January 2020 – Vol. 36 No. 1
Published for Health Care Providers by ACA International
www.acainternational.org
pulse

Health Care M&A: What is the Future for the ARM Industry

Barring major unforeseen legislative or systemic changes to the U.S. market, expectations are favorable for consistent expansion into the future.

By Mike Ginsberg

Health care in the United States is integral to everyday life for the more than 300 million people residing domestically. Health care can be viewed as an inelastic good that consumers/patients generally would pay what's needed to have an operation done to remain healthy and live longer. As such, it's rather unsurprising that the market has seen continually strong revenue growth and technological expansions over time.

This consistent growth has positively impacted accounts receivable management (ARM) and revenue cycle management (RCM) firms servicing this market segment. Barring major unforeseen legislative or systemic changes to the U.S. health care market, we believe it will continue to withstand economic and other shocks, presenting consistent expansion into the future.

But what about consolidation in the health care marketplace? The number of hospital systems have slowly fallen at an average of 1.9% each year, while offices of physicians grew by 1.2% annually, on average. Overall, the total number of health care firms (i.e., hospitals, offices of physicians, health and medical insurers, and all other related firms) has grown from 533,000 in 2000 to roughly 663,000 by 2016, for an annual average of about 1.4%. But what about its impact on revenue share and money-generating opportunities? The chart (to the right) shows the estimated revenue distribution in 2018 within the health care sector. Although many of us know about the UnitedHealth Groups and HCA Healthcares of the world, there are simply so many other businesses operating and providing services to patients throughout the U.S. Even the largest players only made up an estimated 21.7% of all market revenue in 2018.

Critical Healthcare Sector Trends

There's been a strong focus on maximizing liquidation rates by ARM companies, with health care providers being more stringent on this metric when analyzing its contractors' performance. However, with the digital age and several regulations developing, there's still a need for understanding and improving the patient experience. Going one step further, being able to effectively measure and quantify your firm's performance and display your value through analytics to the health care provider is paramount. Health care in the U.S. remains highly consumer-

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2018 Healthcare Sector Revenue, by Market Share (Total ~ $3.5 Trillion)	
Offices of Physicians & Other Professional Services	29.6%
Other Hospital Systems	27.7%
All Others	12.5%
Other Health Insurers	9.4
UnitedHealth Group, Inc.	6.4%
Anthem, Inc.	2.6%
Aetna, Inc.	1.8%
Centene Corporation	1.7%
Humana Healthcare, Inc.	1.6%
Cigna Corporation	1.4%
HCA Healthcare, Inc.	1.3%
Other Companies	4%
» Providence St. Joseph » Ascension Health, Inc. » Tenet Healthcare Corporation » Trinity Health » Catholic Health » Dignity Health » Community Health Systems, Inc. » Universal Health Systems, Inc.	

Source: Kaulkin Ginsberg Company, Census Bureau, SEC, Annual Reports, & CMS

SEARCHPOINT UPDATE

The State of Reporting

Some states have credit reporting laws that are more restrictive than the FCRA.

Aside from the Fair Credit Reporting Act—the federal law governing credit reporting practices—state laws can impose additional restrictions on credit reporting. For example, some state laws limit the type of information that may be furnished, require consumer notifications, or restrict the reporting period. Furnishers of information to consumer reporting agencies (CRAs) should be aware of and comply with any applicable state credit reporting requirements.

Some state laws place restrictions on the reporting of a particular type of debt. For instance, California, Colorado, Minnesota, Texas and Washington are all states that place certain restrictions on credit reporting medical debt. California prohibits hospitals and its assignees from credit reporting certain patients that lack coverage or have high medical costs for nonpayment at any time prior to 150 days after initial billing. Colorado law prohibits data furnishers from credit reporting medical debts that are only partially paid by insurance, unless the health care provider sends the consumer a written notice that includes particular information, as required by statute, to the person responsible for the debt.

In Minnesota, some health care providers signed a written agreement with the Minnesota attorney general covering issues associated with litigation practices, garnishments, collection agencies and billing the uninsured in relation to attempts to collect medical debt. Texas prohibits consumer reporting agencies from furnishing consumer reports that include debts owed for out-of-network medical services. Washington requires data furnishers to refrain from furnishing information about medical accounts until at least 180 days after the original obligation was received by the licensee for collection or by assignment.

State laws may require furnishers to provide consumers with a notice of furnishing negative information disclosure prior to, or shortly after, reporting adverse information to a CRA. For instance, California and Utah require creditors and debt collectors to send consumers a written notice prior to or within 30 days after furnishing negative information concerning the consumer.

Further, state laws restrict when information can be furnished to a CRA. For instance, Colorado prohibits "[c]ommunicating credit information to a consumer reporting agency earlier than 30 days after the initial notice to the consumer has been mailed, unless the consumer's last-known address is known to be invalid.

These requirements demonstrate the need for furnishers to review state-specific credit reporting requirements to ensure compliance with credit reporting expectations. For a more in-depth look at state credit reporting laws, ACA members can review ACA SearchPoint™ document #1255, State Credit Reporting Laws.

OVERTIME RULES

After 15 Years, New Federal Overtime Rule Advances Salary Thresholds

New rule reflects current U.S. salary growth and overtime exemptions after challenges in the courts.

Accounts receivable management industry companies may want to begin reviewing overtime and scheduling policies as a new overtime rule took effect Jan. 1, 2020.

The new rule, which makes 1.3 million workers eligible for overtime pay, raises the "standard salary level" from the currently enforced level of $455 per week to $684 per week (equivalent to $35,568 per year for a full-year worker), according to a news release from the Department of Labor.

Additional changes in the new rule include:

- "Raising the total annual compensation requirement for "highly compensated employees" from the currently enforced level of $100,000 per year to $107,432 per year;
- Allowing employers to use nondiscretionary bonuses and incentive payments (including commissions) paid at least annually to satisfy up to 10% of the standard salary level, in recognition of evolving pay practices; and;
- Revising the special salary levels for workers in U.S. territories and the motion picture industry."

Tips for abiding by the rule changes are available through the Department of Labor's Small Entity Compliance Guide, accessible here: https://tinyurl.com/y366mrmv

Additional information may be obtained by accessing the U.S. Department of Labor's website at www.dol.gov

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centric, so health care providers and businesses need to persuade consumers to join and stay with them. Maximizing the patient experience without hurting liquidation rates or other billing/collection areas is critical.

M&A Developments

Overall, health care sector mergers and acquisitions (M&A) remain active and healthy, with north of 220 deals in each of the last 14 quarters. In terms of deal value, each quarter averaged about $30 billion in total value, ranging between $3.8 billion and $55.3 billion.

Some of the major health care market transactions include:

- LifePoint Health was previously one of the giant publicly traded hospital systems in the U.S. before it was acquired by Apollo Management for about $5.6 billion in 2018.
- Cigna Corporation, one of the largest health insurers in the country, purchased Express Scripts, a pharmacy benefit management organization, for $67 billion late last year.
- Centene Corporation, one of the newer largest players in the health insurance segment as it's capitalized upon serving the ACA marketplaces, bought WellCare Health Plans, a company focused on providing government-sponsored managed care services to patients, primarily through Medicaid and Medicare. These two companies clearly had similarities so the $17 billion merger may be at a lofty price, but it makes sense.

Health care-related ARM and RCM deals have accounted for about 26% of all deals in our space since 2013, or 32% since the beginning of 2017. In total, there were about 45 health care-related ARM and RCM deals over this period, 21 since 2017. This is unsurprising but important to note considering health care remains one of the ARM industry's most popular credit grantor client markets. Some notable health care ARM and RCM deals include:

- Clarion Capital Partners made a substantial equity investment in ARM firm, Harris & Harris, clearly indicating private equity's interest in the health care-related ARM segment.
- RCM company Coronis Health purchased another RCM provider, AVEC Health Solutions, along with ML Medical Billing, early this year.
- Cognizant Technology Solutions added Bolder Healthcare Solutions in 2018 to its portfolio. As of 2018, health care accounted for a bit more than 25% of Cognizant's total revenue share, so expansion into the RCM industry was expected.

These transactions reveal all the diversity and expansion interests of companies throughout the health care arena: insurers getting into pharmacy benefits and administrative management, private equity firms paying large sums for health care providers and ARM companies, and even companies seemingly unrelated to health care are trying to break into the market because of the magnificent opportunities and rapid change. It's an exciting market but servicers need to tread carefully and strategically to effectively capitalize on their intentions in this highly competitive sector.

Mike Ginsberg is the president & CEO of Kaulkin Ginsberg Company. He presented some of this information during ACA International's 2019 Fall Forum & Expo in Chicago.

NEWS & NOTES

Lab to Pay $26.67M to Settle False Claims Act Allegations

Laboratory Boston Heart Diagnostics Corporation (Boston Heart) of Framingham, Massachusetts, agreed to pay $26.67 million to resolve False Claims Act allegations involving payments for patient referrals in violation of the Anti-Kickback Statute and the Stark Law, as well as claims otherwise improperly billed to federal health care programs for laboratory testing, the Department of Justice announced in a press statement. To read more, click here: https://tinyurl.com/v62v745

ACA Cast: Check Out What's New

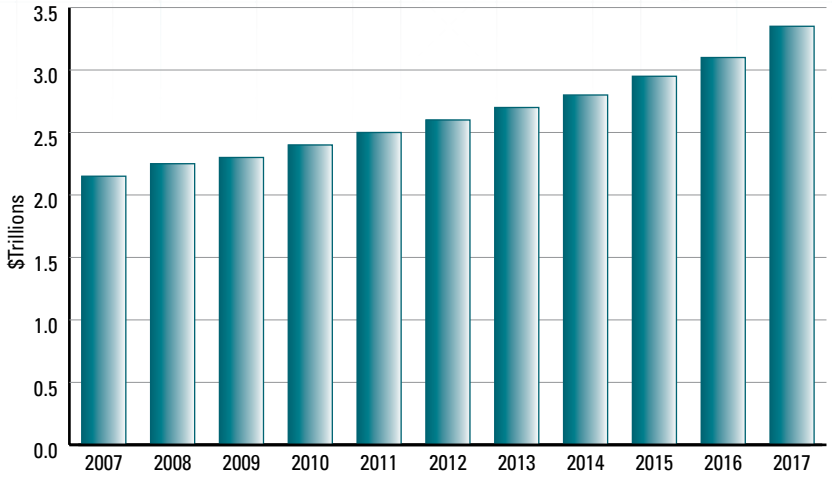
More than a year ago, ACA International launched a highly successful podcast called ACA Cast. Staff started with an insider's view of the 2018 elections and since has tackled other interesting topics to include health care. Check it out on ACA's website at https://www.acainternational.org/ (click on the ACA Cast icon on our homepage).

For more health care collections news, visit ACA's Health Care Collections page at www.acainternational.org/pulse.

datawatch

U.S. Health Care Sector Revenue

The U.S. market has seen continually strong revenue growth and technological expansions over time.



Source: Kaulkin Ginsberg Company, Census Bureau and CMS

pulse is a monthly bulletin that contains information important to health care credit and collection personnel. Readers are invited to send comments and contributions to:

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