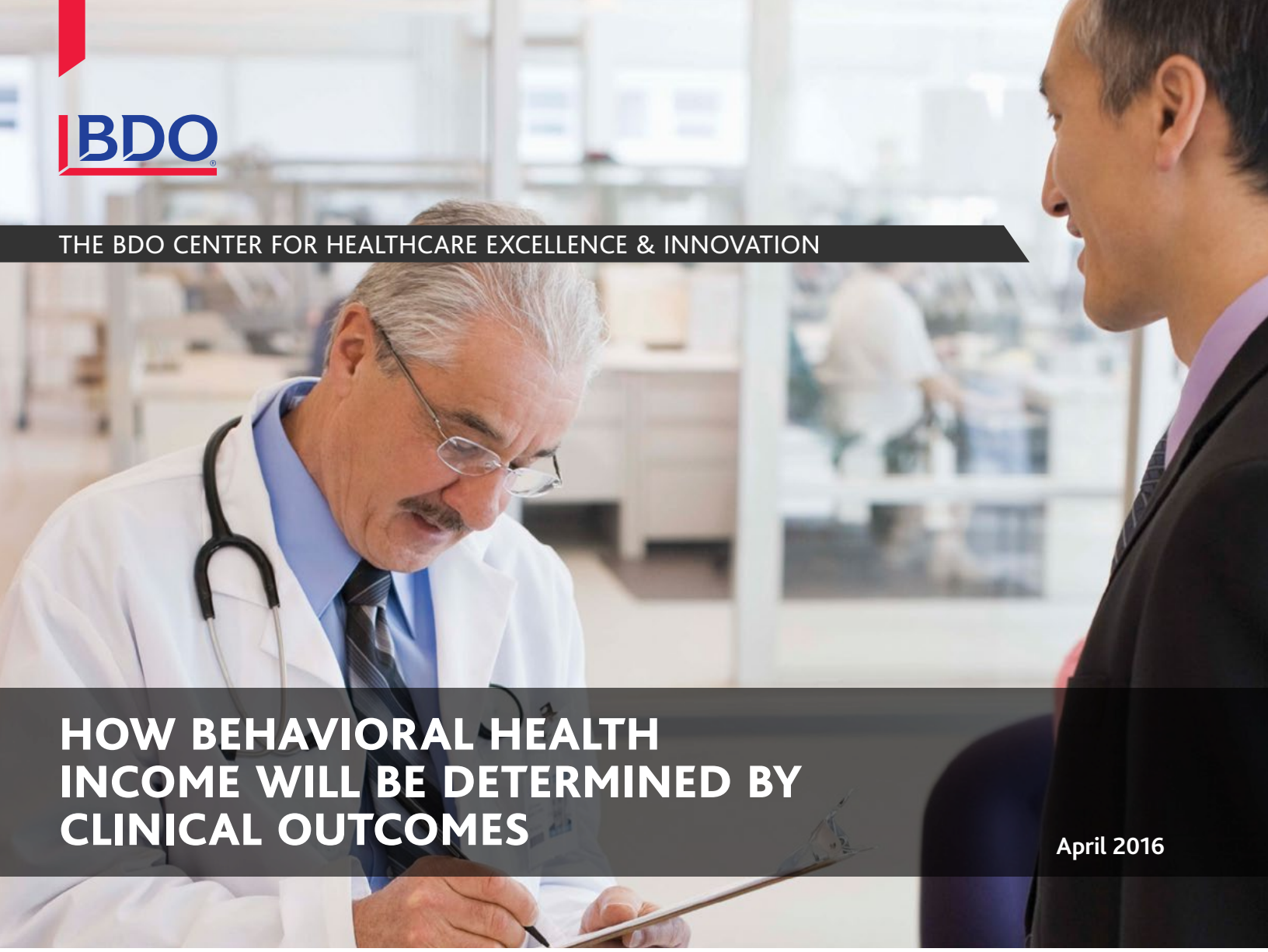

THE BDO CENTER FOR HEALTHCARE EXCELLENCE & INNOVATION

# HOW BEHAVIORAL HEALTH INCOME WILL BE DETERMINED BY CLINICAL OUTCOMES

April 2016

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**Reimbursement changes are transforming the behavioral health marketplace. As insurance payers aggressively shift toward value-based payments that emphasize value over volume, the focus on outcomes has intensified across the entire healthcare spectrum. Outcomes will increasingly dictate income going forward, forcing behavioral health providers to re-examine their approach to patient care and raising new questions for investors seeking acquisitions.**

## Regulatory Actions Forcing New Approaches

The Mental Health Parity and Addiction Equity Act (MHPAEA), combined with the Affordable Care Act (ACA), have forced insurers to become more active participants in addressing the growing problem of behavioral health in the U.S. Research shows that more than 18 percent of the population suffers from mental health issues and 9.8 percent have addiction problems. The Federal Substance Abuse and Mental Health Services Administration estimates that $228 billion will be spent on behavioral health and substance abuse treatment in the U.S. in 2016, and that number will rise to $280 billion by 2020.

MHPAEA mandates that insurers treat mental health and substance use disorder issues with the same sense of urgency as other health issues. Insurers that fail to do so face penalties and the potential for lawsuits. New York State Attorney General Eric T. Schneiderman has challenged numerous insurers who failed to follow new mental health parity rules, winning five settlements to date. MHPAEA has also shifted the treatment approach away from inpatient care and toward more integrated efforts that include primary care physicians.

## Shifting More Risk and Accountability to Providers

Integrated care models, such as accountable care organizations (ACOs), are pushing a greater level of risk from insurers onto providers—a movement that is well underway for managed care organizations, but is relatively new in the behavioral health space. Collaboration among providers is essential to the success of ACOs, which are taking on broader responsibilities for the entire episode of patient care. Primary care doctors and behavioral health providers must

join forces to ensure there is continuous follow up in treating patients with long-term illnesses such depression. Providers are accepting greater financial risks, facing penalties if care fails to meet specified targets, but are rewarded with bonuses when they can demonstrate *both* lower cost and high quality; evidence-based target metrics are a key quality proof point.

ACOs have grown increasingly popular in recent years as an approach to managing population health, one of the defining aspects of the Affordable Care Act. In 2010, ACOs were nonexistent; today, there are more than 700. Oliver Wyman estimates that 52 million patients, or 17 percent of the population, are in ACOs today. Factoring in the additional 20 million patients under Medicare Advantage (MA) plans, which have risk-based contracts similar to ACOs, the number of patients under risk-based contract plans climbs to 72 million. The exponential growth of these models is a force that can't be denied and is laying the groundwork for future change.

Another powerful force leading the shift to value- or risk-based payment contracts is the Centers for Medicare and Medicaid Services (CMS), which has rolled out a series of new payment models to reach its goal of tying 85 percent of payments to value-based outcomes by 2018. Similar changes are starting to happen within state-level Medicaid programs as well. New York state has pledged to move 90 percent of its Medicaid payments to risk-based contracts by 2018, stating it will only pay for high quality and evidence-based treatments. While only around 15 percent of providers currently have risk-based contracts, that number is expected to triple over the next year and continue to rapidly gain speed.

## Emphasizing Outcomes

As the market works out how exactly to quantify "value" and "quality," some outcome measures are starting to make their way into insurance contracts. The Perceptions of Care (POC) scale is surfacing as a way to measure patient satisfaction with current behavioral health providers. To track outcomes, insurers are specifying Beck, PHQ-2 and PHQ-9 depression scales, for example. Depression is likely to become a particularly big focus in contracts following the U.S. Preventive Services Task Force announcement in January 2016 that primary care doctors should screen everyone 18 and older for depression. Once the Preventative Services Task Force makes a recommendation, it almost immediately is translated as a mandate into commercial insurance contracts as well as CMS contracts.

# Spending Increasing:

## SAMHSA Projects 5.8% CAGR 2010-2020, $228 Billion in 2016

| Diagnosis | Historical | Projections | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| **Spending (billions$)** | | | | | | | | | | | | |
| All-health total | 2,330.1 | 2,424.3 | 2,540.8 | 2,646.9 | 2,792.6 | 3,027.6 | 3,204.4 | 3,404.1 | 3,605.3 | 3,818.2 | 4,065.6 | 4,337.7 |
| Mental and substance use disorders | 171.7 | 180.6 | 189.6 | 195.5 | 202.7 | 210.5 | 218.9 | 228.9 | 239.8 | 251.3 | 265.0 | 280.5 |
| Mental Health | 147.4 | 155.0 | 163.0 | 167.6 | 173.5 | 179.3 | 186.3 | 194.4 | 203.6 | 213.3 | 225.1 | 238.4 |
| Substance use disorders | 24.3 | 25.6 | 26.6 | 27.9 | 29.3 | 31.3 | 32.6 | 34.5 | 36.2 | 38.0 | 40.0 | 42.1 |
| **Share of all-health (%)** | | | | | | | | | | | | |
| Mental and substance use disorders | 7.4 | 7.5 | 7.5 | 7.4 | 7.3 | 7.0 | 6.8 | 6.7 | 6.7 | 6.6 | 6.5 | 6.5 |
| Mental health | 6.3 | 6.4 | 6.4 | 6.3 | 6.2 | 5.9 | 5.8 | 5.7 | 5.6 | 5.6 | 5.5 | 5.5 |
| Substance use disorders | 1.0 | 1.1 | 1.0 | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| **Annual growth (%)** | | | | | | | | | | | | |
| All-health total | 4.3 | 4.0 | 4.8 | 4.2 | 5.5 | 8.4 | 5.8 | 6.2 | 5.9 | 5.9 | 6.5 | 6.7 |
| Mental and substance use disorders | 5.3 | 5.2 | 5.0 | 3.1 | 3.7 | 3.9 | 4.0 | 4.6 | 4.8 | 4.8 | 5.5 | 5.8 |
| Mental Health | 5.7 | 5.2 | 5.2 | 2.8 | 3.5 | 3.3 | 3.9 | 4.3 | 4.7 | 4.7 | 5.5 | 5.9 |
| Substance use disorders | 3.1 | 5.1 | 4.0 | 4.8 | 4.9 | 6.9 | 4.1 | 5.9 | 4.9 | 5.0 | 5.2 | 5.2 |
| **Share of mental and substance use treatment spending (%)** | | | | | | | | | | | | |
| Mental and substance use disorders | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Mental health | 86 | 86 | 86 | 86 | 86 | 85 | 85 | 85 | 85 | 85 | 85 | 85 |
| Substance use disorders | 14 | 14 | 14 | 14 | 14 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |

Source: SAMHSA Spending Estimates - Projections for 2010-2020

# In 2010, ACOs were nonexistent; **today, there are more than 700.**

It won't be long before there are clear stand-out performers that can prove high quality, low cost results. Insurers and ACOs alike will be evaluating the market for these winners and narrowing their networks to direct patients to those providers. Some of the criteria that will be used to narrow the field of preferred behavioral health providers include:

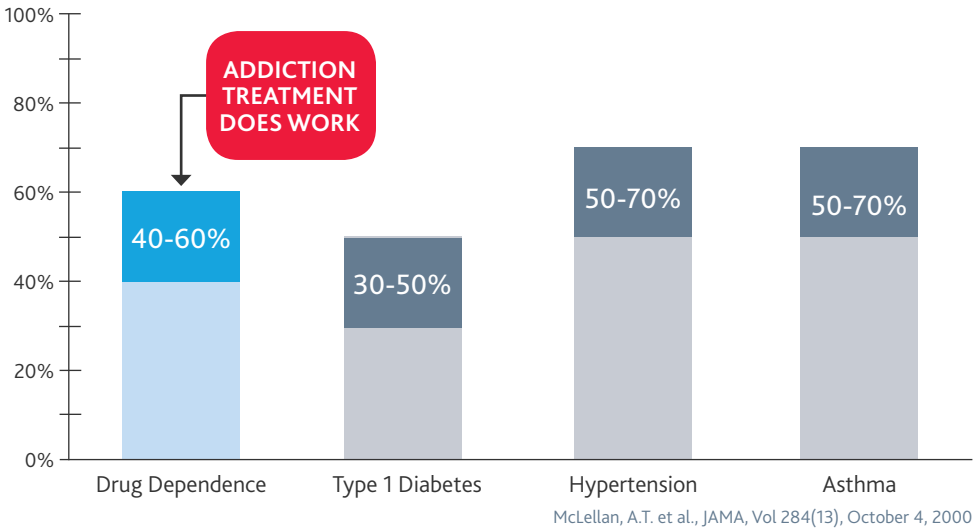
- Patient satisfaction with doctor, behavioral health provider and system
- Mortality and Morbidity by diagnosis and risk profile
- Adherence to cost-saving, high quality evidence-based techniques such as cognitive behavioral therapy, cognitive behavioral software and apps, and tele-psychiatry
- Length of stay and readmission rates
- Laboratory utilization: excessive testing by diagnosis
- Use of clinical practice guidelines

Providers based in metropolitan service areas (MSAs) where there are three or fewer insurers— approximately 100 of the 190 MSAs currently—should be especially attentive to this trend and the potential impact to their business. The impact is likely to be further exacerbated by the massive market consolidation of private health insurers across the country.

To thrive, behavioral health providers must have a thorough understanding of their cost of care, demonstrate proof of their value by tracking outcomes and embracing evidence-based target metrics, and consider partnerships in integrated networks or ACOs.

## A Sense Of Hopefulness

### Rate of relapse post addiction is similar to other chronic diseases




McLellan, A.T. et al., JAMA, Vol 284(13), October 4, 2000

## Focusing on Evidence-Based Treatment

Evidence-based treatment will become an increasingly important selling point for all healthcare providers. However, it will be a particularly big change in the behavioral health field, where the use of unproven therapies has led to a sense that substance abuse and behavioral health treatment doesn't work. Research shows this isn't true—the rate of relapse for addiction and behavioral health disorders is quite similar to that of other chronic diseases:

Why aren't there better results? Research published by Norcross et al. in the *Journal of Addiction Medicine* in 2011 queried 350 substance abuse experts on the validity of 59 potential treatments for alcohol and substance abuse patients. Only five of those treatments were considered most credible; 21 were discredited, yet many of those models are still actively employed today (although they may not be reimbursed much longer). The research pointed to wide disagreement in the field as to the best course of treatment.

That begs the question: what does work? There is a wealth of research pointing to effective courses of treatment for alcohol and substance abuse. One of the most dramatically successful courses of action is Screening, Brief Intervention, and Referral

# Payment For Brief Intervention

## Reimbursement Guide

| Payer | Code | Description | Fee |
|---|---|---|---|
| Commercial Insurance | CPT 99408 | Alcohol and/or substance abuse structured screening and brief intervention services; 15 to 30 minutes | $33.41 |
| | CPT 99409 | Alcohol and/or substance abuse structured screening and brief intervention services; greater than 30 minutes | $65.51 |
| Medicare | G0396 | Alcohol and/or substance abuse structured screening and brief intervention services; 15 to 30 minutes | $29.42 |
| | G0397 | Alcohol and/or substance abuse structured screening and brief intervention services; greater than 30 minutes | $57.69 |
| Medicaid | H0049 | Alcohol and/or drug screening | $24.00 |
| | H0050 | Alcohol and/or drug service, brief intervention, per 15 minutes | $48.00 |

http://www.samhsa.gov/prevention/sbirt/coding.aspx

to Treatment (SBIRT)—a 20- to 30-minute identification and intervention process that can occur in a primary care clinic. A study published in *Drug and Alcohol Review* in 2009 looked at 22 randomized control trials of SBIRT encompassing 2,784 patients. It showed that SBIRT lowered patients' alcohol consumption by 15 percent, decreased hospitalizations by 50 percent and cut death rates by more than half. Cost savings were equally tremendous, with the average cost around $166.

Increasingly, these and similar types of evidence-based treatments will be encouraged in reimbursement agreements.

While evidence-based treatments are grounded in research, the clinical expertise of the provider must also be considered, along with the patient's willingness to participate in treatment. One of the major challenges with evidence-based treatments is the lack of integrated databases and information that has tracked patient outcomes to date; this won't be an acceptable excuse going forward. Business will increasingly be a factor of proven outcomes; tracking a patient's progress along their course of treatment among various providers will no longer be optional.

## Breeding Ground for Acquisitions

Substance abuse and behavioral health providers have become an active ground for mergers and acquisitions as the market works through a major transformation. Thomson Reuters reported 31 deals in the sector going into Q4 2015—the final count for the year is likely to exceed the all-time high of 41 deals reached in 2014. Conditions are largely favorable for consolidation among behavioral health providers, including:

- A highly fragmented marketplace
- Acceptance of the need for behavioral health treatment, driving up demand for services
- Improved funding for care, as mandated by the ACA and MHPAEA
- Reimbursement changes that will drive more clear outcomes and evidence-based treatments
- Historically low capital costs
- Valuation multiples at a five-year high

Major players such as Acadia Healthcare, American Addiction Centers and Summit Behavioral Health have been actively pursuing acquisitions of quality behavioral health assets. Private equity firms are showing increased interest in this space as well, as they consider where to spend more than $530 billion in finite-lived capital reserves. For the first time since 2013, there were more add-on deals than new platform investments among PE-backed deals in the sector. PE firms such as Frazier Healthcare and Frontenac Company were especially active.

Deal activity should remain strong near-term, with market values peaking in 2016. However, quality assets are scarce. Among the key considerations acquirers are using to evaluate attractive targets in the behavioral health provider space are:

- Strong financial performance
- Experienced management team with a successful track record
- Scalable sales and marketing with low patient acquisition cost
- Attractive payer mix and diversified client base
- Multi-faceted growth strategy
- Evidence-based treatment program with licensed clinicians and quality care

The new outcomes-focused environment will force investors to analyze behavioral health providers with new questions in mind: How is quality being defined, measured and vetted within organizations? Are clinicians using proven therapies that deliver the most effective results?

# Favorable Industry Dynamics

## Attracting Strong Investor Interest

**LEGISLATIVE TAILWINDS**

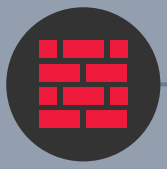
- Behavioral health treatment as an essential benefit of ACO
- Parity Laws requires health insurance plans to cover mental illness and substance use disorders

**INCREASED AWARENESS**

- Public awareness is at an all time high, with focused media attention on celebrity health issues
- Enhanced Media Coverage
- Resulting in the de-stigmatization of treatment

**STEADY GROWTH IN VOLUME**

- Steady growth in volumes and occupancy trends
- SAMHSA 2013 numbers an estimated 22.7M persons aged 12 and older needed treatment, only 2.5M received treatment at a specialty facility



**SIGNIFICANT BARRIERS TO ENTRY**

- High start-up costs
- Zoning, licensure and accreditation
- Clinical expertise
- Patient acquisition (referral sources) especially patients with best insurance

Source: The Braff Group

## How BDO Can Help

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- Provide an integrated approach to clinical restructuring and evidence-based payments
- Provide the right strategic, clinical, quality and billing/coding approach to impact and grow an organization's revenue
- Provide interim management services and risk stratification to prepare an organization for population health, bundled payments and ACO collaboration
- Work with program executives interested in either strategic partnerships or private equity acquisition
- Provide capital, program valuation and due diligence on both the buy and sell sides through our investment bank, BDO Capital

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