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Private equity-backed consolidation divides physicians

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As more physicians leave their private practices behind, tension is growing over their choice of potential partners — particularly private equity, which is increasingly drawing federal and state scrutiny.

Fewer physicians — only 46.7% in 2022 compared with 60.1% in 2012 — work in practices wholly owned by doctors amid struggles to manage reimbursement cuts, regulation and rising expenses. As a result, more physicians are joining health systems, private equity-backed management services organizations and insurers. That trend has spurred research, lobbying groups, regulation and legislation on physician employment models.

Physician practice consolidation is likely inevitable, said Dr. Paul Berggreen, a gastroenterologist at Arizona Digestive Health and president of the American Independent Medical Practice Association. He pointed to recent data from the American Medical Association showing Medicare physician pay declined 30% from 2001 to 2024, after adjusting for inflation.

"The Medicare fee schedule decline over time has led to the dramatic shift in the employment model for physicians," he said. "If we don't do something to change the systemic factors causing that, we will see private practice become a niche."

Over the last six months, physicians formed the American Independent Medical Practice Association and the Coalition for Patient-Centered Care. Both groups agree the federal government needs to overhaul how doctors are paid and how physicians lose clinical autonomy under hospital and insurer employers. But they diverge on what role private equity should play in physician practices.

The American Independent Medical Practice Association advocates for physicians operating under management services organizations, many of which are owned by private equity firms, as an alternative to health system and insurer employment models.

Management services organizations can be attractive to physicians because they handle administrative tasks like billing, some legal matters and marketing. They can also improve physician practices' leverage in contract negotiations with insurers. But opinions differ on whether physicians can maintain their clinical authority under MSOs with private equity owners.

The Coalition for Patient-Centered Care, meanwhile, is pushing back against private equity investment in physician practices.

"Private equity cannot serve two masters," said Dr. Marco Fernandez, president of Midwest Anesthesia Partners, a physician-owned group in the Chicago area. He is also president of the Association for Independent Medicine, a founding member of the Coalition for Patient-Centered Care. "Shareholder supremacy is not compatible with patient-centered care."

Private equity can put restrictive language in contracts with physician groups that would impact patient care, said Dr. Stephen McCollam, an orthopedic surgeon for a physician-owned group in the Atlanta area. The practice is part of OrthoForum, an independent association of musculoskeletal practices that is one of the founding members of the Coalition for Patient-Centered Care.

When McCollam's practice was considering selling to a private equity firm, the contract included "draconian" terms, he said.

“We got down to the one-yard line with the PE group,” McCollam said. “Not until we got the contract language did we realize that although the PE firm talked about this being a partnership, it would be a takeover. They would have a significant say in the clinical workflow.”

Berggreen, however, said a firewall exists between clinical decisions and the business functions of a management services organization. Private equity firms, which cannot own physician practices, are independent, neutral financing mechanisms, he said.

Dr. David Eagle, a Patchogue, New York-based oncologist and vice president of the American Independent Medical Practice Association, said MSOs allow physicians to retain clinical autonomy, unlike the hospital employment model.

“When I transitioned into a hospital system, I saw my productivity fall by a third,” he said. “I couldn't see as many patients because of how the clinic operated.”'

Jordan Cohen, a partner at law firm Akerman who advises healthcare mergers and acquisitions, also said private equity-backed physician practices tend to have more clinical independence than hospital-employed physicians. Private equity investment serves as a counterbalance to health systems and insurers, he said.

The American Hospital Association and several large health systems declined to comment.

Amid the divide, Midwest Anesthesia Partners’ Fernandez called for policymakers to step in.

“We need more oversight and regulation to make sure medicine is being practiced the way it is supposed to be practiced,” he said.

Health systems, insurers and lobbying groups aim to shape policy as federal and state regulators ramp up scrutiny of healthcare transactions involving private equity firms.

This month, the FTC submitted a request for information on the effects of private equity-backed healthcare transactions, particularly those that fall under regulators' threshold for review. That followed a pending FTC lawsuit filed in September against U.S. Anesthesia Partners and its private equity backer Welsh, Carson, Anderson & Stowe. The lawsuit alleges the organizations conspired to monopolize anesthesia practices in Texas and inflate healthcare prices.

In addition, the FTC and DOJ's updated merger guidelines look to broaden the scope of merger and acquisition reviews by measuring the cumulative effect of smaller transactions that would typically fall under their radar.

In February, Colorado Attorney General Phil Weiser (D) reached a settlement agreement with USAP to cut ties with five hospitals and pay $200,000. The settlement followed a two-year investigation that said USAP increased prices by buying Colorado anesthesiology practices, forcing doctors into non-compete agreements and eliminating competitors through exclusive contracts with hospitals.

Colorado is among at least 13 states seeking to increase oversight of healthcare transactions. California and Oregon have or are considering passing bills that would target private equity investment in healthcare.

"The scope and speed of [pre-merger notification requirements] being implemented across states is significant," said Melissa Wong, a partner at law firm Holland & Knight who advises on healthcare M&As. "State attorneys general are reaching into areas that the federal government wouldn't necessarily play a role."

The American Independent Medical Practice Association and Coalition for Patient-Centered Care are hopeful that new laws and regulation will help curb hospital- and insurer-led physician consolidation.

Health systems and physician groups are competing with insurers that continue to grow their care delivery operations. For instance, UnitedHealth Group's Optum Health is the largest employer of physicians with 90,000 doctors.

"Whether its UnitedHealth Group, a health system or some PE firm, they are in a position to dictate a lot of things that physicians do, from prescribing drugs to what care protocols they follow," said Michael Abrams, managing partner of the consultancy Numerof & Associates. "They can say it is all in the name of making the organization more efficient, but at the end of the day it is investors who are calling the shots on healthcare delivery."