



## PE-Acquired Hospitals Experience Adverse Patient Outcomes

On December 26, 2023, a study published in the Journal of the American Medical Association (JAMA) found concerning changes in patient outcomes and hospital adverse events associated with private equity (PE) acquisition and ownership of hospitals.<sup>1</sup> This Health Capital Topics article reviews the JAMA study and the impact of PE ownership on the healthcare industry.

Over the past ten years, PE firms have set their sights on hospitals as a lucrative investment opportunity, spending nearly \$1 trillion to finance healthcare acquisitions, and purchasing more than 200 hospitals from non-PE owners.<sup>2</sup> Similar to in other healthcare industry subsectors, PE firms will purchase hospitals, push to increase income and decrease expenses, and sell them within a few years to generate a profit.<sup>3</sup> While the model has proved to be profitable for investors and PE firms, it has been scrutinized by providers, academics, and lawmakers,<sup>4</sup> who have argued that the model prioritizes revenue over providing quality care and that physicians under this model may be forced to take on more patients to maintain the stream of income.<sup>5</sup>

The JAMA study, a collaboration between Massachusetts General Hospital, Beth Israel Deaconess Medical Center, Harvard Medical School, and the University of Chicago, examined 662,905 hospitalizations at 51 hospitals acquired by PE firms.<sup>6</sup> Researchers also reviewed over 4.1 million hospitalizations at 259 matched control hospitals (i.e., hospitals not owned by PE firms), utilizing data from the Medicare Part A claims dataset.<sup>7</sup> Researchers analyzed hospital stays between 2009 and 2019, which accounted for three years before and after acquisition by PE firms.<sup>8</sup>

Hospital-acquired conditions (HACs), also referred to as hospital-acquired adverse events, were observed in 10,901 hospitalizations.<sup>9</sup> After hospitals were acquired by PE firms, Medicare beneficiaries admitted to those hospitals experienced a 25.4% increase in HACs compared to those treated at the control hospitals.<sup>10</sup> The study found that the increase in HACs was caused by:

- A 27.3% increase in falls;
- A 37.7% increase in central line-associated bloodstream infections, despite the placement of 16.2% fewer central lines; and
- Surgical site infections doubling from 10.8 to 21.6 per 10,000 hospitalizations, despite an 8.1% reduction in surgical volume.<sup>11</sup>

Researchers found that, compared to Medicare beneficiaries who received treatment at control hospitals, beneficiaries

who received care at PE hospitals were younger, transferred to other acute care hospitals after short stays, and less likely to be eligible for both Medicare and Medicaid (i.e., the hospitals' admitted population had a much larger proportion of lower-risk/higher-reimbursing beneficiaries).<sup>12</sup> The researchers also noted that the increase in HACs may be linked to PE hospital staffing practices,<sup>13</sup> as PE hospitals tend to maintain reduced clinical staffing as a way to increase profits. However, reduced clinician staffing has been found to be associated with adverse patient events.<sup>14</sup>

The JAMA study's findings are largely in line with other research regarding the impact of PE ownership of healthcare entities. For example, a July 2023 British Medical Journal literature review of 55 studies between 2000 and 2023 found no beneficial impacts of PE ownership in healthcare.<sup>15</sup> Researchers stated that "the results of this study confirm the need for increased rigorous research on [PE] ownership in healthcare."<sup>16</sup> Researchers also said that the "current body of evidence is robust enough to confirm that [PE] ownership is a consequential and increasingly prominent element in healthcare, warranting surveillance, reporting, and possibly increased regulation."<sup>17</sup>

The research on PE hospital ownership, and its impact on quality of care and patient outcomes, has motivated both lawmakers and federal regulators to investigate PE's impact on the healthcare industry.<sup>18</sup> On December 6, 2023, Senators Chuck Grassley (R-IA) and Sheldon Whitehouse (D-RI) sent letters to PE firm executives and a for-profit PE hospital in Iowa requesting information related to questionable financial transactions that impacted patient care in PE-owned hospitals.<sup>19</sup> Additionally, on December 7, 2023, the White House announced that they would be addressing anticompetitive "roll ups" (i.e., when PE firms engage in multiple small acquisitions to increase and consolidate their share of the market) by sharing data with the Federal Trade Commission (FTC), the Department of Justice (DOJ), and the Department of Health and Human Services (HHS).<sup>20</sup> Historically, lawmakers, judges and regulators have found it difficult to scrutinize PE transactions (and the motivations behind them) due to their transactional and organizational complexity.<sup>21</sup> However, recent efforts to increase transparency in healthcare may make it easier to decipher – and challenge – these transactions. PE investors currently own nearly 400 hospitals in the U.S., approximately one-third of all for-profit hospitals.<sup>22</sup> As PE's involvement in the U.S. healthcare system grows, regulatory scrutiny and enforcement is sure to follow.

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- 3 *Ibid.*
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- 5 “Why Private Equity In Healthcare Is Receiving Closer Scrutiny By Journalists And Government” By Paul Hsieh, Forbes, July 31, 2023, <https://www.forbes.com/sites/paulhsieh/2023/07/31/why-private-equity-in-healthcare-is-receiving-closer-scrutiny-by-journalists-and-government/?sh=1c692128178c> (Accessed 1/31/24).
- 6 Kannan, Joseph Dov Bruch, and Zirui Song, Journal of the American Medical Association, December 26, 2023.
- 7 Medicare Part A principally covers inpatient hospital stays. “Changes in Hospital Adverse Events and Patient Outcomes Associated With Private Equity Acquisition” By Sneha Kannan, Joseph Dov Bruch, and Zirui Song, Journal of the American Medical Association, December 26, 2023, <https://jamanetwork.com/journals/jama/article-abstract/2813379> (Accessed 1/17/24).
- 8 Kannan, Joseph Dov Bruch, and Zirui Song, Journal of the American Medical Association, December 26, 2023.
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