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Private Equity in Healthcare

By Emily Madoff

Introduction

Nearly $1 trillion in private equity funds have gone into almost 8,000 health care transactions over the past decade, according to KFF Health News. This includes purchasing hospitals, medical practices, and even medical staffing agencies. Because private equity firms generally have short time-horizons and seek only to maximize profit, they often take actions that harm the communities that hospitals and medical practices serve.

Hospitals

There are at least 457 hospitals owned by private equity firms. This represents 22% of all proprietary for-profit hospitals in the United States. However, this number is higher in rural areas. More than a quarter of all private-equity owned hospitals are in rural areas, where there is less likely to be another hospital nearby. In New Mexico the number is 38%. Thus, private equity plays a big role in hospitals around the country, most prevalently in less densely-populated and poorer areas. As in any other industry, private equity firms seek to extract as much profit as possible from their investments in hospitals. This often leads to short-sighted, profit-maximizing decision-making, at the expense of local communities and the hospital's long-term financial wellbeing.

One of private equity's favorite tools in general is the leveraged buyout, whereby the firm finances the acquisition in large part by borrowing against the company it is buying. Thus, private equity firms often leave hospitals mired in debt, which can cripple them financially and ultimately lead to cuts to services. High amounts of debt have even led to hospital closures in some cases.

Another common tactic used to generate cash quickly is the sale-leaseback transaction. Often, private equity firms will sell land owned by the hospital and then lease it back from the new owner. This generates liquidity quickly, but it forces the hospitals to pay rent indefinitely to use land it had previously owned.

As a way to make hospitals more profitable, private equity groups encourage (or force) hospitals to reduce services in less profitable specialties. This problem is especially prevalent in OB/GYN and pediatric services. The cuts can be especially harmful in rural communities, where residents sometimes lack options within a reasonable distance of their homes. In extreme cases, the groups have even closed entire hospitals in vulnerable communities. The other side of the same coin is pushing higher-cost services, sometimes even when less costly options are available.

One of the biggest costs that private equity groups seek to cut at hospitals is labor. These firms are known to understaff hospitals and underpay nurses and other support staff. Perhaps relatedly, a recent report found that patient falls in private equity-controlled hospitals was 27% higher than non-private equity-controlled hospitals, and that the rate of surgical site infections was double.

Another obvious way that private equity firms increase the profitability of hospitals is by raising prices. It has been well documented (and is elementary as a matter of economics) that consolidation among hospitals leads to increased prices. Thus, as private equity firms buy up more and more hospitals in a specific area, they are able to charge more for the same services. One analysis found that in the 25 metro areas with the highest rates of consolidation, the price of hospital stays increased by up to 54%. Even when hospitals in different locations are owned by the same owner, that can still impact prices as it gives the hospitals more leverage in negotiations with insurance companies.

Apollo Global Management

Apollo Global Management is considered to be the largest private equity owner and operator of hospitals. Apollo owns 224 hospitals across 36 states, out of the approximately 460 owned by private equity firms nationwide. Its hospitals are split into two hospital systems, Lifepoint Health and ScionHealth. Lifepoint hospitals are some of the worst rated in their states for quality of care, value, and patient outcomes. They suffer from the same problems as many private equity-owned hospitals, such as chronic understaffing and inadequate supervision of patients. Apollo owns multiple hospitals in the Indianapolis, St. Louis, Austin, and Dallas areas.

Medical Practices

Private equity firms apply many of the same principles to maximizing profits in medical practices. However, it is even easier for them to avoid scrutiny in this domain because of the small scale of each individual purchase of a medical practice.

As with hospitals, one of the biggest ways private equity firms cut costs in medical practices is by hiring fewer or less expensive people; for example, by hiring nurses or physicians' assistants instead of doctors, hiring fewer nurses, or hiring fewer support staff. Additionally, private equity firms often seek to cut costs on medical supplies, which could lead to the use of inferior products.

Another way private equity firms increase costs to patients is through consolidation. Oftentimes, private equity firms target specific specialties (say, gastroenterology) within a specific community. If every practice in the specialty in the area is owned by a single firm, then that allows them to jack up

the prices. One study found that physicians in the most concentrated markets charged rates up to 30% higher than those in the least concentrated ones. Overall, studies have found that private equity acquisitions of medical practices led to increased costs for patients. Private equity-owned practices are also more likely to surprise patients with unexpected bills.

Once private equity firms own a practice, they often “encourage” the physician(s) to make certain changes to increase profits. These include asking physicians to see more patients and instructing them to prioritize more “lucrative” procedures.

Private equity companies are not in it for the long-haul. One study found that over half of private equity-owned practices are sold within 3 years of initial investment. However, in more than 97% of those cases, the groups were resold to other private equity groups. This almost always leads to more consolidation, as bigger private equity firms seek to monopolize specialties within specific geographic locations. Nevertheless, a lack of publicly available data has hindered efforts to track such transactions, much less study their impact.

We are interested in speaking with any patients who believe they may have been injured as a result of private equity companies buying up health care facilities or physician practices.

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Jonathan Friedman, Fordham University 2025 JD candidate, was instrumental in writing this article.

About the Author

Emily Madoff is the Managing Partner of Wolf Popper LLP.

Throughout her career, Emily has used the law to drive socio-political change, often protecting the public from consumer fraud. Emily recently focused on the rampant problems with surprise medical bills; she was instrumental in developing the Firm’s cases in this area, several of which have settled with full recovery for the class. Emily presently is concentrating on using the law to expedite the benefits of diversity and inclusion.

A commercial attorney, Emily was mentored by Marty Popper, eventually inheriting his practice. As such, Emily has represented several missions to the United Nations and various governments and government officials. She is proud to have represented personally some early social justice luminaries, such as Freda Diamond and Ring Lardner Jr. To this day, Emily represents the Georgian artist, Zurab Tsereteli, an internationally-acclaimed monumentalist and UNESCO Goodwill Ambassador, whose works are installed worldwide, including “Good Defeats Evil,” which statue sits on the front grounds of the United Nations headquarters in New York City. The Tsereteli family owns the largest winery in Georgia, producing Tsereteli Wine.

Emily has published many articles about the law, including for the New York Law Journal, an article explaining litigation funding (Analyzing the Fundamentals of Litigation Funding, August 19, 2013) and one about arbitration clauses in consumer contracts (Mandatory Arbitration Clauses in Consumer Contracts, July 5, 2016) and for Latin Lawyer, an article about the securities litigation spawned in the United States as a result of the Petrobras scandal in Brazil (Bringing 'big oil' to the Big Apple, March 2015), for a few examples.

Ms. Madoff is a graduate of Connecticut College (B.A., 1973), and Northeastern University School of Law (J.D., 1979). She is admitted to the Bars of the State of New York, the Commonwealth of Massachusetts and the United States District Court for the Southern District of New York.

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