



Advising the Congress on Medicare issues

Congressional request: Private equity and Medicare

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Introduction

- In 2020, the Chair of the Committee on Ways and Means asked the Commission to examine the role that private equity (PE) plays in Medicare
- The request did not ask the Commission to make any recommendations
- We discussed our analytic workplan for this project at the September 2020 public meeting
- We will respond to the request with an informational chapter in our June 2021 report to the Congress

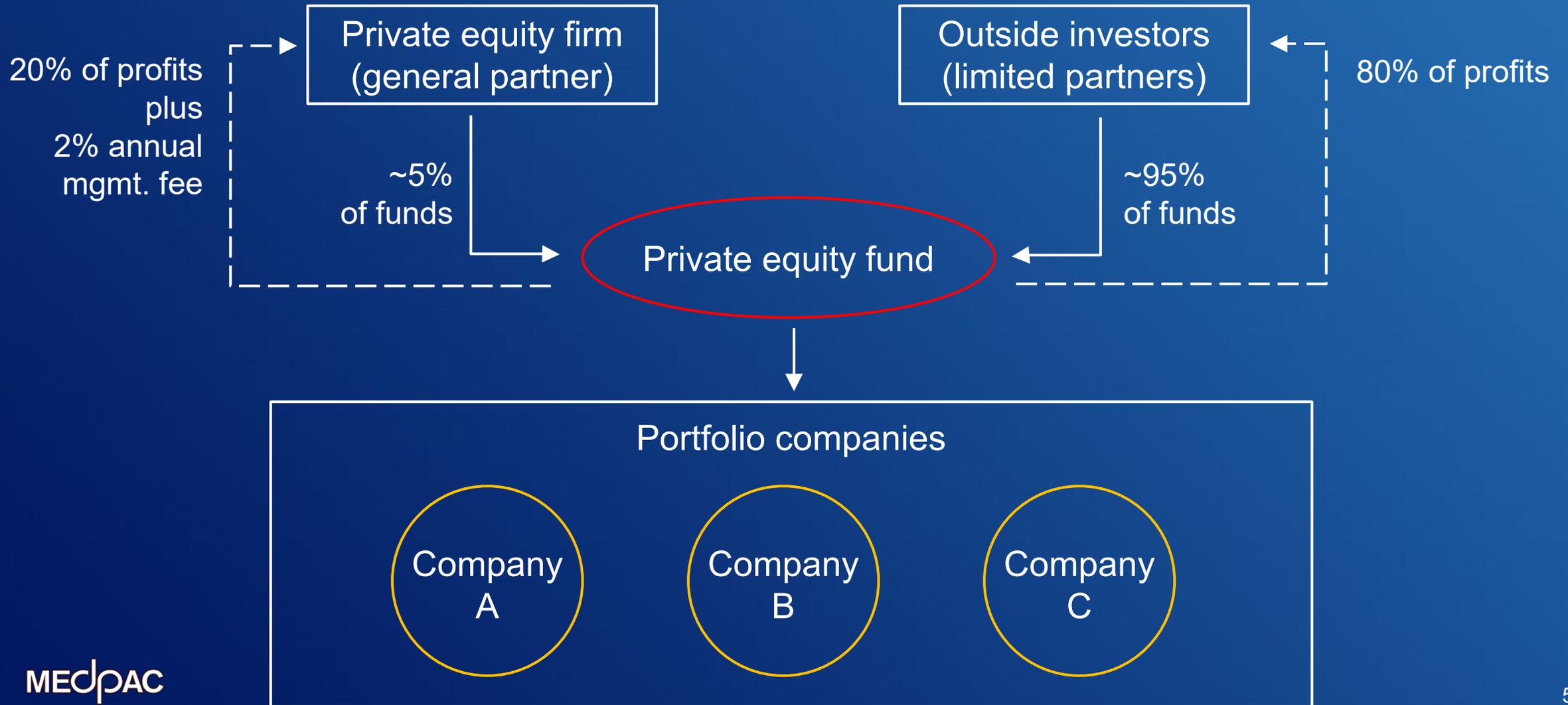
The request asked the Commission to examine four issues, to the extent feasible

1. Gaps in Medicare data on provider ownership that make it difficult to track PE investments
2. Business models that PE firms use when they invest in the health care sector
3. Effects of PE ownership on Medicare costs, beneficiaries, and providers
4. Extent of PE involvement in companies that participate in the Medicare Advantage (MA) program

What do we mean by “private equity”?

- PE is any activity where investors buy an ownership stake in a company or other asset that is not publicly traded
- The term can be used for a variety of investments, such as venture capital funds, growth capital funds, buyout funds, and hedge funds
- The growing prominence of PE in health care is largely due to buyout funds, so we focused primarily on them

Typical structure of a private equity fund



Issue 1

Gaps in Medicare data on provider ownership that make it difficult to track PE investments

Provider Enrollment, Chain, and Ownership System (PECOS) data and the change of ownership (CHOW) process

- CMS maintains ownership data in PECOS
 - Identities of individuals and organizations that have a 5%+ direct or indirect ownership stake, or exercise managerial control
 - Medicare Administrative Contractors (MACs) review information; CMS regional offices have final decision on issuing a Medicare number
- Providers/suppliers required to update PECOS data for CHOW or changes in control

Part A providers and Part B suppliers that undergo survey and certification	Other Part B suppliers (such as physician group practices)
Subject to CHOW process, must get CMS approval	Not subject to CHOW process but must report changes in information including control
Medicare number usually reassigned to new owner	New owner must newly enroll for their own Medicare number

Gaps in Medicare ownership data

- Difficult to observe common ownership because many providers/suppliers are structured to limit liability
 - True for both PE-owned and non-PE-owned providers
 - MACs may not know when submissions are incomplete
- In PECOS, we observed known PE owners (identified using other sources) for some providers/suppliers but not for others
- Not clear whether PECOS data for PE-owned providers are more or less complete than data submitted by other providers

Issue 2

Business models that PE firms use when they invest in the health care sector

PE ownership of three major types of providers appears to be relatively limited

- **Hospitals:** We estimate less than 4% of hospitals are PE-owned
 - Only 25% of sector is for-profit; some large PE deals in the past
 - Limited new PE activity expected in next few years
- **Nursing homes:** Research literature indicates ~11% are PE-owned; estimates vary somewhat
 - About 70% of sector is for-profit; long history of PE involvement
 - Limited new PE activity expected in next few years
- **Physician practices:** Share that are PE-owned is unknown
 - PE firms bought at least 2% of practices between 2013 and 2016
 - PE activity varies by specialty but overall interest is high

PE firms use a variety of strategies to make their provider acquisitions more profitable

- Revenue-increasing strategies
 - Provide more services (for example, boost occupancy rates)
 - Provide more profitable services (more Medicare SNF stays)
 - Use market power to obtain higher commercial rates
- Cost-reducing strategies
 - Exploit economies of scale (lower administrative costs)
 - Reduce labor costs (greater use of physician assistants)
- These strategies are not unique to PE-owned providers

Other PE strategies may increase providers' costs

- Leveraged buyouts may result in higher debt service costs
- PE owner may sell a provider's real estate and require it to sign a long-term lease back arrangement
- Providers may be required to buy goods and services from other companies owned by the PE firm
- Providers may be required to pay monitoring or management fees to the PE owner

Issue 3

Effects of PE ownership on Medicare costs, beneficiaries, and providers

Empirical evidence on the effects of PE ownership on hospitals

- The literature focuses on a few high-profile deals
 - Bruch et al. (2020) found that PE acquisitions were followed by faster charge growth and mixed effects on quality metrics
- Our cross-sectional analysis found that costs per discharge and patient satisfaction at PE-owned hospitals were on average
 - Slightly lower than at the average for-profit hospital
 - Materially lower than at the average nonprofit hospital
 - Variation in cost and satisfaction existed within all three types of hospitals

Empirical evidence on the effects of PE ownership on nursing homes

- Older studies show mixed findings on quality and financial outcomes; not all control for selection of facilities or patients
- Select findings from recent working papers (not yet peer reviewed)
 - Gandhi et al. (2020) found that PE ownership increased staffing in highly competitive markets and reduced staffing in less competitive markets
 - Gupta et al. (2020) found that PE ownership increased mortality and Medicare spending per episode. They found no effect on net income, overall revenue or costs, but did find higher spending on management fees, lease payments, and interest payments after acquisition.

Empirical evidence on the effects of PE ownership on physician practices

- To our knowledge, there are no studies looking at the effects of PE ownership on spending or quality
 - Available research is largely based on physician interviews
 - We also conducted some physician interviews
- Evidence shows that
 - Provider experiences with PE vary widely
 - Pressure by PE owners to provide more services could lead to higher Medicare spending

Issue 4

Extent of PE involvement in companies that participate in the MA program

PE investment in MA plan sponsors

- Very few MA plan sponsors are owned by PE firms
 - 6 out of 309 parent companies with 1.7% of total enrollment
- Some MA plan sponsors have received other types of PE investment like venture capital
 - 25 parent companies with 1.0% of total enrollment
 - Many investments target three types of plan sponsors
 - Startup health plans focused on MA and/or the ACA exchanges
 - Provider-sponsored institutional special needs plans (I-SNPs)
 - Program of All-Inclusive Care for the Elderly (PACE)

PE investment in companies that work for MA plan sponsors

- PE firms have invested in companies that perform a wide variety of functions for MA plans
 - Deliver services such as primary care to plan enrollees
 - Provide care management for specific services or populations such as post-acute care or enrollees with kidney disease
 - Help plans collect diagnosis codes for risk adjustment
- Many companies are paid using value-based contracts where they bear risk for an enrollee's overall spending

Next steps

- Questions on the presentation
- Feedback on draft chapter
- Chapter will appear in our June 2021 report