

Further thoughts on dermatology and equity-owned dermatology practices



To the Editor: The recent article by Konda et al¹ addresses an important issue in dermatology—the increasing number of equity-owned dermatology practices (EODPs). These authors speculate that this business model is disruptive and has arisen because of the availability of equity funds, high student debt, and the desire for work-life balance in younger dermatologists. I believe that there is another important force causing dermatologists to sell their practices to equity groups—university and nonuniversity medical group (UNUMG) expansion into surrounding communities. This expansion has put the private practice dermatologists at a competitive disadvantage, and a level playing field no longer exists. If large enough, UNUMG expansion could be considered antitrust, disruptive, and anticompetitive. Of interest, on the other hand, Resneck Jr,² a full-time academician, views EODPs as a threat to the UNUMGs because EODPs redirect “dermatopathology specimens and Mohs surgery referrals to employees of the consolidated group, eliminating the opportunity for dermatologists to choose what they believe is the best option for each patient.”

Unlike equity groups that are funded by wealthy private investors, UNUMGs are nonprofit corporations. As such, they do not pay taxes on their profits, which leads to expansion, new buildings, advertising, and an ever-expanding cadre of administrators. One area of expense that is little known to the public, or even to physicians, is the facility fees that are often charged by UNUMGs when dermatology patients are seen. These additional fees are justified on the basis of non-evidence-based hospital regulations³ and greatly increase medical costs but add little or no value to the practice of medicine. Another part of the inequitable leverage problem is that UNUMGs are able to command more favorable insurance contracts with private insurance companies than those that physicians in private practice are able to negotiate.

The Accreditation Council for Graduate Medical Education, which oversees all dermatology residencies and fellowships, predicts that within 10 years all medicine will be “corporatized.”⁴ Both UNUMGs and EODPs are part of this trend. It is interesting to note that many states have laws

against the corporate practice of medicine that the attorneys appear to have legally skirted. In a 1935 California Superior Court decision the Honorable C.J. Goodell⁵ stated that “it takes no great exercise of the imagination to picture any number of possible conflicts arising between a doctor and a general manager over the treatment of a member-patient.”

Thus, the rise of dermatology practices banding together for survival is a natural Darwinian consequence of the antitrust practices of UNUMGs. In a private equity-backed structure, physicians can maintain some degree of ownership and autonomy while benefiting from lower overhead costs and, it is hoped, improved insurance contracts. Although the degree of private equity firms buying dermatology practices differs in various locations in the country, the trend is clear and unmistakable. Whether corporate arrangements such as EODPs or UNUMGs offer any real benefit to patient care remains to be determined.

Richard G. Bennett, MD

From the David Geffen School of Medicine, University of California at Los Angeles, Los Angeles, California, and Keck School of Medicine, University of Southern California, Los Angeles, California

Funding sources: None.

Conflicts of interest: None disclosed.

Reprints not available from the author.

Correspondence to: Richard G. Bennett, MD, 1301 20th St, Suite 570, Santa Monica, California 90404

E-mail: drrgb@g.ucla.edu

REFERENCES

1. Konda S, Francis J, Motaparthy K, Grant-Kels JM. Future considerations for clinical dermatology in the setting of 21st century American policy reform: corporatization and the rise of private equity in dermatology. *J Am Acad Derm.* 2019;81:287-296.e8.
2. Resneck JS Jr. Dermatology practice consolidation fueled by private equity investment. potential consequences for the specialty and patients. *JAMA Derm.* 2018;154(1): 13-14.
3. Modern Medicine Network. Hospital facility fees: why cost may give independent physicians an edge. Available at: <http://medicaleconomics.modernmedicine.com/medical-economics/>

- [content/tags/facility-fees/hospital-facility-fees-why-cost-may-give-independent-ph?page=full](#). Accessed January 22, 2018.
4. Duval JF, Opas LM, Nasca TJ, Johnson PF, Weiss KB. Report of the SI2025 task force. *J Grad Med Educ*. 2017;9(suppl 6):11-57.
 5. Corporations cannot practice medicine in California. *Cal West Med*. 1935;43(6):460-461.

<https://doi.org/10.1016/j.jaad.2018.11.055>