

CORRESPONDENCE

Private Equity's Opportunities and Challenges in North Carolina's Health Care Ecosystem

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To the Editor – Private equity (PE) firms—investment companies that acquire, manage, and later sell businesses to generate returns for investors—exert a growing influence on North Carolina's health care sector, raising concerns about their impact on cost, quality, and equitable access to health services.¹ Nationally, PE acquisitions of physician practices increased more than 6-fold, from 75 deals in 2012 to 484 deals in 2021.² According to the Private Equity Stakeholder Project's 2024 report, 19% of private hospitals in North Carolina are PE-owned, marking the third-highest proportion nationwide.³ As these trends accelerate, affecting a greater share of physician practices, it is critical to advocate for regulatory reforms to maximize the opportunities provided by PE investments while mitigating its challenges to North Carolina's health care system.

Proponents highlight that PE may provide administrative and operational benefits for clinical practices.⁴ PE firms can bring expertise to improve operational efficiency by streamlining processes and reducing costs, providing capital for technology upgrades, and enabling practices to assume risk in value-based care models.⁵ PE acquisitions can also relieve physician owners of administrative duties, allowing them to focus on patient care while retaining minority ownership. This arrangement enables practices to compete in an increasingly complex care delivery system while complying with North Carolina's Corporate Practice of Medicine Doctrine (CPOM), which mandates that only licensed physicians make medical decisions.⁶

Despite potential benefits, PE incentives could compromise patient care. PE firms generally invest in a practice or hospital seeking at least a 20% return within 3 to 8 years, with over half of these acquisitions sold within 3 years.⁷ While the profit motive is not unique to PE, the pressure to generate rapid investment returns can undermine care quality, especially in debt-leveraged acquisitions. For example, a comprehensive Medicare Claims analysis found that PE-acquired hospitals experienced a 25% increase in hospital-acquired infections, a 27% rise in patient falls, a 37% increase in central line infections,

and a 100% increase in surgical site infections, despite performing fewer procedures. Researchers suggested that reduced staffing ratios in PE-owned hospitals may contribute to these outcomes.⁸

Improved regulatory oversight and transparency are crucial to mitigate the potential negative externalities associated with PE investment in health care. Revising North Carolina's CPOM and passing new state legislation, such as the Preserving Competition in Health Care Act, could enforce stricter review processes of health care mergers, limit monopolistic consolidations, and protect competition and access to care.⁹ With prudent regulation, North Carolina can lead the way in harnessing PE investments to foster care delivery innovation while safeguarding quality and equitable care.

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Statement of interest

Victor Agbafé has received consulting fees from Third Culture Capital. Victor Agbafé was a 2024 Flare Capital Scholar. Victor Agbafé is currently an intern to the Chief Medical Officer at RightMove Health.

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