The Role of Private Equity in Healthcare

MASSIVE INVESTMENTS

Private equity (PE) firms made significant investments into healthcare during the 2010s, totalling around $750 billion. PE has especially zoned in on healthcare as an area of interest, as 18% of all reported PE deals in 2020 were in healthcare compared to 12% in 2010. In 2021 alone, PE firms invested over $200 billion on healthcare acquisitions. These acquisitions include purchases of hospitals, nursing homes, physicians practices, freestanding emergency departments, hospice agencies, and more.

Private equity currently owns around 460 U.S. hospitals, accounting for 8% of all private hospitals and 22% of all proprietary for-profit hospitals. These hospitals disproportionately (26%) serve rural populations.

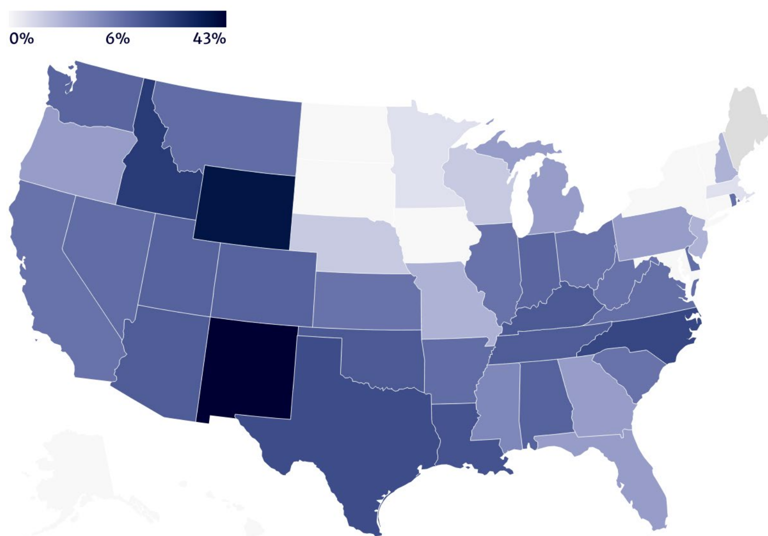
THE PE BUSINESS MODEL

PE firms oversee funds that include money from large investors, such as pension funds, insurance companies, university endowments, and wealthy individuals. The firm then uses this money to purchase companies; when this is a public company, PE often makes it private. However, PE firms usually borrow money to fund most of their acquisitions rather than solely using investor funds.

At the same time, the PE firm puts the debt onto their acquired portfolio company, meaning that the company rather than PE is legally responsible for paying back the money. Additionally, PE investments are short term where the firm wants to earn as much money as possible before selling a company off in often between a 3 to 7 year window.

Density of Private Equity Owned Hospitals

Percent of PE-Owned Hospitals out of all private hospitals in each state



Source: Private Equity Stakeholder Project

Quick Facts about Private Equity

$200 Billion

In 2021 alone, private equity firms invested a record-breaking amount, exceeding previous years' totals, on healthcare acquisitions.

11% Higher Mortality

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25.4% Poorer Care

Medicare patients admitted to PE-owned hospitals experienced significantly more adverse conditions from their stay compared to patients at other hospitals.

22% of Hospitals

Private equity firms own 22% of all proprietary for-profit hospitals in the United States. These PE-owned hospitals disproportionately serve rural populations, accounting for 26% of hospitals in rural areas.

3 to 7 Years Turnover

Private equity firms typically aim to sell off acquired healthcare companies within just 3 to 7 years, prioritizing rapid profit over long-term stability.

More resources on private equity in the healthcare industry.

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CUTTING CORNERS

To earn as much as possible, PE firms employ financial strategies that often strain providers and workers alike. For example, PE firms direct their portfolio companies to conduct dividend recapitalizations, meaning that the companies take out more debt and use that money to make payments to the PE firm and its investors.

PE companies can also strictly manage the operations of healthcare providers, directing them to decrease staffing and reduce less-profitable services. Through sale-leasebacks, PE firms have forced providers to sell their assets – such as their real-estate – send those profits back to the PE investors, and then pay rent on the properties they once owned.

LOWER QUALITY, HIGHER COSTS

PE-acquired healthcare providers often provide lower quality of care and higher costs for patients. A 2023 Journal of the American Medical Association (JAMA) analysis found that Medicare patients admitted to PE-owned hospitals suffered 25.4% more negative conditions from their hospital stay compared to other hospitals, including a 27.3% more falls and 37.7% more central line-associated bloodstream infections.

In 2021, the National Bureau of Economic Research published a paper showing that patients discharged from PE-owned nursing homes had an 11% higher mortality rate within 90 days of their release. A 2020 JAMA Internal Medicine study found that patients had to pay over $400 more per day during inpatient stays at PE-owned hospitals compared to others.

STEWARD HEALTHCARE

The PE firm Cerberus Capital used the sale-leaseback tactic with the Steward Health Care system, leading them to eventually file for bankruptcy and affecting 31 hospitals across the country Massachusetts, Texas, Arizona, Pennsylvania, Ohio, Florida, Arkansas, and Louisiana. Originally, Steward purchased Caritas Christi Health Care in 2010, sold off most of its property to a real estate investment trust, and then used the sale revenue to (A) give itself hundreds of millions in dividends and (B) buy out 27 hospitals in nine states from 2016-2019 to form the Steward Health Care platform. While the debt loaded onto Steward's hospitals eventually caused financial collapse, Cerberus exited in 2020, receiving $782 million for itself and its investors. On the other hand, patients, including the 200,000 served by nine Masscahusetts hospitals, face closures and reduced access to emergency care.

LACK OF TRANSPARENCY

Unlike publicly-traded companies, private and PE-owned healthcare providers do not need to make financial and other key organizational information publicly available. Thus, patients have almost no means to identify whether their doctor's practice, local hospital, or other healthcare provider is owned by PE. A finalized November 2023 rule from CMS will require disclosure of PE ownership to the agency. However, this process will take up to five years to complete and the extent to which the PE-related information will be publicly available and realistically accessible is unknown.

"[I]t's virtually impossible for a patient to know whether or not their doctor's office is owned by a private equity company."

Dr. Christopher Whaley
Associate Director of the Center for Advancing Health Policy through Research, Brown University School of Public Health

200K Patients

Cerberus Capital's use of the sale-leaseback tactic affected 31 hospitals across 8 states, potentially impacting care for 200,000 patients in Massachusetts alone.

What is a sale-lease back?

A strategy where a private equity company sells its property to raise capital, then immediately leases that same property back from the new owner. This creates long-term financial strain through lease obligations.

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