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Private Equity And The Monopolization Of Medical Care

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Feb 20, 2023,04:00am EST

From 2013 to 2016, private equity firms acquired 355 physician practices. In the four years that ... [+]

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Virtual monopolies exist in almost every healthcare sector: from hospitals and health systems to drug companies and beyond. With so much consolidation of power and influence, U.S. healthcare has become a conglomerate of monopolies. That's the topic of this continuing series.

Doctors are drowning in a sea of paperwork and patient visits—the result of increasing demands foisted on them by insurers and hospital administrators.

With less time spent taking care of people and more spent tending to administrative tasks, physicians are experiencing greater stress (financial and psychological), along with "a dramatic increase in burnout and decrease in satisfaction," according to research published in *Mayo Clinic Proceedings*.

Private equity: late to the game but gaining ground

These troubling trends for doctors have spelled "opportunity" for private equity firms, which entered the healthcare picture a little over a decade ago. From 2013 to 2016, private equity firms acquired 355 physician practices (many

with hundreds of doctors). In the four years that followed, private equity acquired 578 additional physician practices. Those numbers continue to grow.

To doctors, PE firms offer an attractive value proposition: promising to ease physician dissatisfaction by increasing income and reducing insurance hassles. In exchange, physicians agree to relinquish significant control of their practice. Once the deal is done, PE firms leverage that control to generate sizable profits. They do so by:

- Driving down costs through draconian cuts to support staff and/or swapping out physicians for less expensive clinicians like nurse practitioners. (see: *Doctors Are Disappearing From Emergency Rooms*...)
- Pressuring clinicians to provide more (often unnecessary) medical care and/or game the insurance coding system to maximize revenue. (see: *PE-Owned Physician Groups Linked To Higher Spending*...)

As more doctors from a particular specialty and/or community join up, private equity firms raise prices on their behalf, knowing insurers will have no choice but to agree.

The goal is to exit the market in three to five years, selling the medical group to an even larger private equity firm at a huge profit. Only time will tell whether this Faustian bargain becomes the physician's salvation or a nightmare for the profession.

To better understand the motives and methods of PE firms in healthcare, here are four ways they approach market monopolization:

1. Emergency departments

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companies. Envision Healthcare, a nationwide hospital-based physician group, is one of them. Owned by private equity powerhouse KKR, the company employs 25,000 clinicians and staffs an estimated 1 in 12 emergency departments.

Private equity loves emergency services for several reasons.

First, nearly all emergency care is essential and rarely requires any prior authorization from insurance companies. Second, patients usually go to the nearest facility, whether the ER is in-network or not.

For PE firms, the big money's in out-of-network billing. Prior to the passage of the *No Surprises Act*, private equity firms routinely rejected insurance contracts for the right to charge exorbitant OON prices for ER services. Under the new law, arbitration usually limits out-of-network charges, making this tactic less lucrative. But PE isn't giving up the fight. To restore the monopolistic billing practices of the past, medical associations (in conjunction with private equity) successfully sued in Texas to halt implementation of the law, at least for now. Their winning argument was that HHS guidance on arbitration unfairly benefited insurers at the expense of doctors.

While this issue resolves in court, private equity continues to drive profitability by other means. The latest tactic involves urging ER physicians to over-test and over-treat patients, prioritizing the priciest services. A recent study concluded that "high-intensity billing" for expensive emergency services has gone up 400% in the past 15 years.

2. Specialty services in hospitals

Increasingly, hospital-based departments like anesthesia, radiology and pathology are contracting with private equity firms to boost both prices and physician incomes.

Doctors, along with their PE representatives, start by negotiating exclusive contracts with a hospital to provide all the clinical services patients will need. Then, having gained exclusivity, they demand and receive higher per-case rates of 25% or more.

3. Individual physicians

When private equity signs up solo doctors, it acquires anywhere from 30% to 100% of the practice. A typical purchase price is around 15 times the doctor's annual income (adjusted for the percentage of practice they'll own).

For PE firms, a lower percentage requires less money and ensures that the doctor keeps skin in the game. The higher number allows them to seize complete practice control and monopolize the market (assuming the PE company can attract all the community's doctors in that specialty).

More recently, private equity has focused on single surgical or medical specialties like orthopedics and GI. They've realized that by bringing all the doctors in a community together into a single specialty group, they can force insurers to include their facilities and services (e.g., colonoscopy suites or physical therapy) in their network. Doing so sends rates skyrocketing, even when there are less-expensive local alternatives.

In a few communities, private equity leaders have met with insurers to discuss the possibility of negotiating capitated contracts to lower total medical costs.

Under such an arrangement, rather than paying doctors based on the number of patients they see or cases they do, these deals would involve a single, upfront payment for all care delivered to a defined group of patients.

Proponents of a capitated approach say it would reduce unnecessary testing and treatment. But, at least so far, private equity has consistently chosen to enhance profits by charging more instead of making care more efficient.

4. Surgical centers

Surgical centers (or surgicenters) are medical facilities that perform surgery on an outpatient basis. The key to turning them into highly profitable PE investments is to recruit a cadre of surgeon investors, promising them strong returns on facility fees.

More specifically, private equity owners count on surgeons to find patients with the "right insurance." These would be insurance plans featuring high prices for outpatient procedures. But even better are patients with the option to go out-of-network.

To get ahead of this scheme, insurers have built caveats into their health-plan contracts, hoping to keep patients from going to overly expensive sites for medical care. For example, they might require members to pay 25% of the facility fee. That works for the insurer if the in-network price for surgery is $3,000 and the price outside is $4,000. But what happens when a surgical center prices the same procedure at $40,000?

Theoretically, the insurer would have to shoulder $30,000 and the patient $10,000. The only way patients would agree to such an outrageous fee is if the surgical center offered to waive the co-payment. In that scenario, the

individual pays nothing, but the surgical center (and its private equity owners) profit massively by billing the insurance company 10-times the usual rate.

The doctors' dilemma

Given the escalating dissatisfaction of physicians, one might think that private equity's stake in medicine would be growing even faster.

Two factors stand in the way:

1. Doctors recognize that signing on with private equity often proves harmful to patients. Physicians don't want to order tests or provide treatments that add no clinical value or, worse, could lead to complications. Further, they're concerned about generating bills that force families to make high out-of-pocket payments. Researchers have found that private-equity-acquired medical practices charge 20% more per insurance claim than independent physicians. These higher prices come at a time when 40% of Americans fear they won't be able to afford medical care in the upcoming year.
2. Doctors, trained in a medical culture that values autonomy, are reluctant to cede authority to anyone. Although physicians dislike the prior authorization processes imposed by insurers, they're equally weary of trusting for-profit PE firms.

Standing up to the conglomerate of monopolies

The United States spends nearly twice as much per person on healthcare than all other wealthy countries. Some of that added cost results from higher utilization. But, for decades, policy experts have pointed out that higher costs

are mainly the result of higher prices for hospital services, drugs and medical care.

The question isn't why health systems, pharmaceutical companies or private equity investors pursue market control. The question is why payers (businesses, the government and insurers) with comparable market power and influence haven't taken on these monopolies or reined in exorbitant healthcare prices.

That mystery will be the focus of the next article in this series.

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