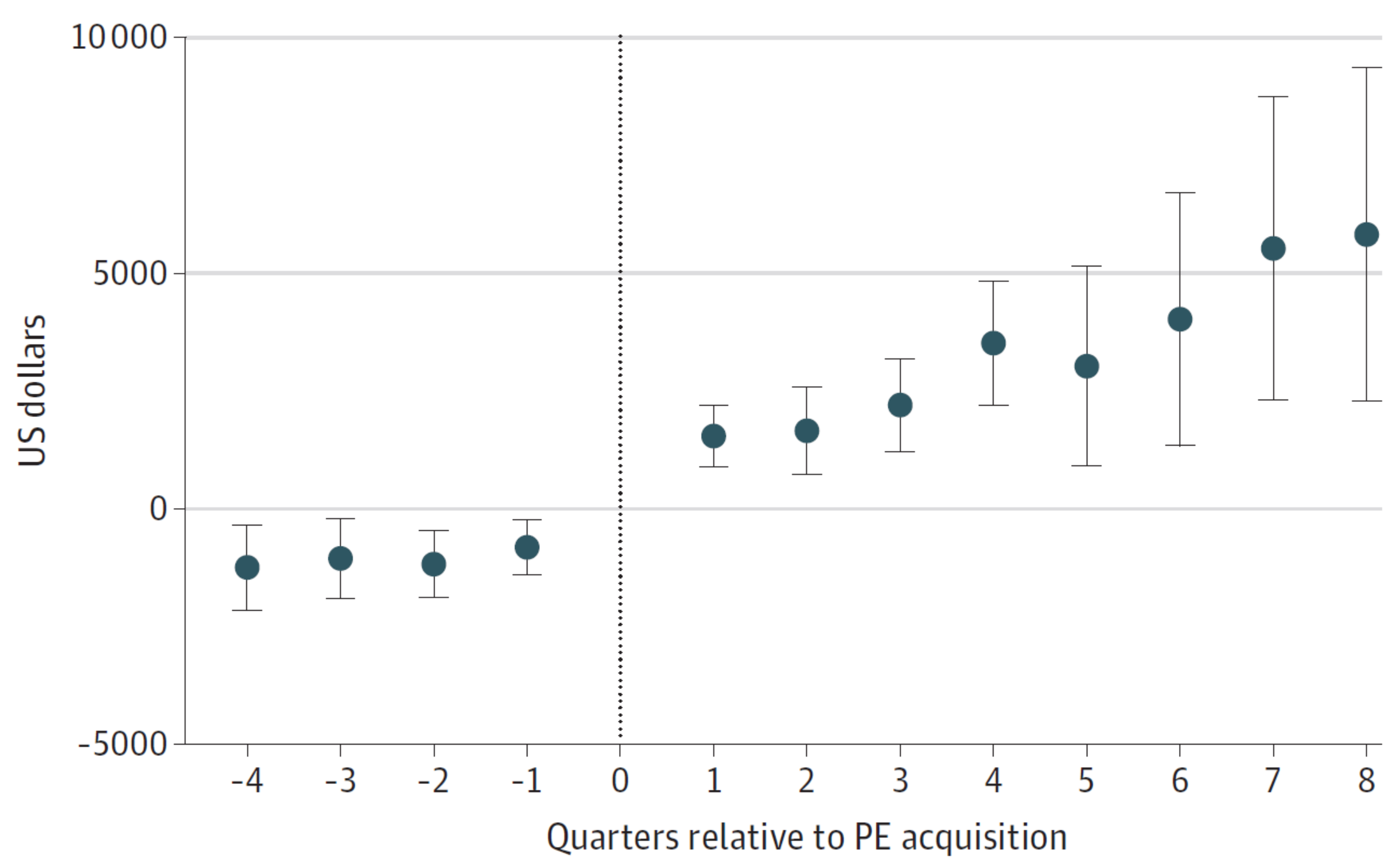
Staffing reduction, cost-cutting, closure of less profitable services or facilities

Harm 3: Workforce

Physician burnout, exit, staffing cuts, loss of autonomy

PE Acquisitions of MD Practices → ↑ Spending, Charges, Prices, Volume

Figure 1. Changes in Total Spending per Practice Associated With Private Equity Acquisition, by Quarter



JAMA Health Forum

Relative to controls, PE acquisitions increased:

Charges	20%
Prices	11%
Aggregate volume	16%
Unique patients	26%
New patient visits	38%
Long visits (>30min)	9%

Singh Y, Song Z, Polsky D, Bruch JD, Zhu JM. Association of Private Equity Acquisition of Physician Practices With Changes in Health Care Spending and Utilization JAMA Health Forum. 2022

Corporate investment → Financialized health care

- Corporate investment in physician services is driving a trend toward the financialization of health care, with investors mining health care service organizations to extract wealth.
- The primary goal of financialized health care is profit, while quality of patient care is a secondary concern and cost control is anathema.

Policy Levers

Legal or Policy Response	Risk of Harm Addressed
Antitrust enforcement (e.g., FTC v. USAP)	Consolidation and price increases
Close payment loopholes (e.g., No Surprises Act)	Cost increases from exploiting loopholes for profit
Fraud and abuse enforcement (FCA, Stark, AKS)	Overutilization, up-coding, self-referrals
State employment laws (Corporate practice prohibitions, gag-clauses, non-competes, whistleblower protection)	Clinical workforce harms, loss of autonomy, moral distress, burnout
Ownership transparency	Opacity obscures the problem, allows for political capture

How does single-payer or universal health care reforms address corporatization?
(Beware Medicare Advantage for all)

Takeaways

- Corporate investors have flooded the market, increasing the financialization of healthcare
- This poses sufficient risks to warrant an immediate policy response
- We already have many tools to address the risks of corporate investments in physician practices, but they may need sharpening
- The policies should target the market failures, payment loopholes, consolidation themselves
- Ultimately, these policy levers may be insufficient to address corporatization of health care – need to renovate the foundational market orientation health care