

Physicians warned of the pitfalls behind private equity promises

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Private equity funds can help spur innovations or provide stable funding for workers' pensions, but investor expectations for a quick return on investment may clash with a medical practice's long-term sustainability and physicians' ethical demands.



Francis J. Crosson, MD

“The notion here is that the private equity firms buy the practices and then their investors expect them to get their money back in roughly five to seven years at a 20% to 30% profit,” said AMA member Francis J. Crosson, MD, one of the experts to present during an education session at the 2022 AMA Annual Meeting on the ethical concerns surrounding private equity acquisitions of physician practices.

“That’s not a situation which leads to an expectation of long-term relationships and with investments in making the practices better—it’s quite the opposite,” added Dr. Crosson, founding executive director of The Permanente Federation—the national leadership and consulting organization for the eight Permanente medical groups, which includes Northwest Permanente, a member of the AMA Health System Program. Dr. Crosson also was the AMA’s first group vice president for professional satisfaction and practice sustainability.

Dramatic findings

Also presenting at the session was Ambar La Forgia, PhD, who summarized her *JAMA Internal Medicine* study that detailed how physician management companies (PMCs) and private equity investment were associated with a dramatic rise in commercial health care prices for anesthesia services.

La Forgia and colleagues found that, after PMC contracts were signed, prices grew by 16.5% in their study of almost 2.3 million privately insured patients who received anesthesia services in hospital outpatient departments and ambulatory surgery centers from 2012 to 2017.

Their key finding, however, was that prices rose 26% with private equity-backed PMCs, while prices at such companies without private equity investment grew by 12.9%.

“The takeaway here is unfortunately bad for patients because these higher prices get passed on to them directly in the form of higher out-of-pocket cost, as well as eventually in the form of higher insurance premiums,” said La Forgia, an assistant professor of management at the University of California at Berkeley Haas School of Business.

The impact on physicians is unclear because PMCs’ salaried doctors may not be sharing in this growing revenue, La Forgia said, noting that the money derived from the price increases is “probably going into acquiring further practices” rather than benefiting physicians.

La Forgia said her study builds on earlier research where evidence suggests that private equity takeovers of nursing homes and dialysis centers are associated with worse patient outcomes and higher Medicare spending.

Anesthesiology practices are targeted by private equity investors because they are considered a high-margin, high-volume specialty and “therefore really attractive to private equity for the potential for higher returns,” she said.

“One strategy that is often used to save on costs is to replace anesthesiologists with CRNAs [certified registered nurse anesthetists] so that you have one anesthesiologist overseeing five CRNAs

simultaneously,” La Forgia explained.

A member of the *JAMA Internal Medicine* editorial board, Dr. Crosson wrote a commentary that accompanied the study done by La Forgia and her colleagues.

“A question we must address is whether the entry of private equity into the U.S. health care system is a bridge too far, one that raises the substance of or at least the perception of a threat to physician professionalism due to more extreme management pressures on and profit opportunities for physicians,” Dr. Crosson wrote.

Loss of physician control

A similar pattern was noted in a 2018 commentary written by AMA President Jack Resneck Jr., MD, that appeared in *JAMA Dermatology*.

Dermatologists working for practices acquired by private equity firms “reported concerns that their initial or subsequent investors sought to increase profitability by extensively hiring physician assistants to work in unsupervised satellite settings,” wrote Dr. Resneck. “While investors tout ongoing local decision-making, practices also may lose some control over staffing levels and capital equipment purchases.”

The education session was held at two different times during the Annual Meeting and sponsored by the AMA Private Physician Section (AMA-PPPS) and the AMA Integrated Physician Practices Section (AMA-IPPS). (Program slides available [here](#).)

Program moderator M. Zuhdi Jasser, MD, the immediate past chair of the AMA-PPPS Governing Council, noted that “this group, more than others, is not anti-profit” given that section members often view themselves as—among other things—small business owners.

“But the problem is if the profit is a beginning and an end to itself,” added Dr. Jasser, an AMA member. “It has no empathy, sympathy or engagement with the consumer ... which is the patient.”

Dr. Crosson urged the AMA to use its “bully pulpit” to alert physicians who are considering a private equity buyout about the potential downsides of the arrangement.

“It may turn out that the best protection for maintaining the quality of care for patients and the appropriateness of services provided will be physician professionalism,” he wrote in his *JAMA Internal Medicine* commentary.

AMA to consider principles at stake

Based on a resolution originating from the AMA-IPPS, the AMA House of Delegates took up the issue and directed the AMA to “study and clarify the ethical challenges and considerations regarding physician professionalism raised by the advent and expansion of private-equity ownership or management of physician practices and report back on the status of any ethical dimensions inherent in these arrangements, including consideration of the need for ethical guidelines as appropriate.”

Such a study “should evaluate the impact of private equity ownership, including but not limited to, the effect on the professional responsibilities and ethical priorities for physician practices,” says the resolution that delegates adopted.

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