

Transcript: The Golden Age of Older Rectums - For Investors

Dan: Hey there. Quick announcement: I'm STILL super-tired after COVID, and we're gonna slow down our release schedule a little till I'm back up to full strength. A little more about what's next, at the end of today's story. Ok....

Big news: Investors have decided your butt is a gold mine.

Here's how we got into this: Over the past few months, our producer Emily Pisacreta has been keeping an eye on the Arm and a Leg inbox. A while back, she saw an email from a listener who wanted our take on something. And the story that unfolded took us in unexpected directions. Emily?

Emily: Yep. The email came from a listener named Mariel. Mariel's in her late 30s, she works in marketing, and she lives with Crohn's disease. That's a chronic inflammatory bowel disease.

Mariel: every time I go see my gastroenterologist, I get signed up for some sort of unpleasant, diagnostic test of some sort. And so I usually try to avoid it as long as possible.

Emily: Mariel used to live in Alabama, where she saw the same gastroenterologist for years. But recently she moved to San Antonio, Texas, where she's from. Even though she might like to avoid it, the time comes for her to find a new gastroenterologist in Texas and she makes an appointment.

Mariel: my mother had gone to see someone in this practice and she's recommended them.

Dan: And as she expected, the doctor says she needs to have a test, a colonoscopy.

Emily: Yeah this place does them right in house, which seems cool. She doesn't need to go to a hospital or another out patient clinic. But when she makes the appointment, they let her know what she's on the hook for. It's about \$1100 upfront,

Mariel: which seemed insane.

Dan: ...as in: way more money than Mariel would pay for a colonoscopy where she used to live. And almost three-quarters of it is for what they're calling a "facility fee."

Emily: So she writes to us and she's like, what's up with these guys? They want to charge me a lot of money. Why would I owe a facility fee? Like, what's the deal?

Dan: Yeah, facility fees. That's something we've covered before, and something that comes up a ton in our inbox. To recap, a facility fee is like a cover charge, usually from a hospital, basically just for walking in. They can be wildly-expensive -- hundreds or even thousands of dollars -- and they take a lot of folks by surprise.

Emily: Yep, as our inbox makes clear to us. Emergency room facility fees are the ones we hear about the most. But anyplace the hospital owns? They might charge a facility fee.

Dan: Yah. It sucks, but it's quote-unquote normal.

Emily: Yeah, and that's kind of what I expected to tell her. But I got curious and started googling a little. Turns out: this place she went to? Not owned by a hospital. It's a private practice. And it's a big one. Which Mariel had also noticed.

Mariel: **They have locations all over the city. It's pretty much the only game in town. It's actually very difficult to find a gastroenterologist that is not a part of this practice.**

Emily: In her email she wrote, "They basically run San Antonio." I mean, it sounds like some kind of western, right?

Dan: Right. But the more we looked into it, the more we realized it's not a western. It's not just in Texas. It's all over the place. And it's not just about colonoscopies either. This is a story that's way bigger, and weirder, than we expected.

This is an Arm and a Leg, a show about why health care costs so freaking much, and what we can maybe do about it. I'm Dan Weissmann, I'm a reporter and I like a challenge. So my job on this show is to take the most enraging, terrifying, depressing parts of American life and bring you a show that's entertaining, empowering, and useful.

With a lot of help from producer Emily Pisacreta -- especially this time. Emily, I'm super-psyched that you're taking on the lead reporter role for this story.

Emily: Well, you know how much I enjoyed following the breadcrumbs on this one.

Dan: OK, let's get to it. So Mariel sees this doc who orders up a colonoscopy.

Emily: Right. For the uninitiated, a colonoscopy is kind of an ordeal. It's basically a colon exam, and to do that you start by spending an evening drinking like HALF A GALLON of this laxative-laced gatorade stuff —to totally empty your colon. Then the next day a doctor puts a camera up through your rectum to check everything out.. Most people say they're no fun

Dan: I have done this. Can confirm. The gatorade and laxative part is the crappy part. Woof.. This story. The material writes itself.

Emily: OK, pace yourself, So, right-- colonoscopies? Not exactly anyone's idea of a fun night in, but they are considered an important screening tool for colon cancer. Actually Katie Couric once had a colonoscopy on TV to promote colon cancer prevention. She watched the results in real time under light sedation...

Katie Couric: **I have a pretty little colon.**

Dan: She made it sound almost fun. That's talent.

Emily: Fun fact, while we're on this public-health digression: Because of the Affordable Care Act, when the purpose of your colonoscopy is to screen for those cancerous polyps, it's supposed to be covered 100% by your insurance.

Dan: Fun fact for another time: Our inbox hints that may not always happen.

Emily: And back to Mariel in Texas: that kind of routine screening is not what she needed . Her doctor would be looking for changes in her colon related to Crohn's disease. And like everything we talk about on this show, the price for that kind of colonoscopy varies wildly.

Dan: As Mariel was finding out. This place was looking to charge about three times what she was used to. And they seemed to her like the only game in town. So you started checking that out.

Emily: Uh-huh. That was fun. I googled “San Antonio Gastroenterologist” and got a map with a bunch of dots, duh. And clicking around, I notice that they’re all locations run by just two practice groups.

Dan: And when you googled both of them, both of them turned out to be part of the same BIGGER group.

Emily: Yep,: TEXAS Digestive Disease Consultants. Which, turns out, is part of a group that operates in LOTS of states, called GI Alliance.

Dan: Whoa. It’s like a Russian Doll.

Emily: Yes. And this whole Russian doll of consolidated physician practices, is owned and operated by a private equity firm called Waud Capital Partners.

Dan: OK, WAIT! Private equity.

Emily: Yep, familiar words. Because, we’ve heard them in other contexts-- companies getting bought and sold. Maybe sometimes going bankrupt. And it turns out that private equity has very much found its way to health care. ..Which we have actually covered before on this show. In the context of SURPRISE BILLS.

Dan: Surprise bills. When you go to a hospital, get seen by somebody who’s not on your insurance, and SURPRISE! Get a great big bill. Surprise bills have been mostly outlawed now. That took years. Back in 2019, I talked with someone who was lobbying to ban them: Claire McAndrew was with a group called Families USA.

Claire: surprise billing is not an accident. It is a business model for private equity companies. When you go to the hospital, there are staffing companies figuring out how to make sure the hospital has the number of doctors it needs every day there are private equity firms that have been purchasing up those staffing companies and those private equity companies have figured out that, you know, lo and behold, a surprise out of network bill is. Bigger than an in-network bill.

Dan: So, private equity. The folks who brought us surprise bills as a business model. Now that we’re bumping into them again, it’s a good time to get a little more familiar. Like, what exactly IS private equity? It gets tossed around a lot, like Hedge Fund and other venues for investors with lots of money.

Emily: ... who hope to make big profits. They’re not all quite the same thing.

Dan: You’ve been talking with experts here. Have I got this right? I think of private equity as like the house-flippers of investment funds. Instead of just putting money into a company, they often take a majority interest, so they’re actually running things.

Emily: Right. And then they go in and do a big rehab of the way the business is run -- they figure it'll take a few years-- three, five, maybe a little more-- and then they go sell it. But instead of a fancy kitchen, the selling point is much bigger profit margins.

Dan: Which raises the question: what does a gut rehab look like for a medical practice? What do we get instead of a fancy kitchen?

Emily: Well, the surprise-bill thing was one example.

Dan: Yeah, that doesn't scream curb appeal to me.

Emily: I've talked to some people who have watching this financial rehab-in-medicine thing closely. That's right after this.

Dan: This episode of An Arm and a Leg is produced in partnership with Kaiser Health News. That's a non-profit newsroom covering health care in America.

Kaiser Health News is not affiliated with the giant health care outfit Kaiser Permanente.

We'll have a little more information about Kaiser Health News at the end of this episode.

I want to take a minute to tell you about a new season of a podcast called Against the Rules-- because the host, Michael Lewis, is one of my all-time favorite journalists. His books like Liar's Poker and The Big Short have been a huge influence on my work:

He brings big, complicated, important stuff down to earth by telling stories about people in the middle of all the complexity.

And on his podcast Against the Rules, Michael Lewis has been looking at what's happened to fairness in American life.

Seasons one and two of Against the Rules looked at what's become of two groups of people we look to for help with fairness: referees and coaches. The new season looks at another group: experts.

And by experts, Michael Lewis doesn't mean in-your-face know-it-alls.

He means people who really know their stuff. He thinks they're getting better and better, even as they get less and less of our attention and respect.

So, he heads deep underwater -- literally-- and meets an oceanographer who has saved a lot of lives. (... but the survivors don't even know his name.)

And he heads to the stock market -- the one field where he argues it's actually impossible to have any expertise at all.

His big question: How did it happen that we've gotten so good at creating experts while also getting worse at listening to them?

You can listen to Against the Rules wherever you get podcasts. And: If you stick around till the very end of this episode, you'll hear a quick preview from the show's new season.

Emily: So private equity companies are doing their financial-rehab thing in a lot of different medical specialties .I talked to someone who's been tracking the phenomenon..

Jane Zhu: My name is Jane Zhu. I'm a primary care physician and a health services researcher on faculty at Oregon health and science university in Portland, Oregon.

Emily: So Dr. Zhu, Jane, works in an academic setting-- looking at private equity is her research. But that research was inspired by experience: The experience of her friends from med school who joined private practices.

Jane Zhu: And then a couple years later, um, unbeknownst to them, their senior partners may have made a decision to sell to a private equity owner, um, and their.

Sort of career trajectories, the way that they thought they would be practicing, all of those things, would have changed overnight.

Emily: So, Jane was like: Huh! This is a thing. Here's what she's seen: private physician practices are getting bought up by private equity firms across a bunch of fields.

Jane Zhu: specialties like dermatology or gastroenterology or ophthalmology,

Emily: And the mechanics are kind of interesting: She says private equity firms usually start by acquiring a majority stake in one especially well performing practice or group of practices in a geographic area.

Dan: And of course there's a term for this: They call it a "platform practice."

Jane Zhu: It's well-established, it has some brand reputation.

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, um, for consolidation.

Dan: Opportunities for consolidation. Meaning, buy up more practices, and merge 'em. They're looking for "economies of scale." Bigger is more powerful. You can buy stuff in bulk, drive tougher deals with insurance companies to get more money... maybe charge more across the board.

Emily: Don't forget driving down operating costs, whatever that takes Basically, increase the margins. And make it quick.

Jane Zhu: They're looking at short to medium term horizons for investments.

So we're talking like three to eight years on average.

Emily: And then they're out. They sell the practice to someone else

Jane has watched this happen in a number of fields over the last decade. Before gastroenterology, Private Equity went big into dermatology, ophthalmology, dentistry. And she says the reason investors like these specialties for the same reason they like gastroenterology.

They all do a high volume of in-office procedures.

Jane Zhu: 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.

And these are things that will only grow in volume over time as the population ages.

Emily: Because did you know we are living in the "golden age of older rectums?" That's how a private-equity investor put it in a gastroenterology trade publication. Older folks are supposed to get colonoscopies on the regular. And we've got more older folks than we used to. Especially since the "older folks" category got expanded recently to include folks as young as 45. So for private equity to not invest is like leaving cash on the table.

Dan: Or deep inside somebody's colon?

Emily: Haha, exactly. A guy named Praveen Suthrum read the same article.

Praveen Suthrum: so it was so strange.

Dan: And Praveen? He WROTE THE BOOK "Private Equity and Gastroenterology." Because of course there's a book, and of course you found the guy who wrote it..

Emily: Praveen runs a tech and consulting company for physician practices- basically helping them with back-office stuff, business-side stuff. Gastroenterologists are kind of a specialty of his.

Dan: So he published this book in 2019. Because the docs he met through his work NEEDED it. Because selling to private equity? Was one of the big questions on their minds.

Praveen Suthrum: they were trying to figure this out or trying to understand. If this is an option for them, should they go for it? What are the pros and cons?

Dan: Praveen's just talking about the pros and cons for those gastroenterologists. He's not asking whether it's good or bad for society, if private equity gobbles them up.. He calls that "a train that's already left the station."

Emily: Praveen's interviewed a ton of doctors who were often receptive to selling their practices to private equity companies. Some were eager. Because even though it looks like a golden age to certain investors, a lot of doctors who own these practices are having a tough time. .

Dan: Because, Praveen says, before private equity got involved-- and since-- another bunch of players with deep pockets have been buying up practices, consolidating markets, getting "economies of scale," and making it hard for the little guy to compete: Hospital chains. These docs are competing with big, intense sharks.

Praveen Suthrum: they're thinking, okay, I caught the survive. So if I go to survive, then I will either have to sell myself to the. Uh, or what is the alternative? The alternative is private equity.

Emily: So it's go hospital or go private equity. And Praveen says private equity is really good at making their case: telling them they'll let the doctors do the medicine, and the businesspeople do the business.

Dan: So that's their pitch to docs. Then there's the rest of us. And Emily, you've been talking to some experts, and they do NOT love this deal for us.

Emily: A lot of them say when private equity gets involved, health care gets more expensive and it gets worse. And granted, gastroenterology is still a pretty new area for private equity. But in fields where they've been around for longer, we've seen some evidence.

Dan: Take dentistry. Our pals at Kaiser Health News had a story recently called "Why your dentist might be pushy" -- that is, why they might be pushing expensive procedures you don't actually need. Like a 1200 crown instead of a hundred-dollar filling. One big reason they mention: Corporate and private equity ownership.

Emily: Yeah. And nursing homes may be the starkest example. Last year, a big study from the national bureau of economic research found that when private equity owned a nursing home, things were different. The bills were significantly higher. Patients were a lot more likely to get prescribed anti-psychotic drugs and they were more likely to die in their first three months.

Dan: Yeah. And then there's the whole surprise bills as a business model thing. I mean, I don't know if this needs saying, but private equity's focus on juicing profits quickly does not seem to line up with what most of us want, which is, you know, decent care at a price we can afford without having to make a whole hobby of it.

Emily: And for Mariel, from Texas, whose note got us started on this whole story, the experience so far just makes her miss her old doctor.

Mariel: I like loved him. He was caring and his practice was very small. And he would do things like give me his cell phone number to call him. I felt like he really cared about me, um, as a person.

Emily: But with the guys who run San Antonio?

Mariel: I mean, it's very organized. I will give them that, you know, you get there, they sign you in the office.

Staff is very on top of things. But it very much is apparent that it is a business and they are in it to make money.

Emily: But when we spoke last week, she had some good news. She finally found another gastroenterologist in San Antonio. One who specializes in Crohn's Disease, at UT Health. It took a couple months and a ton of phone calls-- basically, making a hobby of it-- but...

Mariel: I did end up getting my colonoscopy, thank goodness.

Emily: Phew, I know you were so looking forward to it.

Mariel: Yes, delightful.

Emily: The bills are still coming in, and whether she landed a better deal turns out to be ...not so clear. But the most important part? Doctors checked her out, said things were looking good.

Dan: Ok, well that part I like to hear.

Especially in the context of this episode, about investment firms taking over medical practices.

It's a big story, and one we will be coming back to, so get ready

But first, medical debt has been in the news recently, and it's sounded like good news: The credit-reporting bureaus said they'd take a lot of medical bills off of people's credit reports. And the White House says it's going to crack down on some shady debt collectors. Question is: Are we talking about a glass getting half full here, or a drop in the bucket?

That's next time, on An Arm and a Leg. Little programming note: For the next little while, we'll be releasing episodes every three weeks, instead of every other week. Partly because, unfortunately, I'm still getting my strength back after having COVID, yeesh.

And partly because: Late last year, we started a whole new enterprise with the First Aid Kit newsletter, and honestly, that was a big bite. Even before I got sick, we were running a little behind on everything. We need to take a minute and re-group, to make it all sustainable. I'll have more updates for you as soon as I can.

Meanwhile, I'll catch you in three weeks.

Till then, take care of yourself.

This episode of An Arm and a Leg was produced by Emily Pisacreta, with help from me, Dan Weissmann, and Julia Ritchey, and edited by Marian Wang. Daisy Rosario is our consulting managing producer.

Adam Raymonda is our audio wizard. Our music is by Dave Winer and Blue Dot Sessions.

Gabrielle Healy is our managing editor for audience. She edits the First Aid Kit Newsletter.

And Bea Bosco is our consulting director of operations.

This season of an arm and a leg is a co production with Kaiser health news. That's a nonprofit news service about healthcare in America, an editorially-independent program of the Kaiser family foundation.

KHN is not affiliated with Kaiser Permanente, the big healthcare outfit. They share an ancestor. The 20th century industrialist Henry J Kaiser.

When he died, he left half his money to the foundation that later created Kaiser health news. You can learn more about him and Kaiser health news at arm and a leg show dot com slash Kaiser.

Diane Webber is national editor for broadcast at Kaiser health news, and Emmarie Hutteman is a correspondent there. They are editorial liaisons to this show.

Also: Our pals at KHN make other podcasts you might like! For instance, if you want The Latest on the politics of health care, you may already follow “What the Health,” hosted by KHN’s chief Washington Correspondent, Julie Rovner. Every week she brings together reporters from top outlets-- you know, the New York Times, Politico, CNN, like that-- to break down the latest. That’s at K H N dot org, slash podcasts.

Thanks to Public Narrative -- a Chicago-based group that helps journalists and non-profits tell better stories-- for serving as our fiscal sponsor, allowing us to accept tax-exempt donations. You can learn more about Public Narrative at [www dot public narrative dot org](http://www.dot.publicnarrative.org).

And those donations support this show. If you’re not a donor yet, we’d love to have you. Come on by to [www dot arm and a leg show dot com slash support](http://www.dot.armandalegshow.com/support).

Thank you!

Now, here’s that quick preview of Against the Rules, season 3.