Private equity provides opportunity — and risk — in health care

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The increasing involvement of private equity funders in the world of health care has led to hundreds of deals across the country, with physician practices of all types taking investments and shifting ownership away from local practitioners.

Critics say matters of health care should be left to providers without outside influence from funders whose main focus is turning a profit.

“It is a daily attack,” said Dr. Paul Shields, CEO and chief medical officer with the Great Lakes Integrated Network, which represents 914 providers at 60 independent practices affiliated with Kaleida Health and Erie County Medical Center Corp. “Private equity believes that health care is ripe for opportunity and when they mean ripe, they mean ripe for financial opportunity.”

Other providers say the funding becomes a lifeline to implement new models of care – including high risk/high reward value-based models -– that would otherwise be unaffordable for independent primary care practices.

"We have a bunch of really ambitious doctors who want to improve care, but no one is giving us financial backing," said Dr. David Pawlowski, a partner at Highgate Medical Group, a part of Primary Care Independent Practice Association (PCIPA). "All of it (higher payments) goes to acute care medicine – hospitals, pharmacy, subacute care and specialists – everyone but primary care. We need the capital from private equity groups."

Trend grows in primary care

Four local groups have partnered with private equity groups.

Primary Care Independent Practice Association (PCIPA), a group of 20 independent primary care and pediatric practices, partnered in early 2022 on a joint venture with Honest Medical Group, a portfolio company under Rubicon Founders, a private equity firm in Nashville, Tennessee.

Dent Neurologic Institute also partnered last year with Rubicon Partners on a plan to grow outpatient services, increase access to clinical trials and specialty care and transition to value-based payment models. The two groups are no longer working together.

Buffalo Medical Group, the region's largest multi-specialty practice, partnered in early 2021 with Agilon Health, affiliated with New York-based PE firm Clayton Dubilier & Rice, to create a joint venture focused on 15,000 Medicare Advantage patients.

CinqCare in late 2021 acquired G-Health Enterprises, including Urban Family Practice, the Greater Buffalo United Accountable Care Organization, Greater Buffalo United Community Based Organization and Greater Buffalo United Accountable Healthcare Network. Based in New York and Washington, PE-funded CINQCARE operates high risk/full-risk programs for Medicaid and Medicare recipients.

For PCIPA, the partnership enabled the large dollar investment required to get started in a full-risk model, where practices first have to create care models, then show better health outcomes and results before it gets paid. Providers also need a capital backstop to support potential losses as the model ramps up, said Larry Zielinski, PCIPA executive director.

"We're an independent physician group IPA, we're not affiliated with a major health system so we have limited capital," he said. "If

you really want to manage these patients on a full-risk basis, you have to put more services around them and expand primary care, pharmacy, dietitians, diabetic educators and nurses who can go into the home. We did not have the capital to put that kind of care model into place."

A year into the agreement, PCIPA's member practices have been successful in negotiating new and expanded agreements for about 13,000 individuals in 2023 under traditional Medicare, Medicare Advantage and ACO Advantage programs with commercial payers like UnitedHealthcare, Univera Healthcare, Aetna and Humana.

"They get this bad rap, that it's deep pockets and destroying health care," Pawlowski said. "It sounds like an ugly word until you really dig in to what they're doing."

The CINQCARE deal was the first time a Buffalo physician practice group was acquired by a private equity-backed company from outside the region. Steve Swift, chief financial officer for CINQCARE and president for the CINQCARE NY IPA division, said the goals for CINQCARE are different from typical PE deals in health care because of its focus on low-income and Medicaid recipients.

"We are a minority-owned business that happens to have PE funding," Swift said.

In the year-plus since the deal was announced, the company took on a full-risk contract with Fidelis Care that more than doubled the total individuals cared for in its system, while increasing the local workforce from 210 to 270. They've also expanded into Syracuse and downstate and are now looking at three other states.

Having the additional funds from CINQCARE's private equity backers have made those results possible, Swift said.

"The ability to scale and grow the business capacity, technology and business processes would not be possible in the old G-Health model," he said. "There's no question that the ability to bring new services and tools to the marketplace couldn't have happened without this transaction."

New models for providers

Yashaswini Singh, a health economist at Johns Hopkins University, said private equity is just one aspect of a broader trend in the corporate consolidation of medicine. In March she was part of a panel discussion at a conference for the Association for Health Care Journalists.

“There’s been a long standing tension in medicine as a profession and the business side. In the absence of PE, firms still need capital to thrive and compete and survive,” she said.

Singh has led several studies on practices acquired by private equity. Among the findings: increased spending on health care, higher pricing and greater utilization, including more visits of 30 minutes or longer. The study did not assess whether the growth in utilization came from expanded geographic footprints and operating hours versus unnecessary or improper visits.

“If private equity is increasing health care spending without enough to show about increased value, the cost is really borne by all of us through higher premiums and higher copays,” Singh said. “PE obligations to investors may not align with physician obligations to patients.”

Another participant on the panel was Eileen O’Grady, a research campaign director with the Private Equity Stakeholder Project, a Chicago nonprofit organization. She said health care has emerged as a top investment choice by private equity firms, ranging from biotech and pharmaceuticals to hospitals and freestanding emergency departments, nursing homes, specialty care like urology and anesthesiology as well as primary care.

“Where care gets more complex, and thus more expensive, private equity sees opportunity to profit,” she said. “Compared to other asset classes, health care outperforms so it is sort of an obvious pick.”

In some cases, those deals can prove harmful to providers, she said. Turning a profit in a short period requires cost cutting, which could mean reduced staffing or a failure to invest in the capital needs of facilities. In other cases, PE firms might do a sale-leaseback deal to that provides hospitals and physician practices

with upfront cash, but leaves fewer assets for operations and reduces their overall assets.

Making do without PE

Shields said GLIN is working to achieve similar results without outside funding. The practice association is finalizing a reorganization under a new model that should allow more value-based arrangements to bring in additional revenue, such as the federal ACO REACH model.

It might take a bit longer to see results, he said, partly because they'll be working on solutions for their entire patient base – not just the ones that generate higher reimbursements.

"There's a lot of national entities that want to come in and cherrypick some of those patients who might have financial opportunity, then move on. We don't have that luxury. We have to solve for everybody," he said.

Zielinski counters that there have been many success stories on the primary care side, with a lot of negative stories tied to private equity involving firms taking advantage of nuances in specialty care.

"They bring some expertise to the table in a variety of different areas – contracting, analytics and the clinical philosophy of building these models," Zielinski said. "A group like ours could not take this step and move into what we think is going to be a transformational care model for primary care without outside support."

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