Senate Health, Education, Labor, and Pensions (HELP) Committee hearing
Sen. Markey, Chair of Primary Health and Retirement Security Subcommittee
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Testimony for the record

Robert Seifert, Senior Policy Fellow, Americans for Financial Reform

The private equity industry's purchase of health care entities has grown dramatically over the last two decades, with health care takeovers accounting for 14 percent of all leveraged buyouts (LBOs) in 2021, there were 1,400 private equity healthcare deals with a combined value of over $208 billion in that year alone.[1] The growing presence of private equity in the health care sector poses new risks and harms a wide range of stakeholders. Entire communities' access to care can be threatened when private equity's business model strips medical facilities of the resources needed to provide safe, reliable care and leaves them at the brink of bankruptcy, as with the financial meltdown of Steward Health Care in Massachusetts.

Private equity's business model is fundamentally incompatible with health care's essential purpose. The private equity industry specializes in securing outsize financial returns by making debt-driven acquisitions that consolidate market power and using those acquisitions as financial instruments for extracting as much wealth as possible over a short period. Its standard playbook, when applied to health care, dangerously puts profits above patients and the health care professionals serving them. Medical professionals face immense risk and challenges when private equity's profit-driven business model demands new staffing practices, coding, and referrals. In nursing homes, hospitals, physician practices, and other health care settings, private equity takeovers lead to leaner staffing structures and a push to do more with less, contributing to physician burnout and compromising patient care. Recent peer-reviewed studies have found increased mortality in nursing homes owned by private equity, and increased falls and infections among patients in hospitals recently acquired by private equity.[2]

As these deals proliferate and the private equity industry's influence grows, state and federal policymakers face an increased urgency to remedy their ill effects. Public policy must stand

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[1] Kerry Dooley Young, "The Impact of Private Equity Ownership in Health Care." *The Journalist's Resource* (blog), November 2, 2022.
https://journalistsresource.org/home/private-equity-ownership-in-health-care-research/

[2] Atul Gupta et al., "Does Private Equity Investment in Healthcare Benefit Patients? Evidence from Nursing Homes," https://bfi.uchicago.edu/insight/finding/does-private-equity-investment-in-healthcare-benefit-patients-evidence- from-nursing-homes/; Kannan, S., Bruch, J. D., & Song, Z. (2023). Changes in hospital adverse events and patient outcomes associated with private equity acquisition. JAMA, 330(24), 2365. https://doi.org/10.1001/ jama.2023.23147

opposed to a degraded health care system and the increasing possibility of medical deserts that are the eventual outcome of a healthcare sector run largely by private equity firms. Policymakers must recognize health care entities' responsibility to the public's health, not just to investors' profits. Needed reforms would increase transparency of private equity owners' activities, and hold them accountable when they fail to meet their obligations.

Today's hearing is timely given the current crisis in Massachusetts health care driven by Steward Health Care, a crisis with its roots in the predatory practices of private equity. Steward was created by the private equity firm Cerberus Capital Management in 2010 when it gained control of the Caritas Christi system in an acquisition largely financed by debt, for which Steward was responsible. Cerberus then pursued various strategies that drained resources from the company, including selling its real estate, obligating the hospitals to pay $400 million a year in rent for properties they once owned. Cerberus paid dividends to its investors while closing facilities and depriving its hospitals. The company exited the ownership of Steward with an $800 million profit while leaving Steward in dire financial condition.

The Steward story retells a well-worn private equity tale. Similar takeovers and outcomes are well known in retail[3] and media and news companies.[4] The Steward case echoes other stories in health care as well, such as the bankruptcies of Envision Healthcare[5] and Philadelphia's Hahnemann Hospital.[6]

Americans for Financial Reform is committed to pushing back against the financialization of the economy that rewards the few at the expense of the many. In critical sectors like health care, we must ensure that investments serve to improve and not degrade the nation's health. AFR's policy strategies[7] to eliminate the harmful effects of the private equity industry's takeover of healthcare include:

- Shining a light on PE ownership of health care facilities and practices through regulatory actions requiring more extensive disclosure of ownership and financial relationships, and with greater public dissemination of this information.

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[3] Janet Nguyen, "A look back at KKR, the investment firm that bought out Toys R US … among others." *NPR Marketplace.* June 12, 2019. https://www.marketplace.org/2019/06/12/a-look-back-at-kkr-the-investment-firm-that-bought-out-toys-r-us-among-others/

[4] Anna Nicolaou and Sujeet Indap "The fall of Vice: private equity's ill-fated bet on media's future." *Financial Times.* May 25, 2023. https://www.ft.com/content/b8010767-8fe8-4ec0-aa40-676440b90f8d

[5] Marty Stempniak "Private equity-backed radiology provider Envision Healthcare to exit bankruptcy; CEO departing for Humana." *Radiology Business.* October 11, 2023. https://radiologybusiness.com/topics/healthcare-management/healthcare-economics/private-equity-radiology-envision-healthcare-bankruptcy-humana

[6] Chris Pomorski, "The Death of Hahnemann Hospital." *New Yorker.* May 31, 2021. https://www.newyorker.com/magazine/2021/06/07/the-death-of-hahnemann-hospital

[7] Robert Seifert, "Doctored by Wall Street: Policy Solutions for Private Equity in Healthcare." Americans for Financial Reform. https://ourfinancialsecurity.org/wp-content/uploads/2023/07/AFREF-Doctored-by-Wall-Street-PRIMARY-final.pdf

- Increasing enforcement of existing anti-fraud laws by seeking maximum penalties for violations; identifying whistleblowers, such as physicians with negative experiences of PE ownership, to bring anti-fraud actions; increasing investigations of likely violations of laws prohibiting self-dealing; and better monitoring of individuals and entities barred from participation in Medicare and Medicaid because of past fraud convictions.
- Strengthening antitrust laws and enforcement to address the PE strategy of making small acquisitions that evade current federal merger guidelines.
- Reducing incentives to game Medicare payment rules through regulatory fixes that curb excessive overpayments in the Medicare Advantage program. Complementary legislative action could close payment loopholes that favor certain types of services, sites of care, and prescribing practices over others.