Predatory Private Equity Practices Threaten Americans' Health and the Economy

Predatory investment practices threaten U.S. health care and block Americans from economic success. While finance plays an important role in our economy, harmful practices by unregulated private equity (PE) firms can shut workers out of good-paying jobs and threaten Americans' health. New Mexico was recently ranked the state most threatened by the negative impacts of private equity, largely due to the outsized role PE firms have in the state's health care system. The top 10 states most at risk of negative impacts from PE are in the southern and western United States. Every state, however, is at risk of these harms.

To curb the negative effects and growing influence of private equity, Democrats are proposing common-sense solutions. Meanwhile, Republicans have only offered more tax loopholes and advantages for these companies.

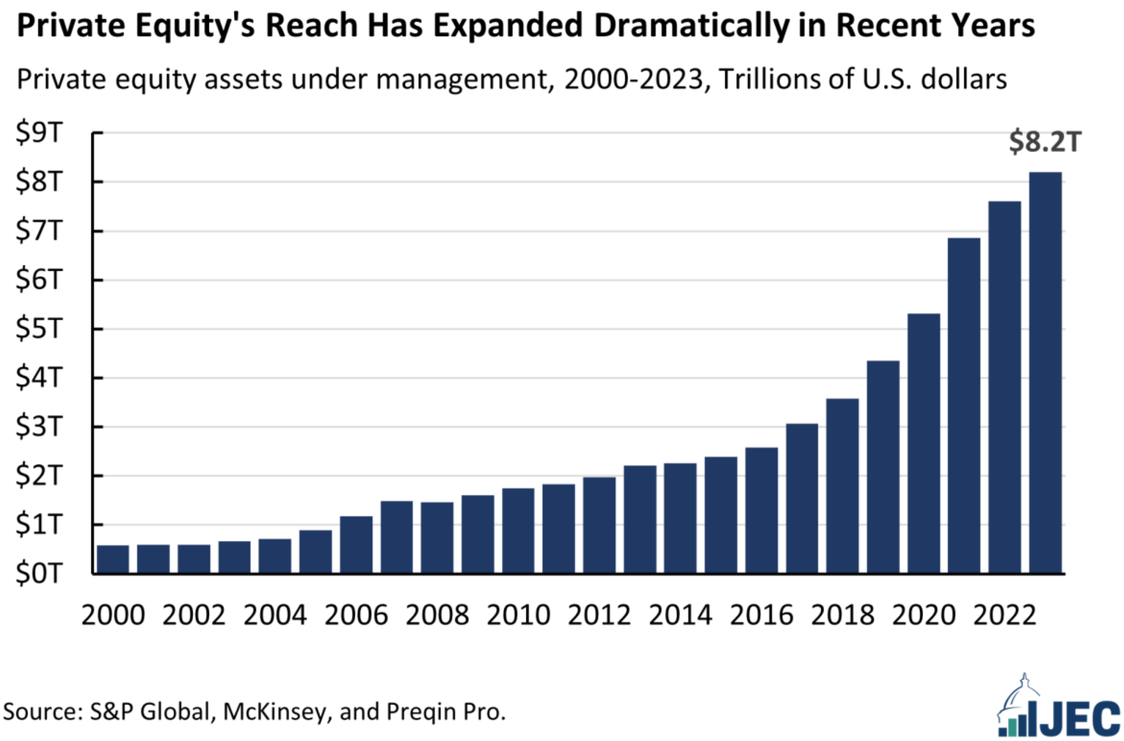
Predatory practices create significant risks for workers, businesses, and the economy

Public companies bought by private equity management firms are approximately 10 times more likely to go bankrupt than a control group subject to the same market forces. That's largely because of how PE firms purchase companies. PE investors, typically wealthy individuals or institutional investors, often fund their acquisitions by taking out large loans. Frequently, about 70% of the money that PE investors use to buy a company will come from loans—allowing them to only pay 30% from their own funds. The acquired company then becomes responsible for paying off this debt. This is called a "leveraged buyout."

In some cases, PE acquisition can help revive struggling businesses by bringing in new leadership or needed capital. However, the high debt levels associated with leveraged buyouts can raise substantial risks. For example, if revenues from the acquired company are not enough to pay off its debts, it can go bankrupt, which in turn leads to job loss and loss of the services that the company provided to the economy. Even if the acquired company does not fall into bankruptcy, PE firms typically seek to raise short-term revenue, in many cases through drastic cost-cutting measures like layoffs—which come at the direct expense of the company's workers. The PE firm will then be able to place the acquired company back on the market and sell it to new buyers at a higher price. This is what is called a "buy, strip and flip" business model.

PE firms have come to play an increasingly significant role in the U.S. economy in recent decades, raising concerns about impacts on the real economy and workers, as well as on the transparency and stability of the financial sector. Between 2010 and 2022, PE firms' assets grew by over

400%, reaching $7.6 trillion in June of 2022, and by 2023, assets managed by PE firms had reached $8.2 trillion in value.



Source: S&P Global, McKinsey, and Preqin Pro.

PE acquisitions are not public companies and are exempt from publicly disclosing information about their operations, risks, finances, and liabilities—making it difficult to evaluate their performance and possible risks to the broader economy.

Private equity-owned businesses are concentrated in lower-wage industries, impacting job stability and pay for workers

PE firms have focused their acquisitions on low-wage industries. In 2021, 1.5 million food service workers were employed by companies owned by private equity firms. The industry with the second greatest number of workers employed by a private-equity-owned firm was the retail industry, at 1.1 million workers, followed by the security and health care industries, which collectively had 1 million workers.

Evidence has shown that private equity acquisition can reduce workers' wages and threaten their employment. For example, the 2005 leveraged buyout of Toys R Us by three investment firms saddled the company with $5.3 billion in debt. Toys R Us was ultimately unable to pay off that debt, which resulted in the loss of 31,000 jobs. Before filing for bankruptcy, the company paid out millions in bonuses to senior executives, while workers fought for months to receive severance pay. Workers' income has been found to decline by an average of 1.7% after a private equity acquisition. Moreover, according to one study, within the first two years of private equity ownership, a company's employment declines by 4.4%. Other studies have found high concentrations of job loss in the retail industry and a net decline in employment among restaurants because of private equity buyouts.

Private equity's growth in the health care sector impacts Americans' well-being

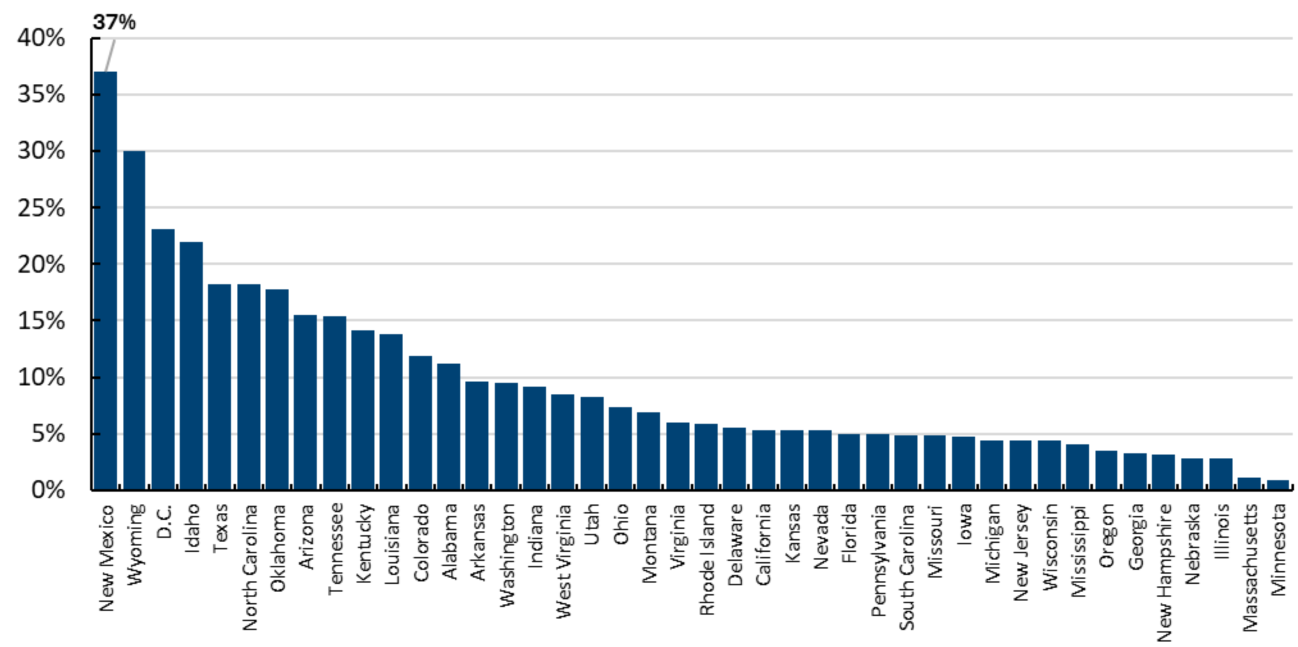
Since the 1990s, private equity has increasingly become a major player in the health care sector. Recent research has estimated that 40% of hospital emergency departments in the United States are staffed or managed by PE-owned companies.

Beginning with nursing homes and hospitals, private equity has since expanded into many areas of the health care system—investing or taking ownership of private physician practices, urgent care clinics, and independent emergency departments. Notably, private equity investment in health care increased from $5 billion to $100 billion between the years 2000 and 2018.

Recent studies have found private equity-owned rural hospitals also tended to be more concentrated in the south, with Texas having the greatest number of private equity-owned hospitals and New Mexico having the greatest number of private equity-owned hospitals relative to total hospitals in the state.

Private Equity Controls a Significant Share of Private Hospitals

Share of private (non-government) hospitals with private equity ownership by state



Source: Private Equity Stakeholder Project, Centers for Medicare & Medicaid Services (CMS).
Note: States/territories without PE facilities were excluded.

Research has pointed to concerning trends in the quality of care provided at PE-owned institutions. Health care establishments ranging from private physician practices to nursing homes owned by PE firms have been associated with potential overprescription of procedures, shortages in medical equipment, and poorer quality of care outcomes. A study specifically focused on the impact that private equity acquisitions have on nursing homes also found that private equity ownership was associated with higher rates of mortality, reduced compliance with Medicare standards of care, greater incidence of negative outcomes for patient health, and lower ratios of nurses to patients in their care.

Importantly, the bankruptcy of PE-owned hospital chains, such as the nationwide private hospital giant Steward Health Care previously owned by PE firm Cerberus, can lead to a series of closures for hospitals that many families depend on for medical care. This is especially concerning for underserved areas that already have limited access to care. A recent study found that hospitals under private equity ownership in 2018 tended to be in lower-income and rural areas. PE hospitals were also associated with lower patient satisfaction scores and were understaffed relative to non-PE owned hospitals, with a lower ratio of employees-per-occupied beds.

Private equity growth is also contributing to higher prices for food and other essentials

Private equity takeovers in the food industry accelerated during the pandemic. In 2021 alone, PE firms bought 786 food and beverage producers, primarily using debt. PE buyouts in the food and beverage industry in 2021 were also higher in value than the past three years combined, reaching over $31 billion. When interest rates rose in 2022 and pushed up these PE-owned companies' debt payments, it increased pressure to raise food prices in order to cover higher debt costs. Consumers have been pushing back on higher food prices by seeking out lower-cost brands, but further PE-led mergers could make it harder to shop around for better deals. As PE firms buy up more of the market for consumer essentials, they are becoming even better positioned to exploit consumers by raising prices on the basic goods that families need.

Since the 1980s, the grocery sector has become significantly more concentrated due to a wave of mergers and buyouts—a trend which research has linked to higher food prices. In recent years, federal regulators have raised concerns about the increasing prevalence of mergers and acquisitions led by PE firms, which allow PE firms to build market power by acquiring competitors. A recent example of a private equity merger threatening affordable food prices is the Albertsons/Kroger merger, which multiple states and the Biden-Harris administration are currently battling. Washington state, Colorado and the Federal Trade Commission (FTC) argue that a merger between Kroger and PE-owned Albertsons—which is also the owner of Safeway—would eliminate the competition that is currently keeping these grocery giants from hiking their food prices even higher.

Research shows that New Mexico is at the highest risk of exploitation by private equity

The Private Equity Stakeholder Project found New Mexico to be the state that is most at risk of enduring the negative impacts of private equity. It is among the top ten states with the largest share of hospitals (24.4%) and nursing homes (35.3%) owned by private equity. It is also among the top ten states in the country with the greatest number of layoffs from companies controlled by private equity, as a share of the entire private sector workforce in the state, with 1,844 private equity-led layoffs from 2015 to 2022.

Congressional Democrats are taking on private equity's harmful practices, fighting for Americans' health care, and ensuring wealthy CEOs pay their fair share

Senate Democrats are taking action to combat PE firms' negative impacts on Americans' health and wellbeing. Recently, the Chairman of the Homeland Security and Government Affairs Committee, Senator Gary Peters, sent a letter to three of the country's major PE firms—which own emergency rooms and physician staffing companies—to gain information on their patient care operations, decisions regarding staffing, and business operations. This past December, Senate Budget Committee Chairman Sheldon Whitehouse and Ranking Member Chuck Grassley also initiated a bipartisan investigation into PE-owned hospitals, demanding answers on whether companies' efforts to pad their profits simultaneously harmed patients. Senators Warren and Markey have also recently announced bills that create new layers of accountability and transparency for private equity firms involved in health care.

Additionally, private equity owners and other wealthy Wall Street asset managers are not paying their fair share in taxes due to an obscure tax advantage called the "carried interest loophole." This loophole allows CEOs to reduce or continuously put off tax payments on certain types of income they receive. Democrats came close to fixing this loophole in August 2022, but were ultimately unsuccessful due to Republican opposition and lobbying by Wall Street. Senator Wyden's bill, the "Ending the Carried Interest Loophole Act," would eliminate that loophole and require wealthy CEOs to pay taxes on this income in full.

While Trump's policies supported private equity, the Biden-Harris administration is holding these companies accountable for the American people

Former President Trump and his Republican allies in Congress have protected PE profits instead of American workers and their families. The former president appointed people with private equity ties to key positions in his administration—while others have since gone on to represent the industry. The Trump administration also gifted PE lobbyists a major win by granting them access to Americans' retirement funds.

In contrast, the Biden-Harris administration has taken multiple actions to shed light on private equity's activities, prevent their predatory practices, and protect workers and families. In early 2022, the administration announced several initiatives to hold nursing home owners accountable, requiring them to disclose PE-ownership, and expanding penalties against poor-performing facilities. The administration has also set up an online portal—"healthycompetition.org"—where people can submit complaints related to fraud, abuse or misconduct they've witnessed in the healthcare sector. In recent months, the administration launched a multi-agency effort investigating PE firms that maximize profits at the expense of patients, healthcare workers and taxpayers.

Private equity's buy, strip and flip business model, anticompetitive actions, and exploitation of our health care system threaten Americans' livelihoods. Democrats are fighting to crack down on these harms and protect our health care system, economy, and American families from predatory private equity practices.