INSIGHTS FROM THE BDO CENTER FOR HEALTHCARE EXCELLENCE & INNOVATION

BEHAVIORAL HEALTH: A MARKET RIPE FOR GROWTH AND CONSOLIDATION

By Bill Bithoney, MD, FAAP

Over the past six years, a number of unprecedented changes have occurred in the behavioral health market that are spurring anticipated growth and expected consolidation in the industry in the coming months. The number of covered lives is growing faster than the availability of services to treat them – creating compelling investment opportunities, as demand is significantly outstripping services supply.

The initial and primary motive for increased demand and reimbursement for behavioral health services occurred in 2008 when Congress passed the Mental Health Parity and Addiction Equity Act (MHPAEA). This act requires that insurers equalize coverage for behavioral health and medical health benefits in terms of co-pays, deductibles, lifetime caps and access to providers. Also in 2008, Congress passed the Medicare Improvements for Patients and Providers Act (MIPPA), which increased access to mental health in Federal programs. In 2013, Congress issued clarifying legislation imposing penalties and sanctions on insurers that did not comply with these requirements. In 2010, the Affordable Care Act (ACA, Obamacare) allowed adult children aged 18 through 26 to remain on their parents' insurance. It also built on MHPAEA with the requirement that most insurance plans cover mental health and substance abuse services – the largest expansion of such coverage in a generation. These major changes in reimbursement and confluence of regulatory events have resulted in marked improvements in the financing of behavioral health.[1]

While financing for behavioral healthcare services has improved, the pool of qualified providers – specifically psychiatrists, particularly those certified in addiction treatment – is rapidly shrinking[2]. Given this supply/demand imbalance, the market is ripe for growth. Further, the behavioral health market is fragmented and overwhelmingly dominated by small providers with no national footprint. By some estimates, only a small fraction of mental healthcare is delivered by large national providers. Private equity-based roll-ups of smaller providers therefore may be able to drive significant economies of scale, resulting in both clinical and administrative standardization. In other areas of the healthcare market, such standardization has resulted in improved health outcomes and decreased costs.

Another driver of interest in this market is the fact that psychiatric hospitals have markedly streamlined billing structures, typically billing for only 15 to 17 diagnosis-related groups (DRGs), unlike acute-care hospitals, which may bill as many as 800 DRGs. Thus, issues of clinical documentation and justification as well as inadvertent billing errors and contested billings are far less prevalent.

Given the ease of billing, supply/demand imbalance and newly mandated insurance coverage for millions of new patients, it is not surprising that it is common for behavioral health programs to have financial margins of 20% to 30%. Further, due to the chronicity of the diseases treated, these revenue streams are secure. For example, patients treated for opioid abuse frequently require chronic mental health consolation and treatment with drugs such as naltrexone, methadone or buprenorphine.

The Market Is Large

The Federal Substance Abuse and Mental Health Services Administration (SAMHSA) estimates that fully 23.9 million Americans over age 12 were addicted to

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About the Author

Dr. Bill Bithoney is a leading physician executive, with experience running an integrated healthcare delivery system, including an award-winning ACO, as an Interim President & Chief Executive Officer (CEO), Chief Operating Officer (COO) & Chief Medical Officer (CMO) of Sisters of Providence Health System (SPHS). In these roles, he oversaw operations of five hospitals – which included Providence Behavioral Health Hospital. As COO and CEO, he managed their Substance Abuse, Methadone Maintenance and Behavioral Health Programs.

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or abused drugs or alcohol in the year they were surveyed.[3] Diseases such as autism spectrum disorder affect one in 68 children.[4] Clinically significant eating disorders affect 20 million women and 10 million men in the United States.[5] One in three seniors dies with Alzheimer's or another dementia.[6] The National Institute of Mental Health estimates that 9% of the U.S. population suffers from personality disorders including major clinically significant depression, schizophrenia, bipolar disorder et al.[8]

The advent of cognitive behavioral therapy and applied behavioral therapy has resulted in the realization that some of these disorders are amenable to clinical amelioration. The advent of tele-psychiatry and software-based clinical interventions has also resulted in a recognition that consolidation of small one-off providers can result in more efficiency and profitability. Recently, we have also seen some of the largest payers and coordinators of behavioral care, such as Magellan, beginning to adopt internet-based therapy modules.

Looking Ahead: Integration Will Drive New Growth

The behavioral health and medical care delivery systems have long been separate. However, we're starting to see more of a push to integrate the two. This is true particularly where state and federal programs are encouraging proactive integration to reduce emergency room admissions and readmissions: Approximately 75% of high-users of hospital inpatient services have behavioral health diagnoses.[7] Therefore, in 2015, BDO expects to see continued changes in efforts to increase behavioral health service capacity and better integrate it with clinical care through more formal affiliations, partnerships and merger activity.

We envision this integration happening both voluntarily and via mandates similar to the Medicaid Redesign/Delivery System Reform Incentive Payments (DSRIP) program in New York state and California. Such integration of physical and mental health providers will result in the screening and identification of even more patients who will have insurance coverage for behavioral health issues resulting in an increased demand over and above what has been seen thus far.

Summary

The clinical care of behavioral health issues such as substance abuse, attention deficit disorder, autism and eating disorders has arrived at a crucial nexus. Significant new funding is available to providers skilled in treating these disorders. Simultaneously, there are fewer providers with the appropriate skill sets required to treat these patients. While potential threats to Obamacare are currently being lodged by the new congressional majority, BDO believes that while the ACA may be modified, it is unlikely to be repealed. Over the next five years, we envision more and more consolidations, mergers and acquisitions in this field as investors recognize the unique confluence of investment opportunities inherent in a market dominated by small niche behavioral health programs. As these programs join together, they will be able to create value for patients, communities and investors. The efficiencies created should result in improved care delivered by highly profitable, clinically excellent programs.

[1] McGuireWoods LLP, and HCP & Co. Bullish Behavioral Health Market Drives Investment. New York: Law360, 2014. Web. 27 Jan. 2015.
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[3] SAMHSA, Center for Behavioral Health Statistics and Quality, National Survey on Drug Use and Health, 2013
[4] CDC.gov. "Prevalence of Autism Spectrum Disorder among Children Aged 8 Years – Autism and Developmental Disabilities Monitoring Network, 11 Sites, United States, 2010" Web. March 27, 2014.
[5] Wade, T. D., Keski-Rahkonen A., & Hudson J. (2011). Epidemiology of eating disorders. In M. Tsuang and M. Tohen (Eds.), Textbook in Psychiatric Epidemiology (3rd ed.) (pp. 343-360). New York: Wiley
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