Video Transcript | How Private Equity Is Investing in Health Care

HANNAH NORMAN: In the past decade, private equity has moved aggressively into health care, gobbling up physician practices and even entire hospitals.

Investors — often focused on buying cheap and reaping quick returns — are putting money into everything from emergency room obstetrics units and dermatology practices to nursing homes and hospice care. From cradle to grave.

The number of such deals almost tripled from 2010 to 2021.

That's nearly 8,000 deals with a total value of almost $1 trillion.

But what exactly is private equity? And what does its involvement mean for the American health care system?

Let’s start with the basics.

Private equity is essentially private financing. Private equity firms raise money — or a fund — from a pool of institutional investors — think big guys like mutual funds, pensions, university endowments.

These also include accredited investors, who are usually individuals with big bank accounts.

These funds are different from venture capital funds, which typically invest in new companies, or hedge funds, which generally trade in public markets.

Private equity firms use the pooled money to invest in existing companies that are typically private — or not publicly traded. They look for ways to improve a company’s performance or value, often trying to squeeze more juice out of them to maximize profit. And then flip them quickly, generally in three to seven years.

So, how does private equity get involved in health care and what are the consequences?

Here’s what Yashaswini Singh had to say.

YASHASWINI SINGH: Private equity is but one symptom of a larger trend in the corporatization of medicine in the United States. There’s been a long-standing tension between medicine as a profession and health care as a business, and the key concern has always been that business obligations to shareholders might not align with physician obligations to patients.

NORMAN: Let’s use the example of physician practices.

It can be tiring work managing the business side of a practice, so more and more doctors have partnered with or sold their practices to private equity funds.

Why would this be attractive to investors?

The sprawling ecosystem of physician practices lets them enter a market and quickly consolidate smaller practices under unified management to save money.

Consolidation can convey more market power to negotiate rates with insurance companies, plus brand recognition.

A common move is to “roll up” a string of businesses under one, more established “platform” and find new ways to make money.

But as a result, patient care can suffer.

Maybe staff shortages mean patients wait longer, then are rushed through short appointments. Or they sit through longer ones because the practitioner is upcoding — or billing for more services than were provided to pad the reimbursement.

SINGH: We found that private equity acquisitions do contribute to rising health care spending in part due to increased health care prices, increased volumes of patients seen, as well as changes to billing and coding practices.

NORMAN: Studies also show that private equity investment can result in higher costs for patients overall, as well as for insurers, Medicare, and Medicaid.

You can find our reporting about how this is playing out at KHN.org.