

# Ramifications and Impacts: Private Equity Acquisitions in Healthcare in United States

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## ABSTRACT

In recent years, private equity firms have had a specific investment focus in the healthcare sector in USA. Their acquisitions play a significant role in the current healthcare industry, ultimately impacting insurance companies, healthcare providers, and most importantly, patients. This article investigates the outcomes resulting from the acquisition of medical practices by private equity firms in USA. The focus is on key variables such as patient care, quality, and costs as a result of these transactions. Research shows that the implications are negative when analyzing variables of cost, patient care, employee structure, and long-term sustainability. Private equity firms aim to maximize short-term gains by utilizing practices such as raising the cost of services and reducing staffing, both of which affect patient care. To evaluate this issue, online research and journal articles were analyzed. Metrics used to quantify patient care and quality include patient satisfaction scores, clinical outcome success rates, patient-provider ratios, and operational metrics. The most significant finding is that private equity acquisitions in USA are shifting healthcare from a patient-centered model to a profit-driven one, raising major concerns about systemic impacts.

**Keywords:** Healthcare; Acquisitions; Equity; Privatization; Outcomes; Reimbursement; Cost; Quality

## INTRODUCTION

Private equity firms in United States raise capital to acquire public or private companies. Their goal is to improve performance and sell them for a profit after a multi-year holding period. Once heavily invested in the manufacturing, technology, and retail industries, private equity firms have now expanded their footprint in the

healthcare sector. Acquiring medical practices, hospitals, and specialty clinics offers the potential for high revenue. In addition, an aging population and the rising prevalence of chronic disease make the healthcare sector a highly lucrative and stable investment. Consequently, these acquisitions are reforming healthcare services, shaping the management, financials, and experiences of patient care. The introduction of novel healthcare practices resulting from private equity presence prompts an ongoing debate over its benefits and drawbacks. With hundreds of acquisitions each year, most analyses have focused on financial performance, while operational impact on care has received less attention. Proponents argue these acquisitions are highly lucrative, producing a high return

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on investment, as well as providing beneficial operational expertise and increased services. However, critics argue that the primary focus of these investments is monetary, leading to the employment of cost-cutting strategies and increased service prices. As private equity presence expands across a diverse range of medical specialties, the implications reflect the healthcare system as a whole. Thus, understanding the mechanisms by which private equity impacts patient outcomes, patient access, and costs is crucial in analyzing its enduring effects. This paper examines the influence of private equity acquisitions on these factors through an analysis of operational metrics, including patient satisfaction scores, clinical outcomes, and staffing ratios. While private equity may streamline operations, its underlying focus on short-term returns often shifts organizations to a profit-driven model.

### THE EXPANSION OF PRIVATE EQUITY IN HEALTHCARE

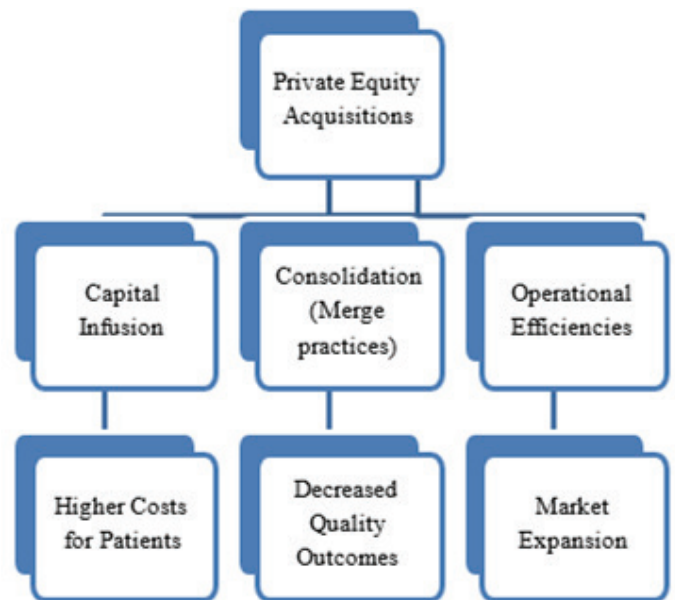
In recent years, private equity firms in United States have increasingly shifted their investment focus toward the healthcare sector. Their acquisitions play a significant role in the current healthcare landscape, impacting insurance companies, healthcare providers, and most importantly, patients. Although these firms have claimed to maintain operational efficiency and quality of care, their primary aim is to generate a high return on investment (ROI) and maximize profitability in their newly acquired practice(s). From ophthalmology to dentistry, these private equity firms are not limited to any specialty. As these widespread acquisitions are occurring nationally, healthcare administration and patients alike are experiencing serious ramifications of private equity (P.E.)-regulated hospitals and medical practices. Moreover, private equity acquisitions in healthcare can result in detrimental effects on patient care, healthcare costs, staffing structures, and the overall quality of services, as these firms value profit over patient outcomes (Figure 1).

### FINANCIAL INCENTIVES DRIVING INVESTMENTS IN HEALTHCARE

Private equity firms are investment firms that acquire their capital from investors. Specifically in the healthcare field, these firms focus on clinics, hospitals, and physician practices. They typically invest in private companies directly and use their investments to buy and improve the company. The ultimate goal is to increase the company's

value. Once this is achieved, private equity firms then sell the company or take it public for a maximized profit and substantial Return on Investment. One of the world's largest private equity firms, with over 1 trillion in assets, is Blackstone. This is an example of a firm that invests in healthcare, specifically in physician groups and home health care businesses (10). At the same time, Blackstone maintains a diverse portfolio, investing in travel, technology, and real estate divisions, among others. Regardless of what sector they choose to invest in, all private equity firms have the same objective: to maximize returns.

Stability and high financial returns are the predominant reasons that private equity firms specifically target the healthcare industry. Typically, healthcare practices have a high ROI, making them an extremely valuable asset in this sector. Due to their constant demand, people will always need medical care, and it is this stability that ensures the industry's high profitability. Also, the increasing aging population will continue to drive the need for healthcare services. Furthermore, medical practices rely heavily on insurance reimbursements from credible and guaranteed companies such as Medicare



**Figure 1.** This diagram depicts the trade-offs of private equity in healthcare in United States. New capital can enable consolidation and operational efficiencies. At the same time, stronger profit incentives may drive price increases and potential quality declines. Overall, it points to the need to balance efficiency improvements with patient-centered priorities.

and Medicaid. This is another factor in considering its predictable income and stable cash flow. In addition, the healthcare market is extremely fragmented; there are lots of small, independent practices. Firms see this as an opportunity to create economies of scale by acquiring multiple small practices and turning them into larger ones. This gives the firms more negotiating leverage with insurance companies for increased reimbursements. Moreover, since most healthcare practices involve separate real estate assets, this further enhances their value. This allows firms to make money in both the operations of the company and from the real estate assets. All in all, these motivations are key factors for private equity firms when investing in medical practices.

### **ETHICAL CONCERNS POST – ACQUISITION**

The acquisition of medical practices by these private equity firms has raised many ethical concerns about hospital management and practices. Once acquired, these firms tend to implement cost-cutting and revenue-maximizing practices that compromise patient care. In general, private equity firms run off a 3–7-year limited investment timeline before selling the company for a profit (2). This structure pushes these firms to maximize profits in a short period of time. By keeping the focus on financial gains, firms often will require doctors to practice medicine that is more profitable, rather than what is best for the patient. This includes conducting high-margin procedures, like diagnostic tests or elective surgeries, which can be unnecessary. One example of cost-cutting measures is overbilling and overcharging procedures. In 2021, a woman was billed \$1,100 for a simple colonoscopy procedure at a San Antonio gastroenterology office acquired by a private equity firm. This is nearly three times the amount for the same procedure performed by a public hospital (8). In another case in Arizona, at a P.E.-owned Kool Smiles dental clinic, dentists unnecessarily placed six crowns on the patient's baby teeth. As a result, the two-year-old patient died just days after due to overtreatment and malpractice (8). These cases raise significant ethical concerns about profit-driven practices observed in some PE-owned practices. On the other hand, acquisitions have some positive outcomes. Upon acquisition, firms bring in their own professional management teams who are instrumental in streamlining processes and ultimately improving efficiencies to reduce overheads. Also, private equities, with their monetary backing, can add additional specialties under one practice and

serve more patients. One example, The Carlye Group, purchased One Medical, a physician practice, in 2018. They were able to expand their practice from several clinics to over 70 practices throughout the country. In addition, they added service lines to include telehealth options and formed corporate partnerships with large-scale companies to offer healthcare memberships (9).

### **IMPACT ON PATIENT OUTCOMES AND OPERATIONAL METRICS**

Analysis of data, including satisfaction scores, staffing levels, and discharge rates, reveals a decrease in the quality of patient care in P.E.-owned medical practices. In one study, patient satisfaction scores were measured through the Hospital Consumer Assessment of Healthcare Providers and Systems survey. Scores ranged from 0 (lowest) to 100 (highest). The survey compared the score results of a private equity-owned hospital to a non-private equity-owned hospital. Results revealed that the private equity-owned hospitals had a mean score of 85.47, while the standard hospitals had a mean score of 88.19 (2). While this difference may seem negligible, it is actually quite significant, as it represents that the patients in P.E regulated facilities are generally less satisfied with their care provided. Similarly, in a study published in *Health Affairs*, outcomes of nursing home acquisition by private equity firms were analyzed. “The estimates show that private equity ownership increases short-term mortality by 10%, which implies about 21,000 lives lost due to private equity ownership over our sample period” (4). This pattern is not limited only to hospitals or nursing homes, but other studies show that patient outcomes often decline due to cost-cutting measures.

Staffing levels are another vital concern in P.E. facilities. According to a patient-provider ratio study conducted in 2018, out of 130 private equity-owned hospitals in the U.S, there was a mean of full-time equivalent employees of 667.8; out of the non-private equity-owned hospitals (688), there was a mean of full-time equivalent employees of 1,077.9 (2). This difference in the similarly sized hospitals highlights the significant staffing discrepancy between P.E.-acquired hospitals and similarly sized non-P.E.-owned hospitals. Overall, staffing reductions have severe consequences for patient care and employee workload, including decreased efficiency for providing patient care, lower morale amongst staff, and excessive workload for medical staff. The excessive workload is evident in the patient-to-provider ratio and can lead to early burnout among providers and an increase in medical errors.

To generate a higher net annual income, it is in the interest of facilities to maximize a patient’s length of stay. One study examined the measure of the mean total patients discharged in private equity-owned hospitals in comparison to non-private equity-owned hospitals. They found that private equity-owned hospitals discharged significantly fewer patients on average (5,764) compared to non-private equity-owned hospitals (8,453), even when accounting for variables such as hospital size, location, and patient demographics (2). This shows that most P.E.-owned hospitals were discharging their patients less, to procure higher reimbursements from possible longer stays, additional procedures, and ongoing care.

**A PHYSICIAN’S PERSPECTIVE AND THE FUTURE OF HEALTHCARE DELIVERY**

To gain a personal perspective, an interview was conducted with Dr. Rupan Trikha, an ophthalmologist who had previously owned and managed several ophthalmology clinics and eventually sold his practices to a private equity group. He described the selling process as extremely lucrative, which factored considerably into his decision to sell to a private equity firm. Immediately after the acquisition, Dr. Rupan lost management and operational control and became an employee/resource for

the new practice. In addition, Dr. Rupan noted that there has been a significant reduction in physician autonomy, with a shift in decision-making power to stakeholders. However, Dr. Rupan felt this had not affected the quality of patient care up to this point. There had also been an increase in the number of physicians in the new practice, leading to higher service costs for patients. However, on the positive side, there have been no cost-cutting strategies introduced, instead, the practice was able to negotiate better pricing on medications and medical supplies as a result of their robust partnerships. Also, the added medical support allowed the practice to serve more patients and broaden its service offerings. Ultimately, this contributed positively to the overall growth of the practice. One downside of this acquisition is the inefficiencies of billing and management tasks due to outsourcing. By working with third-party companies, insurance claims, paperwork, and patient billing became more disorganized and lacked accountability. Although not referred to as a traditional cost-cutting method, it is a cheaper alternative to in-house billing and administrative tasks. Ultimately, Dr. Trikha acknowledged that while the private equity acquisition increased medical resources and physician staffing, it also led to reduced physician autonomy, higher service costs, and inefficiencies in billing and administrative tasks (Table 1).

**Table 1.** The positive and negative impacts of private equity acquisitions across key in Healthcare of United States areas

Category	Positive Impact	Negative Impact
Operational Efficiency	<ul style="list-style-type: none"> <li>- Introducing management teams who streamline workflows and reduce overhead costs</li> <li>- Improving purchasing power to reduce the pricing of medication and medical supplies</li> </ul>	<ul style="list-style-type: none"> <li>- Outsourcing of billing/administrative functions leading to inefficiencies and disorganization</li> </ul>
Service Expansion	<ul style="list-style-type: none"> <li>- Adding new specialties and services</li> <li>- Increasing number of clinic locations</li> <li>- Improving patient access</li> </ul>	<ul style="list-style-type: none"> <li>- Emphasis on high-margin procedures</li> </ul>
Financial Performance	<ul style="list-style-type: none"> <li>- Potential for lucrative sale value for physician-owners upon acquisition</li> <li>- Increasing investor capital available for infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>- Incentivizing cost-cutting and revenue-maximizing strategies</li> <li>- Overcharging for procedures</li> <li>- Higher service costs for patients due to profit-driven pricing models</li> </ul>
Patient Access	<ul style="list-style-type: none"> <li>- Increasing the capacity to see more patients through increased physician staffing and added specialties</li> <li>- Potential partnerships with large corporations to offer healthcare memberships</li> </ul>	<ul style="list-style-type: none"> <li>- Staff reductions in some facilities resulting in higher patient-to-provider ratios, excessive workloads, and increased risk of provider burnout</li> </ul>

**Continued Table 1.** The positive and negative impacts of private equity acquisitions across key in Healthcare of United States areas

Category	Positive Impact	Negative Impact
Patient Outcomes	- Investing in advanced medical technologies and diagnostic equipment, enhancing treatment capabilities	- Lower patient satisfaction scores in PE-owned hospitals compared to non-PE hospitals - Overcharging for procedures - Reduced discharges potentially linked to longer stays for higher reimbursement
Ethical Considerations	- Implementation of standardized protocols and quality measures	- Conflict of interest between profit motives and patient welfare - Documented cases of overtreatment leading to patient harm

**BALANCING FINANCIAL GOALS WITH PATIENT-CENTERED CARE**

As private equity firms in United States grow increasingly in the healthcare sector, their impact becomes more prevalent, not only financially, but also ethically. Despite evidence of P.E acquired medical practices benefiting in ways such as gaining medical resources and staffing improvements, these come at the cost of reduced physician autonomy, lower quality of care, and higher patient billing. The most significant shift is from a patient-centered approach to a profit-driven one. Ultimately, as private equity firms continue to invest in medical practices, the quality of healthcare is jeopardized. Thus, finding a balance between financial growth and sound delivery of care will be crucial to maintain the future integrity of the healthcare system in United States.

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