For-profit healthcare is booming: See where private equity owns nearly 500 of America's hospitals

By **Allie Kelly** – Business Insider

Private equity firms own nearly 500 of America's hospitals. Somchai um-im/Getty Images

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- Private equity firms own hundreds of US hospitals, especially in Texas and Louisiana.
- PE firms typically slash staff and services, like ERs, obstetric wards, and administrative roles.
- Research on patient outcomes at for-profit hospitals is mixed.
- What drives PE interest in hospitals?
- What are signs of hospital financial distress?
- How can PE improve hospital operations?
- How do PE firms impact rural hospitals?
- Why is healthcare "fragmented"?

Private equity is buying more of America's hospitals — and business is booming.

Data compiled by the Private Equity Stakeholder Project, a nonprofit watchdog organization, shows that 488 US hospitals were owned by PE firms as of last spring, representing roughly a quarter of the for-profit healthcare landscape.

With dwindling federal funding, rising patient demand, and aging equipment, the healthcare industry is struggling to keep hospitals open. PE firms may be a financial lifeline, but the risks are significant for patients and staff.

"We've seen multiple cases of private equity firms themselves profiting handsomely, even as they've run hospital systems in the ground right and left, left patients with less access to care, and put thousands of workers out of work," said Jim Baker, founder and executive director of the Private Equity Stakeholder Project.

But for hospitals in a precarious position, efficiency-driven budget cuts could help them survive tough times. Data about the long-term success of PE-owned hospitals is limited, but proponents say the firms bring much-needed operational support to struggling facilities. PE-sparked cuts are typically administrative, about half of which a Health Affairs report determined to be "wasteful."

"Hospitals can sustain their service," said Janet Gao, an associate professor of finance at Georgetown University. "This way they don't have to fire people, they don't have to close down their facility. And in the future, demand goes back up."

PE firms are buying up hospitals — but the outcomes are mixed

Texas, Louisiana, and California had the largest number of PE-owned hospitals, PESP data shows. Psychiatric hospitals, long-term care, and rehab facilities were the most likely to be bought by PE, and at least 27.7% of all the private equity-owned health centers served rural populations. These acquisitions are likely to continue, especially as America's aging population needs more expensive healthcare support, Baker said.

That map represents just a snapshot in time; hundreds of additional hospitals have been bought and sold by private equity over the last decade. Investors spent more than $200 billion on healthcare acquisitions in 2021 alone, and $1 trillion between the early 2010s and 2020s.

Researchers at KFF and the University of North Carolina at Chapel Hill told Business Insider that four major risk factors are associated with hospital closures: declining financial performance, loss of government funding, an acquisition or merger, and a high local poverty rate. Sometimes, acquisition by a PE firm is among the only avenues to keep a facility afloat.

When private equity buys a hospital, they typically use high amounts of debt, combine multiple acquisitions under one corporate umbrella, or charge newly-acquired facilities steep management fees. The goal for firms is to reach a return on investment and make a profit within four to seven years, per PESP. Baker said he has concerns that a focus on revenue can compromise patients' care and lead to staff burnout.

"Healthcare is still a relatively fragmented industry," Baker said. "By consolidating these companies, buying up companies, and combining them, private equity can generate profits."

Research about how much PE ownership affects patient outcomes is mixed. Gao has been studying the impact of private equity on the healthcare industry for years. She said that PE firms may opt to close sections of a hospital with expensive overhead — like an emergency department or obstetric ward — or reduce swaths of a hospital's white-collar administrative workforce.

A recent study of insurance claims led by Gao found that there is no notable increase in patient mortality, readmission rates, or medical bill prices at PE-acquired hospitals, and patient satisfaction tends to be lower. Administrative jobs are typically cut, but Gao's findings show that direct care-providing positions like nurses and doctors remain relatively unchanged over time.

"I think a lot of people I talk to have this very strong ideological belief that healthcare should be run by nonprofits, and that is not clearly true in the data," Gao said. "If you compare, for example, the average mortality —

because that's the easiest, clearest indicator — there's no significant difference between the two types of hospitals."