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Private equity takeovers are harming patients

Evidence review suggests that costs rise and quality falls at acquired healthcare providers

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Private equity investment in healthcare provider institutions reached record highs in recent years in both the US and Europe, with US acquisitions accounting for three quarters of the combined $100bn (£78bn; €91bn) in investment in 2021.[1 2] The US Medicare Payment Advisory Commission recently estimated that private equity firms own 11% of US skilled nursing facilities and 4% of US hospitals.[3]

Private equity firms use capital supplied by wealthy individuals to buy companies, and, after a relatively brief period of ownership, sell them at a large profit. Private equity involvement in healthcare, which receives limited oversight from either financial or public health regulators, has drawn considerable criticism from patient advocacy groups, academic researchers, and journalists, for draining financial resources from healthcare institutions.[1 2 4 -6] Such involvement also receives considerable attention in the medical literature for its impact on quality of healthcare, making the linked systematic review of that literature by Borsa and colleagues (doi:10.1136/bmj-2023-075244) a timely addition to the debate.[7]

Unlike non-profit and government operators of healthcare institutions, private equity investors' business plans are laser focused on selling investments at a large profit after three to seven years. Critics of this short term orientation have focused most of their criticism on the financial implications for patients and healthcare employees.

In recent cases involving safety net hospitals serving low and moderate income communities in the US, private equity firms paid large dividends to their owners after selling off the hospitals' real estate to other private investors. This practice burdened acquired hospitals with expensive, long term lease obligations for properties they once owned, and led after just a few years to considerable redundancies, service cuts, and even closures.[8 9]

Policy responses so far include proposed or enacted US legislation to control healthcare charges levied by these companies, increase transparency, protect the legal and pension obligations of acquired healthcare providers, and prohibit private equity firms from draining resources from their acquisitions for at least two years after purchase.[10 -12]

Quality at healthcare organizations acquired by private equity firms has also become a concern, with recent studies offering conflicting claims about the impact on patient outcomes and the quality and safety of care at private equity owned facilities. In their systematic review, Borsa and colleagues identified 55 studies (47 focused exclusively on the US) published in peer reviewed journals in the past two decades.[7] Just under half looked at quality and costs at nursing homes (n=17) and hospitals (n=9). Physician practices comprised the other half, most commonly dermatology (n=9), ophthalmology (n=7), and general physician groups (n=4). While the authors reviewed the impact of private equity acquisitions on costs to patients and the healthcare system, they also evaluated the issue of critical importance to patients and communities: private equity's impact on the quality of care and healthcare outcomes.

The review of studies evaluating costs to patients or payers was unequivocal: nine of 12 studies showed higher costs at health facilities owned by private equity firms, three were neutral, and none showed lower costs. The results on costs to the health system, evaluated in five studies, were mixed, with two showing higher costs and three showing lower costs, one of which was deemed at serious risk of bias. The authors conclude that "Such [private equity] ownership is often associated with harmful impacts on costs to patients or payers, and mixed to harmful impacts on quality."

Study findings on quality and outcomes were similarly skewed toward worse results for patients at providers acquired by private equity firms. Among 27 studies that measured quality of care, 12 reported worse quality scores associated with private equity ownership, nine reported mixed results (some quality measures declined, some improved), and three reported neutral results after private equity acquisition.

The eight studies that looked at patient outcomes were evenly split between positive (n=2), negative (n=3), and neutral (n=3) results. Although study methodologies varied widely, eliminating the possibility of formal meta-analysis, the preponderance of evidence clearly suggests that quality and outcomes deteriorate after a private equity takeover.

Unfortunately, it is much harder to identify legislative solutions to quality problems at provider organizations owned by private equity firms. Consumer oriented solutions, such as public posting of hospital and nursing home ratings by government agencies, have had little impact on driving patients to better performing facilities.[13] For many communities in the US the local hospital after a private equity takeover may be the only source of acute care.[14]

A few US states have begun contemplating closer scrutiny of proposed private equity acquisitions. In Rhode Island, a state dealing with the aftermath of a takeover of one its major hospital systems, the

Department of Health and Attorney General recently began exercising decades old authority to review and possibly reject future purchases if they are deemed to be against the public interest.[15 16]

Public officials clearly need new and more effective tools for reviewing and approving the terms of private equity's involvement in healthcare. The best time to stop the deterioration in healthcare quality associated with takeovers is before it starts. Higher quality studies on patient safety and outcomes and the effect of private equity takeovers on communities would greatly bolster the case for legislators proposing stricter regulations.

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