The Expansion of Private Equity into Ophthalmology

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Abstract

Throughout the last few decades, private equity (PE) has expanded into the field of ophthalmology at an incredible rate. Acquisitions of private practices by firms have increased with the intention of maximizing profits and patient volume to target the growing demand for medical services and address a fragmented healthcare system. PE investment has proven to greatly benefit PE firms and senior ophthalmologists of well-established practices. However, this trend of PE acquisition has received much criticism despite its seemingly positive short-term outlook. In this commentary, we discuss the potential setbacks of PE advancement in ophthalmology, including the loss of physician autonomy, reduced income for junior ophthalmologists, and decline in quality of patient care – all resulting from the increased focus on maximizing profitability. Furthermore, we consider the ramifications of PE investment on incoming ophthalmologists who are entering an uncertain job marketplace and may struggle to locate stable practice opportunities. This commentary concludes with the evaluation of private equity advancement through the lens of a medical student and an ophthalmologist, as well as a call for medical students and trainees to educate themselves on the matter and promote further research on the long-term consequences of this trend of PE investment.

Commentary

Private equity (PE) has made significant advancements into the field of ophthalmology throughout the past few decades, most notably with a trend of increasing private equity acquisitions of private practices. For medical students, residents, and trainees in the early part of their career, this is an evolving dynamic that requires attention due to its paramount effect on the private practice landscape. This commentary attempts to further educate students, residents, and early career physicians on the impact of private equity's encroachment on physician practices in the ophthalmology space. Private equity firms seek to maximize profit through acquisitions of private practices, with the aim of increasing the value of purchased ophthalmology practices and thereupon selling the practice to another firm that shall do the same. These firms are thus understandably drawn toward more profitable private practices that are highly likely to grow financially (1). Multiple ophthalmology practices may also be consolidated into larger groups under the same PE firm to increase profitability, with the providers of these practices becoming employees under these firms. This expansion of private equity into ophthalmology has been justified with multiple motives, including a growing demand for medical services from an aging United States population and targeting "inherent inefficiencies present in a relatively fragmented practice environment", the latter statement a reference to the presence of hundreds of individual practices and a general independence from hospital systems (1, 2, 7). PE investment of ophthalmology practices has demonstrated short-term financial success for both senior ophthalmologist providers and the private equity firm itself due to increased profits, increased patient volume, and improved payer mix (3). Nonetheless, there remains much skepticism expressed in literature regarding the true success of private equity acquisitions of private practices in the long-term perspective (3, 10). Despite the beneficial short-term patterns mentioned above, other studies have also demonstrated decreased physician autonomy and physician salaries following acquisition. Due to the uncertainty regarding the fate of junior and incoming ophthalmology colleagues, PE encroachment on ophthalmology practices raises a potentially significant concern for the future of ophthalmology and patient care.

The decrease in physician autonomy results from ophthalmology providers handing clinical operations authority to the private equity firm. PE firms generally purchase 60 to 80 percent ownership of a practice (12). With the acquisition of practices by private equity firms, ophthalmologists must then operate under certain policies imposed by the larger business practice model. Subsequently, these firms then restructure the ophthalmology practice to establish an organization that primarily seeks financial success via high volumes of surgical procedures and cash-pay procedures (e.g., premium IOLs, intravitreal injections, cosmetics) (4, 5, 9). PE firms further maximize profitability of ophthalmology practices by implementing structural changes such as vertical consolidation, or the creation of a vertical referral pathway consisting of optometrists, ophthalmologists, and vitreoretinal surgeons in order to keep patients within an internal network that addresses all eyecare needs (1, 11). Despite demonstrating great efficiency, these strategies may restrict ophthalmologists' ability to make independent clinical decisions, manage their procedural volume, or see a diverse body of patients. In fact, a questionnaire-based study found that 81.4% of vitreoretinal fellows expressed concerns about a loss of autonomy under a PE-owned practice (7). This finding reflects the widespread apprehension among junior and future ophthalmologists regarding the preservation of independence in their practice.

The financial goals of the PE firm may also necessitate tighter control over expenses and ophthalmologist income, especially as salary becomes more linked to the physician's ability to meet procedural quotas. Multiple studies also have suggested that junior and future ophthalmologists are "less likely to succeed financially compared with their contemporaries" (6) due to private equity investment and vulnerability during the buy-in process. Junior ophthalmologists typically join large physician-owned practices with the goal of eventually becoming a partner, a process that requires buying into the practice after a pre-determined employment period. This process often takes several years for both junior and senior ophthalmologists. Both sides must decide if the "marriage" is the right fit. For example, the junior ophthalmologist needs to determine if the practice model, philosophy, the patient clinical and surgical volume, and the practice environment are mutually beneficial. The senior ophthalmologist must decide whether the junior colleague's personality, clinical and surgical expertise, and work ethic align with the practices. Once both sides have mutually decided to pursue a buy-in, a pre-determined price is then paid by the junior ophthalmologist over a period of time, after which subsequent profits of the practice are then appropriately distributed to all of the partners including the new junior ophthalmologist.

Unfortunately, the junior ophthalmologist is susceptible to the risk of a PE firm buying out the practice before the junior physician can secure their buy-in. If a firm does approach the practice while the junior ophthalmologist's buy-in is not yet complete, this ophthalmologist is not considered a partner and hence is excluded from the negotiations with the private equity firm. The junior physician is not included in the payout agreed upon by the partners. Consequently, the junior colleague loses their ability to buy into the practice or become a partner, nullifying their financial investment over the last few years and excluding them from further financial benefits from the sale. Additionally, once the buyout has been completed, the junior ophthalmologist loses autonomy and will likely be asked to streamline clinical operations based on the private equity firm's recommendations.

Through a medical student and future ophthalmologist standpoint, the expansion of private equity into ophthalmology raises concern due to minimal evidence regarding its long-term success. This trend also challenges personalized patient care which has always been synonymous with the concept of private practices. While PE acquisition is associated with increased patient volume, the focus on profit and high procedure volume appears to pressure ophthalmologists to see more patients in less time. Research indicates that PE may hinder patient care through shorter appointments, fewer Medicare and Medicaid patients seen, and greater costs (i.e., PE-owned practices demonstrated a mean increase of 11% in charges per medical claim filed over non-PE practices) (10, 11). Students are inspired by fields such as ophthalmology that entail established and prolonged relations with their patients, but the increasing involvement of private equity in ophthalmology may deter many trainees who are seeking these fond relationships. In fact, according to one research study, 78% of ophthalmology trainees stated that they would not consider employment by a PE-owned practice out of fear of loss of autonomy and reduced quality of patient care (7). Furthermore, the anticipated difficulty of becoming a partner at physician-owned practices and an indeterminate job marketplace present much uncertainty in the future of incoming ophthalmologists (7, 8).

From the perspective of a practicing ophthalmologist, private equity encroachment on ophthalmology practices has been met with mostly negative reviews. The three biggest issues include loss of autonomy and independence, a practice pattern built on profitability, and declining reimbursement. Most private equities, once they purchase a practice, require senior providers who were paid out to remain on board for several years to help the transition to a private equity-owned practice. In this time frame, there is significant clinical reorganization, where metrics such as those mentioned above are implemented to address the financial needs of the organization. Additionally, product replacement and medical equipment purchasing are reduced to offset costs. Some groups may align compensation with patient satisfaction scores which often does not correlate with each other and may even be detrimental; for example, ophthalmologists may overutilize unnecessary procedures to achieve higher satisfaction scores from their patients (11). The difficulty ultimately comes from the fact that the interests of the private equity company usually do not align with those of the physician. Furthermore, solo and independent ophthalmology practices are left to compete against large private equity firm-owned ophthalmology practices who may own more resources and finances to advertise, recruit, and retain patients, staff and physicians. This dichotomy becomes even greater as more practices become absorbed by private equity firms.

With private equity acquisitions on the rise in ophthalmology, it is imperative that medical students, residents, and junior ophthalmologists are knowledgeable on the impact of private equity on the future of this specialty. Information regarding PE, ownership structures, and practice options should be widely provided to trainees pursuing ophthalmology, ideally through small group discussions and on-site learning during residency program education (7). Although several highly accountable publications have analyzed the trends of private equity encroachment on medical practices, additional research investigating the long-term implications of PE acquisition and its impact on medicine must be done.

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