

Betting on 'golden age' of colonoscopies, private equity invests in gastro docs

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Mariel needed a new gastroenterologist.

Having just moved back to San Antonio, the 30-something searched for

a doctor to manage her Crohn's disease, an inflammatory bowel condition that is successfully managed with medications and lifelong monitoring—including regular colonoscopies.

Mariel booked an appointment and learned she would be on the hook for a \$1,100 colonoscopy—about three times what she had paid for the same test in a different state. Almost three-quarters of the bill would be a "facility fee" for the in-office procedure at a colonoscopy clinic. (KHN agreed not to disclose Mariel's last name because she is concerned speaking out might affect her doctor's willingness to manage her medical condition.)

Preventive colonoscopies are covered without patient cost sharing under the Affordable Care Act, but colonoscopies for patients with existing conditions, like Mariel, are not. A 2019 study found patients with inflammatory bowel diseases, including Crohn's disease, incur about \$23,000 in [health care](#) costs a year. Medication treatments alone can cost tens of thousands of dollars annually.

But shopping around proved frustrating. Although San Antonio has plenty of gastroenterology offices, more than two dozen of them are controlled by the same private equity-backed group.

In 2018, one of the nation's largest independent gastroenterology practices, Texas Digestive Disease Consultants, announced a deal with the Chicago-based private equity firm Waud Capital to expand by offering management services to other physicians. At the time, the Dallas-based [practice](#) had 110 locations, mostly in Texas—including San Antonio. Today its management group, the GI Alliance, operates in a dozen states with more than 400 locations—and is growing fast.

With market dominance comes the business opportunity to set and maintain high prices. "It's pretty much the only game in town," Mariel

said.

Private equity, known for making a profit on quick-turnaround investments in struggling businesses across many industries, has taken an increasingly active interest in health care in the past decade. It has invested in gastroenterology practices in recent years to tap into the revenue potential in meeting growing demand.

"We are in the Golden Age of older rectums," one investment manager wrote in 2017.

Tired of having to manage the increasingly complicated business of running a practice and, often, lured by the sweet deals investors offer, more and more doctors have partnered with or even sold their practices to private equity funds. So investment managers now control the financial decisions for many medical offices caring for patients with digestive ailments. With profit the primary driver, patients may find they pay much more for the same—or less—care.

The Centers for Disease Control and Prevention recently lowered the age at which healthy Americans are urged to begin routine screenings for colon cancer—ensuring that most will undergo regular colonoscopies beginning at age 45. And the population is aging, meaning more people will be needing the procedure.

For those 65 and older, Medicare picks up the tab. But even when a benign polyp is found during a simple screening, patients sometimes end up with an unexpected bill. And less-than-scrupulous providers often find ways to bill for some services, such as out-of-network anesthesia monitoring.

Studies show that private equity investment in health care results in more surprise bills and overall higher costs for patients. Surprise billing is the

practice of charging insured patients for out-of-network care unknowingly received, including in emergencies and at otherwise in-network facilities.

Before a federal ban on surprise billing took effect this year, it was common for patients to get slapped with an expensive bill after being treated by an emergency room doctor employed by a private equity-owned staffing service—a problem that policy experts say was not a glitch but rather a business model for private equity companies.

Nearly 10% of the nation's 14,000 gastroenterologists were partners in or employed by a private-equity backed organization as of last fall, according to a report by Physician Growth Partners, which represents independent physician groups in transactions with private equity.

In 2021, the number of private equity acquisitions of gastroenterology practices grew by 28% over the previous year, according to Spherix Global Insights and Fraser Healthcare.

Complex government regulations, technological innovations, and insurance industry practices have driven many gastroenterologists to sell shares in their practices, said Praveen Suthrum, who runs a consulting company for physician practices. Many physicians argue reimbursement rates are too low to keep up with complex negotiations with insurers and the other rising costs of operating an independent practice.

Private equity typically purchases a stake in a health care practice, then adjusts its operations to make it more profitable. It may switch to cheaper suppliers, shorten appointment windows, bill aggressively, or lay off staff, to name a few strategies—the kind of changes that save money at the expense of patient care.

In December, NBC News reported on how one private equity-owned

group of dermatology practices overbooked patients, lost test results, and leaned on cheaper labor from physician assistants and nurse practitioners who may miss critical diagnoses.

A study out last year from the National Bureau of Economic Research showed that when private equity owned a nursing home, patients were more likely to die in their first months there and much more likely to be prescribed antipsychotic drugs—which are known to increase mortality among the elderly. Taxpayer spending per procedure or service in a private equity-owned facility goes up about 11%.

Private equity has shown a lot of interest in health care practices that perform high-volume procedures, especially those with growth potential.

"Lots of people are needing injections in the eye for macular edema, and lots of people need colonoscopies, and lots of people need skin biopsies," said Dr. Jane Zhu, a health services researcher at Oregon Health and Science University in Portland who has studied the role of private equity in health care. "And these are things that will only grow in volume over time as the population ages."

Zhu said usually the investors start by acquiring a well-performing practice, or group of practices, in one geographic area—called a "platform practice."

"It's well established. It has some brand recognition," Zhu said. "It has good market reach. There may be multiple sites. It has lots of patients that are already affiliated with that practice, and they buy that up, and there are opportunities for consolidation."

Mergers create larger groups with more power to negotiate rates with insurance companies and charge what they'd like. The possibility of capitalizing on the good name of a respected practice alone may make it

a valuable investment.

Zhu said these medical practices are considered a short- to medium-term investment, with an average period of three to eight years before the investors sell.

Suthrum said private equity firms are good at making their case to doctors, assuring them they'll let the doctors do the medicine while the businesspeople do the business.

Doctors think, "If I'm going to survive, then I will either have to sell myself to the hospital or, what is the alternative?" Suthrum said in an interview. "The alternative is [private equity](#)."

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