

Study explores how private equity acquisitions impact hospitals

May 5 2021, by Jeff Falk



Credit: Pixabay/CC0 Public Domain

Private equity investment in hospitals has grown substantially in the 21st century, and it accelerated in the years leading up the COVID-19 pandemic. Now a new study of short-term acute care hospitals acquired

by private equity firms finds they not only have higher markups and profit margins, they're also slower to expand their staffs.

In a study published in *Health Affairs*, a multi-institutional team of investigators led by Dr. Anaeze C. Offodile II, a nonresident scholar in the Center for Health and Biosciences at Rice University's Baker Institute for Public Policy, the Gilbert Omenn Fellow at the National Academy of Medicine and an assistant professor of plastic and reconstructive surgery at The University of Texas MD Anderson Cancer Center, examined private involvement in short-term acute care hospitals and combed through proprietary databases to identify [private equity](#) transactions involving such hospitals between 2003 and 2017.

"Hospital spending accounts for one-third of U.S. health care expenditures, and there have been multiple news accounts of private equity investments in hospitals. But we know so little about how private equity acquisition influences hospitals' finance and operations," said Marcelo Cerullo, a surgical resident at Duke University Medical Center and the second author on the paper.

The researchers compared private equity-acquired hospitals to hospitals not involved in private equity deals using information drawn from Medicare cost reports and Area Health Resource Files. The study examined differences among private equity versus nonprivate equity hospitals in 2003 (before the acquisitions occurred) and 2017 (after the private equity deals were completed).

Over that period, private equity firms acquired 282 unique hospitals (some more than once) in leveraged buyouts in 36 different states. The study estimates that of all patient discharges in 2017, about 11% were from a [hospital](#) that had at one point been acquired by private equity. In 2003, hospitals that were subsequently acquired by private equity investors had higher charge-to-cost ratios, higher profit margins and

comparable staffing ratios. However, post-acquisition in 2017, private equity-acquired hospitals had developed higher markups, even higher [profit margins](#) and saw slower rates of growth of staffing ratios. Notably, private equity-acquired hospitals had overall lower costs per each patient discharged.

"Our main findings highlight the overall solvency of private equity-acquired facilities, with strong baseline financial performance," Offodile said. "Our results challenge the prevailing narrative of financially distressed institutions seeking infusion of outside private equity capital. Post-acquisition, these hospitals appeared to continue to boost profits by restraining growth in cost per patient, in part by limiting staffing growth."

Hospitals acquired by private equity firms between 2003 and 2017 had operating margins that were 5.6 percentage points higher than nonprivate hospitals at the start of the period; that gap widened to 8.6 percentage points by 2017.

The authors also surveyed the press releases and industry-specific reports for private equity deals. Private equity firms often touted large capital investments that would maintain employment and commitments to the hospital's central mission. "We found a mixed track record of investors keeping specific promises after acquisition," Cerullo said. "Often, private equity firms would announce the dollar figure attached to renovations, new facilities, or give a time frame for staying open or maintaining raises."

The study forms a foundation for future investigations into how private equity acquisitions change hospital operations and clinical quality, the authors said.

"We need to conduct more detailed analyses before making specific

policy recommendations involving private equity-acquired hospitals," said co-author Vivian Ho, a professor of economics at Rice and professor of medicine at Baylor College of Medicine. "For-profit hospitals have operated for several decades, but we need to determine whether the added presence of private [equity](#) induces additional efforts to maximize profits at the cost of harming patient welfare."

More information: Anaeze C. Offodile II et al, Private Equity Investments In Health Care: An Overview Of Hospital And Health System Leveraged Buyouts, 2003–17, *Health Affairs* (2021). [DOI: 10.1377/hlthaff.2020.01535](https://doi.org/10.1377/hlthaff.2020.01535)

Provided by Rice University

Citation: Study explores how private equity acquisitions impact hospitals (2021, May 5) retrieved 6 February 2023 from <https://medicalxpress.com/news/2021-05-explores-private-equity-acquisitions-impact.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
--