Private Equity's Surprise Party

"The key fact to understand when discussing out-of-network billing is that it doesn't happen in 90% of hospitals. It occurs at hugely high rates in hospitals that outsource ED services to EmCare. ACEP and EmCare want to make this into a systemic issue. It's a bad apple issue."

Zack Cooper

Associate Professor of Economics and Public Health, Yale University

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Why is surprise medical billing only a major problem at 15 percent of hospitals? Why is the problem so heavily concentrated in certain regions and with certain medical specialties? The answer isn't systemic problems in the health care system or network adequacy standards: it's private equity.

Case in point: KKR & Co. They're a global investment and private equity firm that's been called the "Goldman Sachs of private equity." KKR buys out companies—often when they're struggling—and aims to make them profitable, usually by cutting overhead, labor, and squeezing out every penny in service to the bottom line. Today, they own Envision Healthcare and EmCare, two of the largest hospital-based physician staffing firms in the country. KKR acquired Envision in 2017 after it lost $232.5 million. Since then, **KKR has worked hard on behalf of its shareholders to make a profit – by hiking the cost of hospital bills for patients.**

Fig 1. Excerpt from EmCare's response paper:

4.3 Incentives Facing the Hospital

The premise is that in order to maintain market reputation, hospitals would have to subsidize the contracted physicians to not balance bill. However, it does not state that hospitals determine a competitive market rate to avoid balance bill. We dispute that "a hospital does not benefit directly from physicians engaging in out-of-network billing" (page 19). Hospitals do benefit directly when higher out-of-network insurance payments rather than hospital subsidies to the emergency physicians, enable the hospital to recruit, retain, and expand high-quality, board certified emergency physicians.

The fact that the study identified 16 EmCare-staffed hospitals during a five-year period argues that:

- The hospital's chief quality measure of patient satisfaction was met, if not increasing.
- The hospital's financial viability and stability had been secured, and was being assured by contract renewals year-after-year.
- The hospital valued the continuity of high quality clinical care from year-to-year as evidenced by the contract continuations.

5.1 Lasso and Within HRR Variation in Hospital's Out-of-Network Billing Rates

EmCare's (alleged) increase of out-of-network rates by 24% does not reference what is gained — gained revenue for recruiting and retaining board certified and highly qualified clinicians who may not otherwise be available, increased staffing to shorten wait times, higher patient satisfaction feedback and scores and better clinical outcomes.

And Envision doesn't even try to deny this profit-on-the-backs-of-patients strategy. When researchers at Yale University published a study detailing how surprise billing soars when Envision enters a hospital, its response to the paper admits that physicians engaging in out-of-network billing benefits hospitals. They come right out and say that when Envision and EmCare increase out-of-network billing rates, there is something gained: revenue for them.

The relationship between Envision, Emcare, and surprise medical billing is a well-documented business strategy. At 50 percent of U.S. hospitals, out-of-network billing rates comprise less than 2 percent of claims. For 15 percent of hospitals, however, 80 percent of visits result in a surprise bill – and it all starts when Envision and EmCare come to town.

In hospitals where EmCare works, average out-of-network billing rates in emergency departments averages 62 percent. It wasn't always like that at those hospitals. The Yale researchers looked at data from 2011 to 2015 and found that **after EmCare took over the management of**

emergency services at hospitals with previously low out of-network rates, they raised out-of-network rates by over 81 percent.

Why did EmCare take previously in-network physicians out-of-network? The study found that the firm increased charges by 96 percent compared to the charges billed by previous physician groups.

Here's how EmCare works:

1. Buy up most of the local emergency physicians
2. Take them out of insurance networks
3. Nearly double what they charge
4. Profit

It's great for EmCare's balance sheet and devastating for the rest of us. At these hospitals, health insurance providers helped patients out by picking up more of the cost of charges – but that meant higher premiums for everyone. Because even when these doctors remain out-of-network, most health plans still negotiate on behalf of the consumer and pay EmCare something to satisfy the demands in their bill. This study found that after EmCare took over an emergency department, the main insurer had to start paying 122 percent more in charges, which means higher premiums for everyone they cover, resulting in an 83 percent increase in patient cost-sharing. For the 1 in 6 Americans who receive a surprise bill from the emergency department – including the majority of patients at an Envision or EmCare hospital – that increase may bankrupt them, but it's how Envision got on a path to avoid bankruptcy.

"For a patient needing care with the highest-level billing code, the hospital's previous physicians had been charging $467; EmCare's charged $1,649."

- The New York Times on Newport Hospital and Health Services

KKR saw this market failure as an opportunity. And with 1 in 6 visits to the emergency room resulting in a surprise bill that pads their profits, it seems to have worked.

Now, Congress may prohibit Envision, EmCare, and other companies like them from price-gouging American patients, but private equity still needs to collect. **Arbitration just means health insurance providers will pay the cost of outrageous bills, and hundreds of millions of Americans will pay more in premiums – all so these private equity firms can keep their price-gouging practices intact.**

American families already struggle to make sure a broken bone doesn't break the bank. By correcting this market failure, we can lower costs for all and protect patients from financial hardship. **Congress should put patients and consumers ahead of profits for private equity firms with a fair, local, market-based benchmark.**

About the Coalition Against Surprise Medical Billing

Members of the Coalition, which represent leading employer groups, health insurance providers, health organizations and the tens of millions of people they employ and serve each day, support meaningful solutions to end surprise medical billing that would:

- Protect patients and families from surprise medical bills sent by out-of-network providers.
- Maintain fair and equitable payments for providers with a local benchmark standard.
- Help reduce consumers' health insurance premiums and taxpayers' costs by avoiding an arbitration process that adds unnecessary cost, delay and bureaucracy to the health system and is particularly harmful for smaller businesses.