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In Battle Over Health Care Costs, Private Equity Plays Both Sides

As medical practices owned by private equity firms fuel overbilling, a payment tool also backed by such investors helps insurers boost their profits.

By Chris Hamby

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Insurance companies have long blamed private-equity-owned hospitals and physician groups for exorbitant billing that drives up health care costs. But a tool backed by private equity is helping insurers make billions of dollars and shift costs to patients.

The tool, Data iSight, is the premier offering of a cost-containment firm called MultiPlan that has attracted round after round of private equity investment since positioning itself as a central player in the lucrative medical payments field. Today Hellman & Friedman, the California-based private equity giant, and the Saudi Arabian government's sovereign wealth fund are among the firm's largest investors.

The evolution of Data iSight, which recommends how much of each medical bill should be paid, is an untold chapter in the story of private equity's influence on American health care.

A New York Times investigation of insurers' relationship with MultiPlan found that countering predatory billing is just one aspect of the collaboration. Low payments have burdened patients with unexpectedly large bills, slashed pay for doctors and other medical professionals and left employers that fund health plans with high, often unanticipated fees — all while making the country's biggest health insurance companies a lot of money.

Often, when someone gets insurance through an employer and sees a doctor outside the plan's network, the insurer routes the bill to MultiPlan to recommend an amount to pay. Both MultiPlan and the insurer receive processing fees from the employer, usually based on the size of the final payment: the smaller the payout, the bigger the fees.

This business model has made Data iSight a cash cow. Of the handful of tools MultiPlan offers insurers, Data iSight consistently makes the most frugal recommendations, typically resulting in the highest fees.

MultiPlan, which has been publicly traded since 2020, did not respond to detailed questions about Data iSight. A statement issued by an outside public relations firm said MultiPlan's payment recommendations were fair and "widely accepted." It said the company was "committed to lowering out-of-network costs," including by using "data-driven tools to determine fair reimbursements."

The New York office of MultiPlan, a data firm that markets “cost-containment” tools including Data iSight to insurance companies. José A. Alvarado Jr. for The New York Times

In recent years, concern over private equity’s investments in medical practices has grown, as studies have documented rising bills. Insurers and MultiPlan say that Data iSight is a necessary counterweight.

Caught between these moneyed interests are patients, who are mostly in the dark. If they encounter Data iSight’s name, it is typically in the fine print of dense paperwork. Those who have complained said they got little more than assurances that the calculations were rigorous and fair.

For Mary Lavigne, who has chronic pain, chiropractor appointments near Irvine, Calif., almost doubled in cost. Nadia Salim’s Boston-area therapy appointments also became almost twice as expensive. And Andrew Faehnle was on the hook for more than two-thirds of an ambulance bill after his 14-year-old was rushed to an emergency room in Anaheim, Calif. In each case, insurance statements cited Data iSight.

“I thought, ‘Who the heck are these people?’” Mr. Faehnle said. “I started Googling, ‘What’s Data iSight?’”

‘The Time Seemed Right’

MultiPlan’s business model is based on simple math: Take the amount a doctor charges, subtract MultiPlan’s recommended payout, and you have what the firm identifies as a savings or discount. Usually, MultiPlan and the insurer each collect a percentage of that declared savings as a processing fee.

This arrangement helps insurers profit from the most common way Americans get health coverage: through an employer that pays medical claims with its own money, using an insurer only as an administrator. Using MultiPlan, insurers cut medical bills, then charge employers for doing so.

For decades, MultiPlan determined payments primarily through negotiations. The discounts were modest but came with an agreement not to collect more from patients.

UnitedHealthcare began using Data iSight in 2016 to review claims for certain plans and treatments, records show. Jim Mone/Associated Press

After MultiPlan's founder, Donald Rubin, sold it in 2006, the company's new private equity owners began a move toward automated pricing that executives would later call "MultiPlan 2.0."

In 2010, it bought Viant, an Illinois-based firm that used algorithms to recommend reimbursements. But for some types of care, Viant's calculations used a database of billed amounts. So if medical providers charged more over time, the recommended payments were also likely to rise.

A small firm in Grapevine, Texas, had developed an alternative strategy. Rather than start with a bill and negotiate it down, Tom Galas, a former insurance executive, wanted to calculate the cost of care and negotiate it up.

Mr. Galas bought an analytics firm called Data Advantage in 2005 and assigned a team at his company, National Care Network, to execute his vision. The result was Data iSight.

It drew on data that medical facilities submitted to the federal government and techniques developed by Medicare to estimate treatment costs. It then threw in some extra money, meant to allow a fair profit. The goal was to save insurers and employers money without paying so little that providers would sue them or go after patients for the balance.

In 2011, Mr. Galas sold to MultiPlan.

“The industry was condensing,” he said. “The time seemed right.”

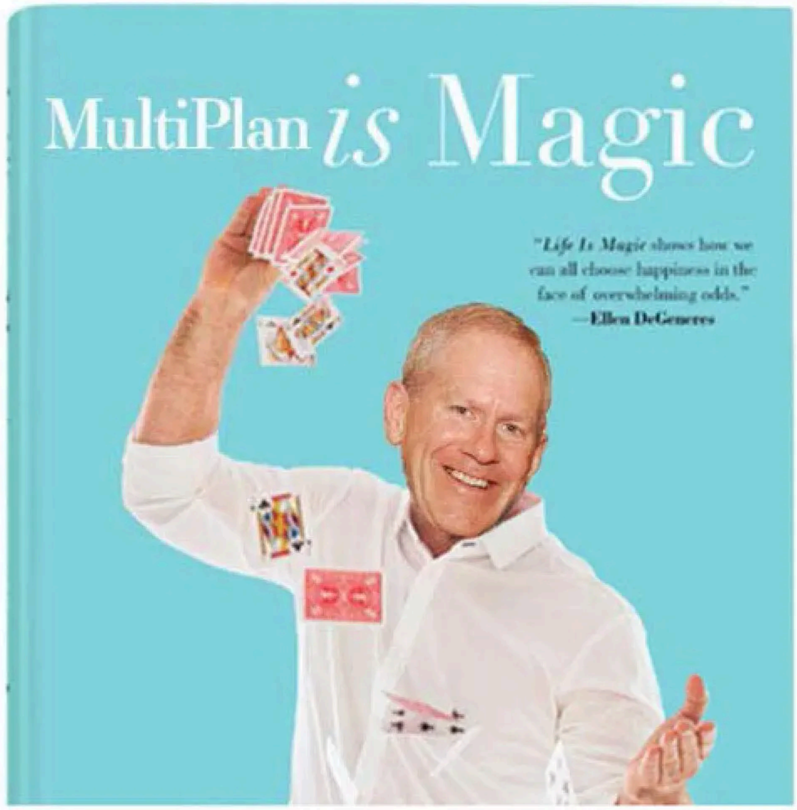
Though he considered Data iSight revolutionary, he said, even he didn’t anticipate what it would become.

‘MultiPlan Is Magic’

Executives from the country’s major insurers gathered in Laguna Beach, Calif., in 2019 and heard from Dale White, a MultiPlan executive vice president.

He presented a slide showing the cover of a self-help book, “Life Is Magic,” that had been digitally altered to show Mr. White’s face and to read “MultiPlan Is Magic.” The slide added: “We have a few things up our sleeve, too.”

The firm’s annual revenues had reached about $1 billion, and three sets of private equity investors had cashed in. After buying MultiPlan for just over $3 billion in 2010 from the Carlyle Group, the firms BC Partners and Silver Lake sold it for a reported $4.4 billion in 2014 to Starr Investment Holdings and Partners Group, which sold it two years later to Hellman & Friedman for a reported $7.5 billion.



A slide from a MultiPlan presentation featured the cover of a self-help book, “Life Is Magic,” digitally altered to include MultiPlan’s name and the face of a firm executive.

Hellman & Friedman, which owned the company when it went public in 2020, declined to comment.

Fueling the growth was Data iSight. The annual revenue it brought MultiPlan grew from $23 million in 2012 to more than $323 million in 2019, according to an investor presentation in 2020. The next year, the chief executive, Mark Tabak, told investors that Data iSight was MultiPlan’s top moneymaker among its biggest insurance customers.

While the company continued to offer other tools, it pitched Data iSight as an “industry-leading” and “state-of-the-art” way to “maximize savings.”

For insurers, the tool came with trade-offs: lower payments but potentially more patient complaints. They rolled it out gradually. The nation’s largest insurer by revenue, UnitedHealthcare, began using it in 2016 for certain plans and treatments, documents show.

As Data iSight spread, patients, doctors and medical facilities began receiving unwelcome surprises. Some practices that had negotiated contracts with MultiPlan found that they no longer received their agreed-upon rate, and patients were no longer protected from big bills.

Brett Lockhart had spine surgery at a facility near Cocoa, Fla., that had a negotiated rate with MultiPlan. When his insurer used Data iSight, he found himself on the hook for nearly $300,000. The bill is the subject of litigation and remains unpaid.

‘Crazy Low’ Payments

There was more to MultiPlan’s rising fortunes than just an increase in the number of claims. The average fee from each claim also grew, executives told investors.

In a presentation shortly before it became a publicly traded company in 2020, MultiPlan stressed that its tools were “scalable”: Reducing payments by just half a percent could yield an additional $10 million in profits, the company said.

After MultiPlan fell short of a revenue target in 2022, Mr. White, who had become chief executive, assured investors that the company had an “action plan” that included “aggressively implementing new initiatives with our customers to help them cope with accelerating health care costs.”

A change to Data iSight’s methodology, he said, should produce an additional $6 million in revenue.

MultiPlan has told investors it plans further “enhancements” to the tools, including use of artificial intelligence.

As patients and providers have demanded an explanation for declining payments, MultiPlan has fought to keep details about Data iSight confidential, contending in lawsuits that the information is proprietary.

Interviews and documents, some obtained after The Times petitioned federal courts, offer some insights.

Data iSight starts by using Medicare's methods for setting rates. But subsequent calculations are less transparent. MultiPlan says it applies multipliers that allow for a fair profit for hospitals and something approximating a fair market rate for physicians. The documents show that MultiPlan allows insurers to cap prices and set what they consider fair profit margins for medical facilities.

MultiPlan has pitched Data iSight as an alternative to simply paying marked-up Medicare rates, an option some insurers offer. Paying around 120 percent of the government-set rate "sounds fair, maybe even generous," one MultiPlan document said, but this is "inherently misleading" because "the average consumer does not understand just how low Medicare rates are."

Interviews and documents, however, indicate that Data iSight's recommended prices are sometimes about 160 to 260 percent of Medicare rates — amounts former MultiPlan employees described as "ridiculously low" and "crazy low."

Even rates that may sound reasonable can strain medical practices. For example, UnitedHealthcare, citing Data iSight, offered Dr. Darius Kohan roughly 350 percent of the Medicare rate for a surgery to repair a patient's eardrum. It amounted to $3,855.36.

Dr. Kohan, who has a small practice in Manhattan, said skimpy payments were forcing him to consider joining a large hospital system or private-equity-backed group.

"I am a dinosaur, but my patients like that," he said. "I may not be able to sustain it."

Chris Hamby is an investigative reporter for The Times, based in Washington. More about Chris Hamby