The Rise of Private Equity in Medicine: A Welcoming or Worrisome Partner?

Richard Shi

Abstract

Private equity firms have become increasingly involved in physician practice acquisition, recently focusing on procedural and surgical specialties such as orthopedics, urology, and vascular surgery. These companies leverage business and marketing expertise to create operational efficiencies and maximize profitability. However, their involvement in medicine may compromise physician autonomy and lead to increases in health care expenditure without commensurate quality improvement. Trainees and medical students should familiarize themselves with this private sector involvement in medicine, to subsequently avoid business partnerships that may hinder high-quality, patient-centered care.

The concept of an independent physician has been phased out. The modern healthcare landscape is dominated by hospital conglomerates owned by major university institutions and insurance companies. As a result, the healthcare system has become burdensome for solo practitioners and small physician groups who must contend with increasing competition, decreasing reimbursements, and expensive ancillary costs.

Private equity (PE) firms are the newest players in the physician practice acquisition space. In 2019, the valuation of private equity deals in the US healthcare system exceeded $100 billion, representing hundreds of acquired practices (Gondi, 2019). The partnership between a PE firm and a physician practice begins with a buyout of the practice by the PE firm, usually multiples of the practices' earnings. Once partners, PE firms introduce structural changes to the operations and business model to streamline services and increase productivity, thereby creating a more profitable practice. Several years later, the practice is sold to new investors at a higher value, ensuring returns to both physician owners and the PE firm (Meyer, 2019).

The first wave of private equity investments began in the early 2010s, which targeted practices in dermatology, ophthalmology, and dentistry. Today, the second wave of investments are focusing on additional procedural/surgical specialties, such as orthopedics, urology, vascular surgery, and gastroenterology. These specialties have a high degree of market fragmentation and opportunity for consolidation/expansion, high utilization by a burgeoning aging population, and lucrative

ancillary services like surgery centers and office-based labs. These factors represent higher reimbursement rates and larger opportunities for growth compared to other specialties, which are attractive to PE firms looking to rapidly maximize returns (Gabriel, 2019).

My own future specialty, vascular surgery, has begun to receive investments from PE companies. Vascular surgery utilizes both endovascular and open surgical techniques to clear blood clots and stenotic lesions in both arteries and veins, due to unmanaged chronic diseases like hypertension, renal failure, and diabetes. PE companies have been attracted by the prospect of outpatient ancillary vascular services, such as lucrative vein procedures and vascular imaging. With improving technologies, vascular surgeons have also shifted routine vascular procedures (angiograms/venograms) from the hospital to the office setting, which have favorable reimbursement rates and reduced operating costs. With rising rates of peripheral arterial disease in a growing aging population and improving medical technologies, the need for vascular procedures will remain high, presenting an attractive opportunity for PE companies (Satiani, 2021).

There are many benefits to physicians selling their practice to PE firms. Upon selling, physicians receive an initial buyout which can be in the millions of dollars. If they remain partners, they can receive another large buyout when the practice is sold to another investor years down the road. PE firms are invested in maximizing profitability of these offices, thereby bringing business and marketing expertise to the practice, skills that physicians are not taught during medical school. With this new management, operational efficiencies are created, services are expanded, and negotiating power with payors is enhanced (Offodile, 2021). Physicians can forgo dealing with the business end and focus more on the clinical side, an attractive option for some.

The disadvantages to this model are most notably the long-term consequences. PE firms are entirely focused on making a return within a short-time frame (3-7 years). There is little focus on the long-term health and impact of the local community. In surgical fields, this may involve unnecessary procedures being performed and expensive medical devices utilized when otherwise not indicated. Physician autonomy may be affected, as their value will be solely measured by the number of procedures/operations we can accomplish. PE firms may also have long-term consequences on healthcare costs. Efforts to protect patients from surprise bills were stymied by PE firm-backed lobbyists, as their practices benefitted from expensive surprise bills (Huetteman, 2019). As PE companies consolidate practices and have higher negotiating power, payers may pay higher prices for care without commensurate quality improvements. There may be an uptick in kickbacks, over-billing, and aggressive coding of procedures (Gustafsson, 2021). These costs will ultimately be passed onto patients and employers.

Private equity will remain in healthcare for years to come. While there is no clear future, we should prepare to navigate this private sector involvement and mitigate potential negative consequences to patient care. First, we must continue to vigorously research the longitudinal impact of PE acquisitions on patient care and healthcare costs. We need defined clinical and financial metrics, such as mortality rates, staffing ratios/turnover, Medicare spending, etc. We also need to investigate PE-backed practices that are engaging in unlawful and/or immoral conduct and using legal loopholes to abuse the healthcare system, such as their efforts to hinder surprise-billing legislation. Undoubtedly, we must look towards our medical organizations to educate physicians on rise of PE firms, instill proper incentives in physicians to not put profits above patient care, and lobby congress to review existing or create new legislation (Scheffler, 2021).

Finally, more attention on this issue must be shared with trainees and medical students, as PE companies will have a major impact on our lives as attending physicians. As newly graduating physicians, we will no doubt run into employment offers with large salaries and sign-on bonuses from PE-backed healthcare organizations. However, we must be cognizant that behind some initial offers may be unfair bonus structures, pressures to supervise physician extenders with minimal financial gain and increased risk, and aggressive non-compete clauses (Grant, 2021). Those that choose to work at a PE-backed healthcare entity must be aware of the pressure to perform certain lucrative procedures to maximize financial returns. This is in odds with our medical ethos and professional autonomy.

Unless major legislative change occurs and more attention is brought to this issue, it is unlikely that these trends will change in our future. Consolidation is central to the private equity business model, and we will have a future where most healthcare organizations, such as hospitals, nursing homes, emergency rooms, etc. may have some private equity ownership. However, despite recent trends, 44% of physicians remain self-employed in 2020, albeit more-so in a mid-to-large sized practice wholly owned by physicians, rather than a singular physician (Kane, 2021). While it may be difficult to open an independent practice after residency, the option to join a physician-owned group is still available to graduates in the proximate future.

The choices we make as future leaders, practice owners, and attending physicians over the next few decades will certainly impact the role of private equity in medicine. Will we resist acquisition by PE firms and corporate parties and find novel ways to bolster physician independence? Or will the corporatization of the healthcare system become an unstoppable force, leaving us to be eventually employed in one form or another? The future is up to us.

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