Privatization in Health Care: Pace, Promise, & Pitfalls

National Academy for State Health Policy
36th Annual Conference

Zirui Song, MD, PhD
Harvard Medical School
Massachusetts General Hospital
Medical practices owned by hospitals or systems

Surgical practices owned by hospitals or systems

MDs employed by hospitals or corporations

Avalere Health (2022)

Nikpay, Richards, Penson (Health Affairs 2018)
Price of Medical Care vs. All Else – Last 23 Years

Note: Medical care includes medical services as well as commodities such as equipment and drugs.

Source: KFF analysis of Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) data
Framework for Health Care Spending

- Price
  - Regulation

- Quantity
  - Eligibility
  - Coverage
  - Capacity
  - Managed Care

Health Care Spending

- Global Budget or “ACO” Contract + Financial Risk & Quality Bonus
- Bundled (or Episode) Payment + Financial Risk & Quality Bonus
Amazon: $3.9 Billion → One Medical

CVS: $10.6 Billion → Oak Street Health

Walmart: 10-year deal → UnitedHealth Group
Aetna

$69 Billion (2018)

Medicare Advantage

CVS

10,000 pharmacies

$10.6 Billion (2023)

Oak St. Health

600 PCPs
169 clinics

$8 Billion (2022)

Signify Health

10,000 clinicians in home health; supports 24 of top 50 MA plans
5,000 pharmacies

10-year deal (2022)

Many physician acquisitions

70,000 Physicians & 2,200 clinics

Example:

UnitedHealth Group®

Walmart

Optum

Atrius Health
Classic Model of a Private Equity (PE) Acquisition

Management Fees

PE Firm

2% of equity

20% after hurdle

98% of equity

Limited Partners
US Pension Funds (>1/3), endowments, sovereign funds, wealthy people

PE Fund

30% Equity

70% Debt

Returns: first 8%, then 80%

Fixed returns

Provider

2° PE (65%)

Exit 3-7 yrs

IPO (5-10%)

Corporate (20%)

Lenders (Bank)

Collateral

1. PE Firm acquires Provider.
2. Limited Partners provide capital through US Pension Funds, endowments, sovereign funds, and wealthy people.
3. PE Fund is structured with 30% Equity and 70% Debt.
4. Management Fees are 2% of equity and 20% after hurdle.
5. The first returns are 8%, followed by 80%.
6. Collateral is provided by lenders (Bank).
7. Exit occurs in 3-7 years, with IPO options at 5-10%.
8. Corporate investment is 20%.
Geographic Distribution and Penetration

**Hospital Acquisitions**

*Figure.* Locations of private equity-owned hospitals in 2018.

Using Medicare cost reports, the addresses for the 130 private equity-owned hospitals in 2018 were identified. There were no such hospitals located in Hawaii or Alaska.

Bruch J, Zeltzer D, Song Z (Annals of Internal Medicine 2020)

**Physician Practice Acquisitions**

*Figure 1.* Private Equity (PE) Penetration Across 6 Office-Based Specialties by Hospital Referral Region (HRR)

- Quartile 1 (0.2-1.5)
- Quartile 2 (1.6-3.8)
- Quartile 3 (3.9-8.8)
- Quartile 4 (8.9-39.6)
- No identified acquisitions

Singh Y, Zhu JM, Polsky D, Song Z (JAMA Health Forum 2022)
Acquisitions of Hospitals → ↑ Income, Charges, Case Mix, Commercial %

Changes in Hospital Income, Use, and Quality Associated With Private Equity Acquisition

Relative to control, PE acquisitions increased:

- Net income: 27%
- Charges per day: 7%
- Charge/cost ratio: 7%
- Charge/cost ratio (ED): 16%
- Case mix: 1.4%
- Medicare %: -2.4%

Figure. Total Charge to Cost Ratios Before and After Private Equity Acquisition
Surgical site infections doubled at PE hospitals, while declining at controls. (Despite 8% fewer surgeries performed)

Relative to control, PE acquisitions increased:
- Composite HACs: 25%
- Falls: 27%
- Central line infections: 38%
  (Despite 16% fewer central lines)
Acquisitions of MD Practices → ↑ Spending, Charges, Prices, Volume

Original Investigation

Association of Private Equity Acquisition of Physician Practices With Changes in Health Care Spending and Utilization

Yashaswini Singh, MPA; Zirui Song, MD, PhD; Daniel Polsky, PhD, MPP; Joseph D. Bruch, PhD; Jane M. Zhu, MD, MPP, MSHP

- 20% increase in charges
- 11% increase in prices
- 16% increase in aggregate volume
- 38% increase in new patient visits
# Venture Capital vs. Private Equity

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<thead>
<tr>
<th></th>
<th>Venture Capital</th>
<th>Traditional Private Equity (Leveraged Buyout)</th>
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<tbody>
<tr>
<td><strong>Stage of investment</strong></td>
<td>Early stage</td>
<td>Mature</td>
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<tr>
<td><strong>Types of companies targeted</strong></td>
<td>Start-ups or early-stage ventures with less of a proven business model, but with high growth potential</td>
<td>Established businesses that are undervalued or underperforming with inefficiencies that could be addressed through changes in operations, financial engineering, or governance</td>
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<td><strong>Amount of investment</strong></td>
<td>Minority stake, &lt;50% ownership</td>
<td>Majority stake, &gt;50% ownership</td>
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<td><strong>Exit time frame (on average)</strong></td>
<td>5–10 years</td>
<td>3–7 years</td>
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<td><strong>U.S. deal value total in 2019</strong></td>
<td>$136.5 billion</td>
<td>$627.3 billion</td>
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<td><strong>Number of U.S. deals in 2019</strong></td>
<td>10,777</td>
<td>5,133</td>
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<td><strong>Estimated average investment size</strong></td>
<td>$12.7 million</td>
<td>$122.2 million</td>
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<td><strong>Expectations for returns</strong></td>
<td>At least 10x; ideally, 50–100x returns for the most successful companies</td>
<td>At least 2–4x returns per deal</td>
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<td><strong>Policy Framework for Private Equity</strong></td>
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<td><strong>F</strong></td>
<td>Fraud &amp; abuse</td>
<td>Enforce federal statutes including Anti-Kickback, Stark Laws</td>
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| **A**  | Antitrust     | A) Federal: improve staffing and bandwidth for oversight at FTC  
                   B) State: state AGs, "corporate practice of medicine" laws |
| **M**  | Moral hazard  | A) Affiliation rule that ties acquired entities to the parent PE firm  
                   B) Limit the % debt used to make an acquisition  
                   C) Carried interest 20% “loophole” |
| **P**  | Patients & prices | A) No Surprises Act prohibiting surprise billing in certain situations  
                   B) Price regulation to mitigate arbitrage incentive of consolidation |
| **T**  | Transparency  | Lower the threshold ($111.4 million) for mandatory reporting of PE acquisitions and the % debt used in the acquisition. |
Medicare Advantage in 10 Short Years

2013 → % of Beneficiaries in MA → 2023

Map showing the percentage of beneficiaries in Medicare Advantage (MA) from 2013 to 2023, with states color-coded by percentage ranges:
- < 20%
- 20%–30%
- 30%–40%
- 40%–50%
- 50%–60%
- ≥ 60%


KFF
Practice of Medicine in this “Value-Based” Era

\[
\text{Value of Care} = \text{Appropriateness} \times \frac{\text{Quality of Service}}{\text{Price of Service}}
\]

Spinal Fusion for Low Back Pain (%)

Endoscopy for GERD with no alarm symptoms (%)

Orthopedists/Neurosurgeons

Gastroenterologists

More appropriate

Less appropriate

Song Z, Kannan S, Gambrel RJ, Marino M, Vaduganathan M, Clapp MA, Seiglie JA, Bloom PP, Malik AN, Resnick MJ (JAMA Health Forum 2023)
Dear Dr. [REDACTED]

Our sincere condolences for the loss of your patient.

The Clinical Documentation Integrity (CDI) team reviews the charts of all deceased patients to make sure that the documentation captures the full complexity of the case. Having performed this review, we would appreciate your thoughtful attention to the Clinical Documentation query below.

There are 3 CDI queries for you in Epic. Access the drop down options by using F2 when completing the query. If needed, further instructions are at the bottom of this email.