

# **The State of Healthcare Collections, 2008:**

**how the economy and election '08  
turned an ARM market into M\*A\*S\*H**

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## Today's Feature

- ***Mis-en-scene:* The U.S. healthcare industry**
  - **Take 1: Election 2008**
  - **Take 2: “It’s the economy, stupid”**
  
- ***Montage:* Straw man arguments over healthcare collections**
  
- ***Coming Attractions:* The future of healthcare collections**

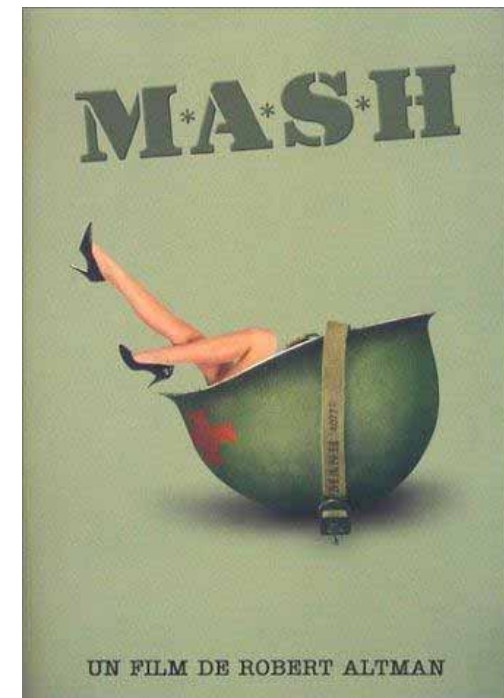
## The U.S. Healthcare Industry in Context

- Two days ago, American voters (hopefully) decided the next U.S. president; both candidates prominently emphasized healthcare reform platforms in their campaigns
- The global economy continues to struggle under a protracted downturn
- The recent presidential election and current economic conditions will persist in creating uncertainty for patients, healthcare creditors, and ARM companies
- With the election and the economy as bookends, the current state of the healthcare industry—plagued by regulatory changes, insurance quandaries, and bad debt—has become a kind of war zone

**Indicators now suggest that the economic trends impacting the healthcare segment of the ARM Industry will not be short-lived, and will continue to impact recoveries well into 2009**

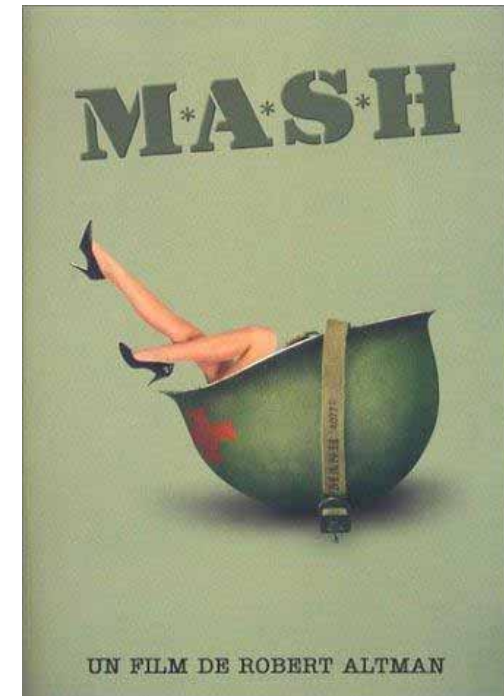
## Healthcare ARM as a War Film

- Roger Ebert once wrote of Robert Altman's *M\*A\*S\*H* (1970), "Most comedies want us to laugh at things that aren't really funny; in this one we laugh precisely because they're not funny. We laugh, that we may not cry."
- Many facets of the U.S. healthcare system were at a **Crisis Stage** before the recent Wall Street turmoil hit:
  - Rising uninsured (45M) & underinsured (25M) populations
  - Healthcare spending to reach 16.6 percent of GDP in 2008; projected to approach 20 percent of GDP by 2017
  - Employer-sponsored health insurance premiums have risen from \$5,791 in 1999 to \$12,680 in 2008



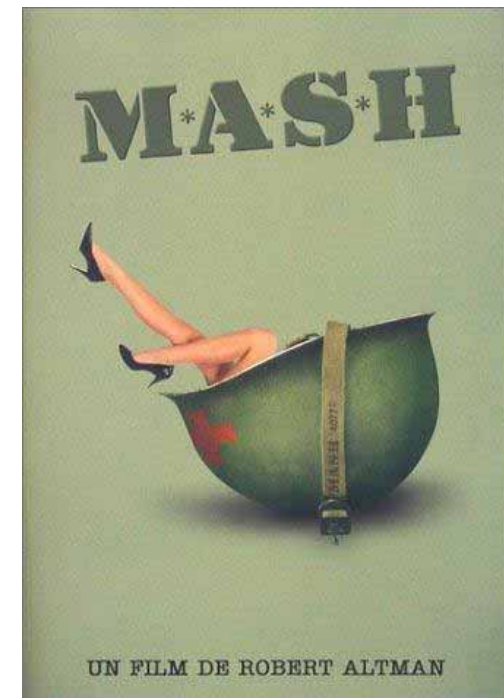
## Healthcare ARM as a War Film

- **Crisis Stage (continued):**
  - A one percent rise in the nation's unemployment rate is projected to increase the number of uninsured by 1.1 million and result in an additional 1 million (600,000 children and 400,000 adults) enrolling in Medicaid
  - Bad debt expense in the for-profit hospital sector expected to grow 15-17% in 2008, reaching more than \$14.5 billion
  - Healthcare collection reforms enacted in Illinois, California, North Dakota, and Nevada will further regulate how hospitals and service providers collect delinquent medical debt
  - Many states' healthcare reforms "on hold" due to current economic conditions



## Healthcare ARM as a War Film

- The screenplay for *M\*A\*S\*H* by Ring Lardner Jr. includes a dark joke apropos of current healthcare troubles:
  - **Hot Lips O'Houlihan:** I wonder how such a degenerated person ever reached a position of authority in the Army Medical Corps.
  - **Father Mulcahy:** He was drafted.
- Interestingly, the two main parties—patients and providers—involved in “conflicts” over medical receivables view themselves as having been conscripted into a war not of their own making—and that fact is both a challenge and a weapon for ARM companies in the healthcare market





## Election 2008

- While finalizing this presentation in mid-October, despite best efforts at fortune telling, I was unable to predict the outcome of the presidential election
- Notwithstanding President-elect [insert name of senator from Arizona or senator from Illinois here] fresh electoral victory, both 2008 candidates were effectively compelled—for myriad reasons—to address healthcare as a key platform in their campaigns:
  - The federal and state dollars delegated to the U.S. healthcare system
  - The intersection of the healthcare system and many other U.S. industries
  - The significance of the healthcare industry to the U.S. economy
  - The prominence of healthcare as a cost and access crisis in the minds of American voters



## Election 2008

- A snapshot of divergence

**Figure ES-1. Key Differences Between the Presidential Candidates' Health Reform Plans**

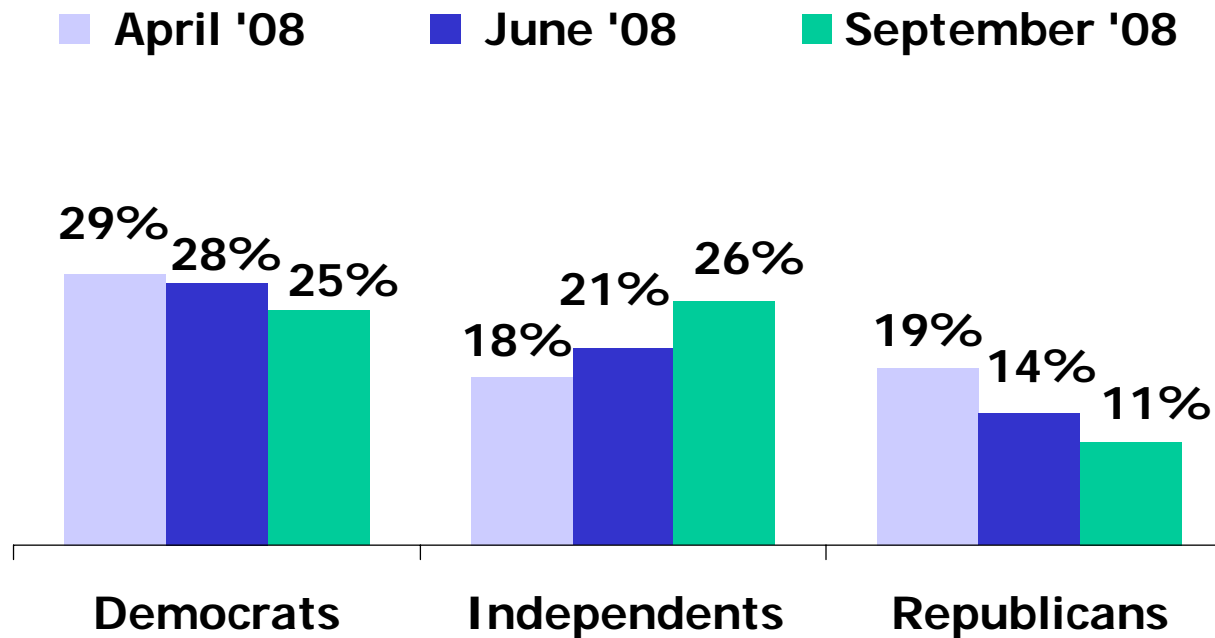
	<b>McCain</b>	<b>Obama</b>
<b>Aims to Cover Everyone</b>	<b>Not a Goal</b>	<b>Goal</b>
<b>Rules for Individual Insurance Market</b>	<b>Minimum State Rules</b>	<b>Uniform National Rules</b>
<b>Employer Role in Providing Health Benefits</b>	<b>Reduce</b>	<b>Expand</b>
<b>Medicaid/SCHIP</b>	<b>Reduce</b>	<b>Expand</b>
<b>Families' Exposure to Health Care Costs</b>	<b>More</b>	<b>Less</b>
<b>Requirements to Have Coverage</b>	<b>None</b>	<b>Children Only</b>
<b>Leverage to Stimulate Improvement in Quality and Efficiency</b>	<b>No change from current system</b>	<b>More</b>
<b>Uninsured Covered After 10 Years*</b>	<b>2 million</b>	<b>34 million</b>

\* Estimates of uninsured covered from L. Burman, S. Khitatrakun, G. Leiserson et al., *An Updated Analysis of the 2008 Presidential Candidates' Tax Plans*, Urban Institute–Brookings Institution Tax Policy Center, Updated September 12, 2008.



## Election 2008

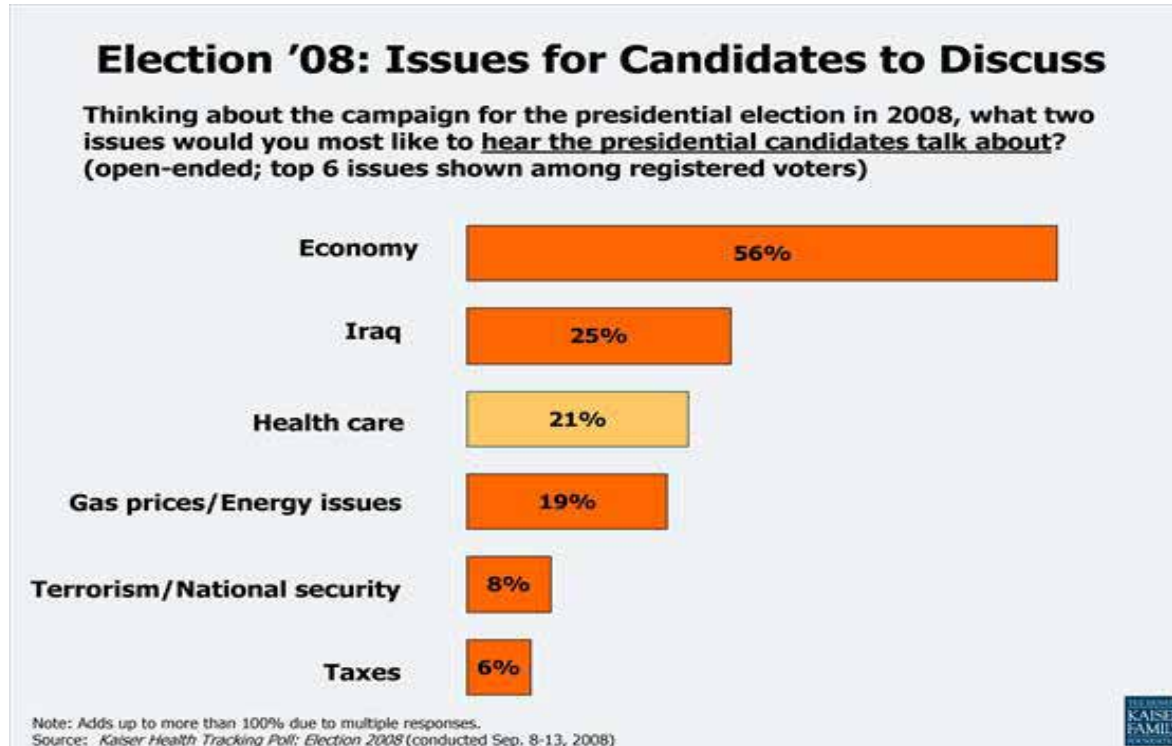
- By September, healthcare had increased in importance as an election issue since early 2008 among political independents, who then placed about as much priority on it as the Democrats



Source: Kaiser Health Tracking Poll: Election 2008

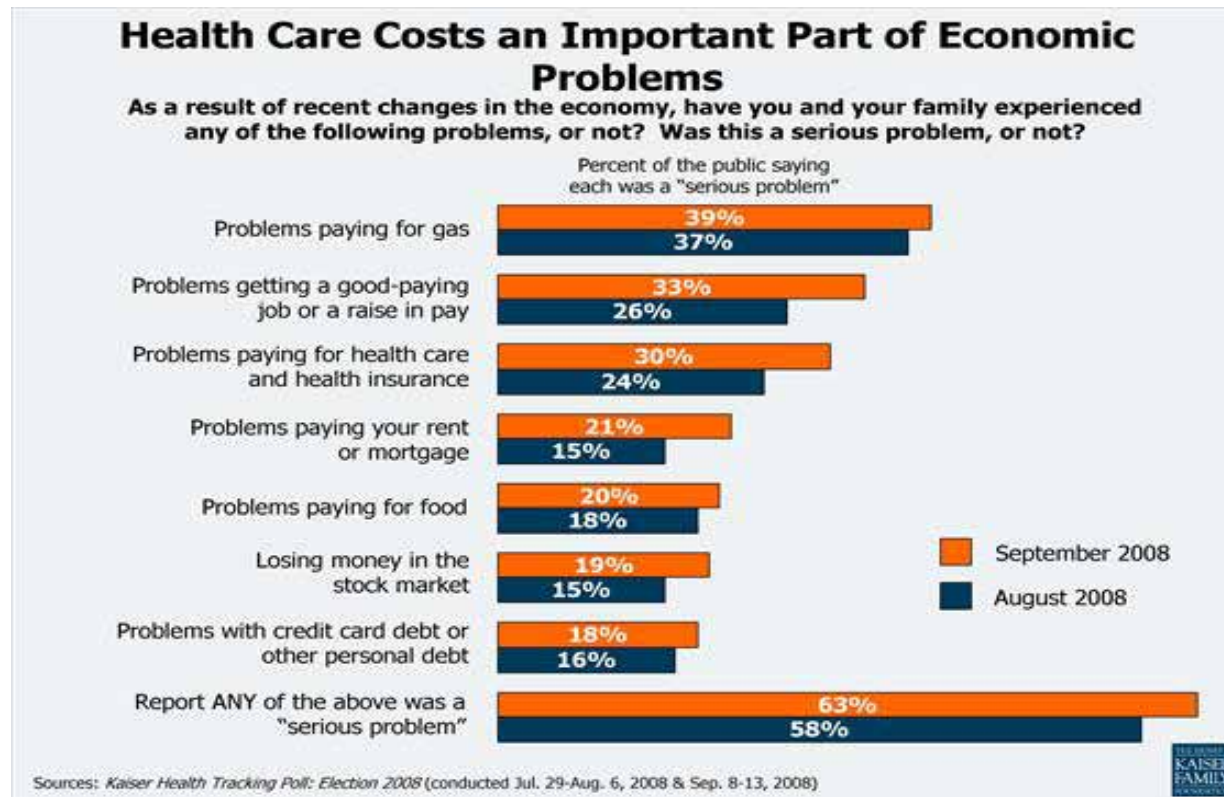
## Election 2008

- Registered voters recently cited healthcare as the third most important issue presidential candidates should give voice to



## Election 2008

- Healthcare costs persist as a chief concern for American voters; note that average gas prices have fallen \$0.70 since the poll was conducted



## Election 2008

- Despite significant uneasiness among the American electorate vis-à-vis the healthcare system and no matter the amount of press coverage healthcare reform has received, election 2008 is really about the economy
  
- November 4, 2008, likely confirmed that all other all other hot-button campaign issues:
  - Iraq
  - Immigration
  - Education
  - National security
  - Alaska
  - And even Healthcare...

are derivative



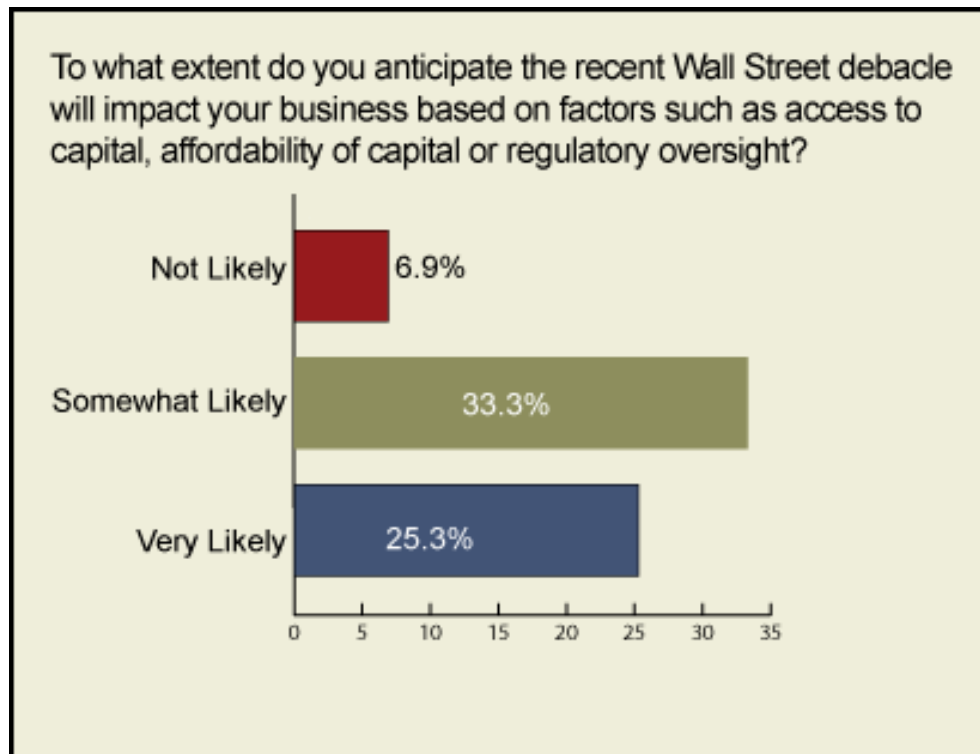
## The Economy

- **To my mind, the primacy of economics in everyday life was impeccably described in David Mamet's *Heist* (2001)**
- **In a phone conversation where the audience only hears Danny DeVito's character's voice:**
  - Are you messin' [*sic.*] with me, or are you done messin' [*sic.*] with me? Because I've just "financialized" the problem, and you've just become more trouble than you're worth.
  - (PAUSE)
  - She says you're gonna do the job. You said that before, why now? What is it, all a sudden?
  - (PAUSE)
  - Everyone needs money. That's why they call it "money..."



## The Economy

- **Healthcare collectors overwhelmingly believe turmoil in the financial sector will have some bearing on their businesses**

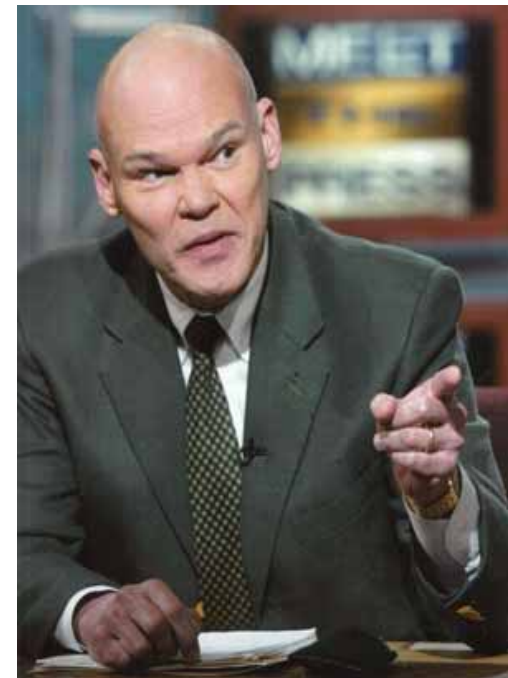


As Yet Unpublished Findings from insideARM's Quarterly Confidence Survey



## The Economy

- **In the broader political and economic context, one is reminded of the now ubiquitous phrase coined by Clinton campaign strategist James Carville during the former president's 1992 election bid:**
  - **“It's the economy, stupid”**
  
- **Carville, in an effort to keep staffers on message, is reported to have hung a sign in Clinton's Arkansas campaign headquarters that read:**
  - **Change vs. more of the same**
  - **It's the economy, stupid**
  - **Don't forget health care**
  
- **Election 1992 meets election 2008?**



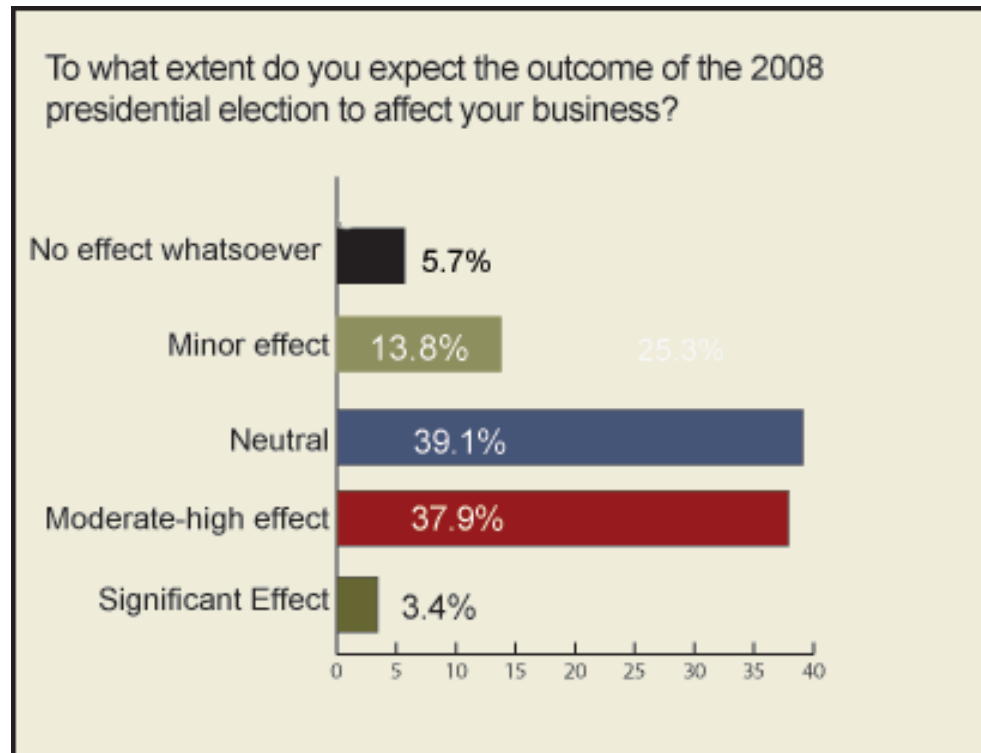
## Election 2008 and the Economy

- That said, the *mot du jour* is healthcare collections, and even if we concede that the election is fundamentally about the economy, many of you as ARM industry players are likely bewildered about how economic policy decisions (generally speaking) and healthcare initiatives (in particular) will impact your companies' bottom lines
- In an attempt to set your minds at relative ease given recent political events, I was inclined to embark on this talk with:



## Election 2008 and the Economy

- **Survey data indicate that ARM professionals in the healthcare market think the result of Obama v. McCain will have striking consequences**



As Yet Unpublished Findings from insideARM's Quarterly Confidence Survey

## Election 2008 and the Economy

- But a more accurate assessment of where the healthcare market in ARM might be headed as a result of the 2008 election was set to music in June of 1971 by Pete Townshend and the Who:

“Meet the new boss,  
same as the old boss...”



## Election 2008 and the Economy

- The simple truth is that changes promised and/or implemented by new administrations—in this and every election cycle—come to fruition very slowly (if ever)
- But particularly in the wake of the 2008 election, the likelihood that President \_\_\_\_\_’s healthcare platform will be realized in any substantive form during his first term in office is very slight... for 700 billion reasons
- Congress passed The Emergency Economic Stabilization Act of 2008 on October 3; the bill allocates roughly \$700B to purchase failing bank assets and seeks to restore confidence in the embattled credit markets
- Eleven days later, the Office of Management and Budget and the U.S. Department of Treasury announced that the FY 2008 federal budget deficit was \$454.8B; some analysts predict that the FY 2009 deficit might exceed \$700B

## Election 2008 and the Economy

- Staring down the twin barrels of a ballooning federal budget deficit and a \$700B “get out of jail free” card, few believe that the next administration will be able to garner any material traction for its healthcare reform agenda
- According to Uwe Reinhardt, Princeton University professor of economics, “Do we have the money to be our brothers' and sisters' keeper? The answer is no. We have to worry about Goldman Sachs. That's where we are.”
- And according to a recent Associated Press article, “Robert Laszewski, a health policy consultant, believes the odds of enacting costly health reforms in this tough economic environment are ‘zero,’ and said the onus is on the candidates to show how they can pull it off.”





## Election 2008 and the Economy

- In short, healthcare collection agencies and medical debt buyers troubled by how “The Spectre of Universal Coverage” or “The Era of Big Insurance Vampires” (depending on one’s perspective) might impact their ability to profit from healthcare collections post-election should simply take it easy, loosen up, relax
- Not so fast... right?
- In my view, the principal downside of U.S. election cycles is that they breed—above all else—hype and hyperbole, fear and loathing. At present, some of that anxiety is probably warranted. But electing an American president reinforces Lily Tomlin’s saying, “No matter how cynical you become, it’s never enough to keep up.”
- In that spirit I would like to take a moment to dissect a few conventional perceptions (or smoke and mirrors) that surround political and economic discussions about healthcare policy and medical collections

## **Straw Man Arguments over Healthcare Collections**

- Professional assessments of controversial and complicated issues regarding the U.S. healthcare industry are fittingly taken up by individuals and organizations in related lines of work (business partners, associations, advocacy groups, analysts, media outlets, etc.)
- For example, policy debates about Medicare Part D prescription drug benefits might seem immaterial to the day-to-day business operations of a healthcare collection agency. But the relative success or failure of the program to reduce patients' out of pocket spending on medications may directly affect the portion of household wallet share available to pay other bills
- Thus, the topic of Medicare Part D, like many other wide-ranging healthcare issues, is rightly the province of ARM industry owners and executives who collect medical debt
- Consideration of (and disputes over) the effects of healthcare policies and practices on individuals, businesses, and industries are sometimes reduced to straw man arguments, however

## Straw Man Arguments over Healthcare Collections

- A straw man argument refers to an informal fallacy that deliberately misrepresents an opponent's position. The straw man is typically established by quoting statements out of context, exaggerating contrary viewpoints, or oversimplifying a rival opinion
- In each case, the straw man position is made to stand in for the genuine claim in its original form; much like knocking down a scarecrow as opposed to a real person, the straw man argument is more easily defeated than the contender's actual point of view
- For example:
  - Person A: American families in West Virginia should be allowed to purchase health insurance in Pennsylvania (or any other state of their choosing) to reduce healthcare costs.
  - Straw man: Pennsylvania has the largest Amish population in the U.S. Amish do not carry private commercial health insurance. Opening cross-border insurance markets in PA is insulting to Amish social practices.

## Straw Man Arguments over Healthcare Collections

- One can quickly see from the previous example how a position on opening health insurance markets across state lines was distorted into a question of debasing Amish culture:
  - Off topic?—yes
  - Faulty logic?—yes (private insurance companies already operate in PA)
  - Rhetorically persuasive?—perhaps (who, after all, would deliberately want to disrespect Pennsylvania Amish?)
- Straw man arguments have tremendous power to influence thinking and behavior, and they are frequently deployed by supporters on any side of a given issue. But their effectiveness perseveres only so long as the curtains stay drawn. And like the ones at the end of the yellow brick road foiled in their ability to conceal a powerful illusion by the tenacity of one little dog in *The Wizard of Oz* (1939), healthcare straw men can be easily undone by pulling the drapes aside
- The following “big picture” healthcare positions have repeatedly been deliberated with straw man approaches in the context of medical collections

## **Straw Man #1: Uninsured Americans v. Uncompensated Care**

- **The Big Picture:**

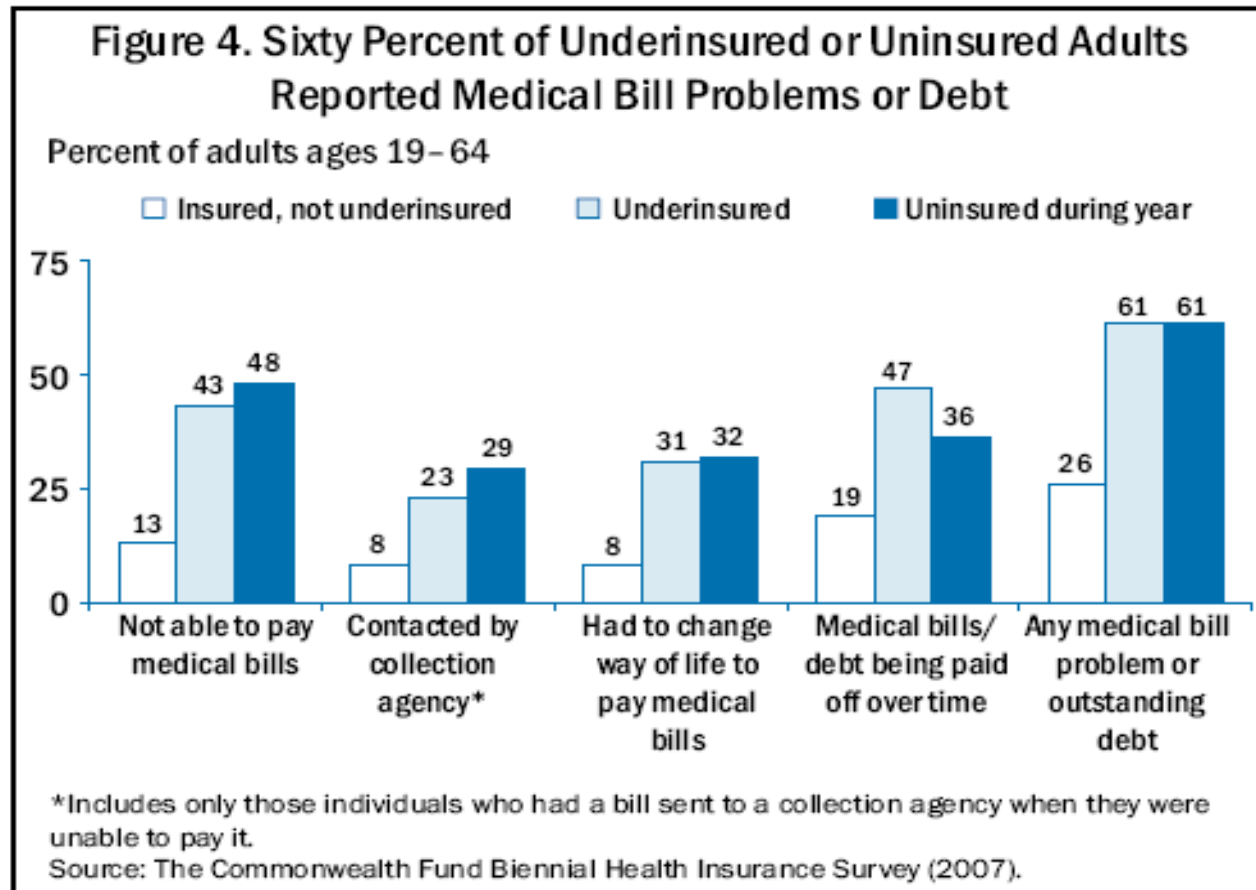
- Debates about health insurance coverage typically hinge on the number of uninsured Americans, obscuring nuances that underlie those statistics and largely ignoring the corollary problem of uncompensated care
- Clashes over the actual number of uninsured patients nevertheless tend to split hairs, quarreling over a range that falls within a negligible margin of error
- Outside of the estimated 45M Americans who lack health insurance, a 2008 report by the Commonwealth Fund indicates that 25M Americans are underinsured; rates of underinsurance among families earning more than \$40,000 a year nearly tripled from 2003 to 2007
- The current cash market for uncompensated care expenses is made up of medical bills not covered by private or public insurance, excluding the cost of catastrophic care; this figure represented \$265B in out of pocket consumer payments in 2006

## Straw Man #1: Uninsured Americans v. Uncompensated Care

- Half of uninsured households had \$600 or less in total assets (not including their house and cars) in 2004, compared to median assets of \$5,500 for insured households. Moreover, after households' debts are subtracted from assets, the median net worth of uninsured households drops to zero—leaving many of the uninsured with no financial reserves to pay unexpected medical bills
- Since 2001, premiums for family coverage have increased 78 percent, while inflation has increased by 17 percent and wages have gone up only by 19 percent, according to the Kaiser *Survey of Employer Health Benefits*
- Two recent reports underscore how household budgets are impacted by medical bills. Both studies segment data by insurance status. It is important to note that recent economic developments, if superimposed on survey responses, would paint an even gloomier picture of family finances in relation to healthcare costs



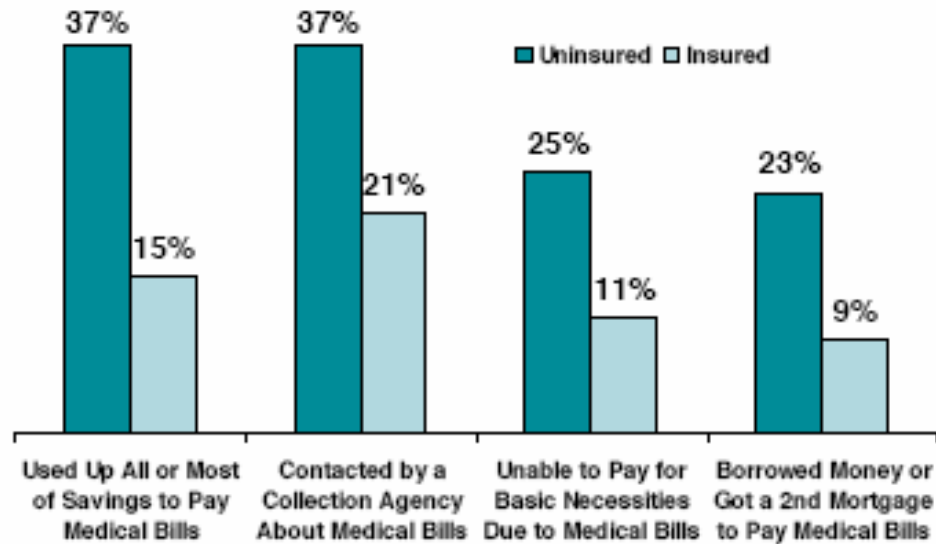
## Straw Man #1: Uninsured Americans v. Uncompensated Care



## Straw Man #1: Uninsured Americans v. Uncompensated Care

### Financial Consequences of Medical Bills, by Insurance Status, 2008

Percent of adults (age 18 – 64) reporting in past 5 years:



SOURCE: Kaiser Family Foundation, 2008 "Economic Problems Facing Families," (#7773 April).

## **Straw Man #1: Uninsured Americans v. Uncompensated Care**

### **■ Impact on Medical Collections:**

- Under the assumption that many of you view the prospect of universal coverage legislation as a business risk, first recall my assertion that sweeping healthcare reform has a “snowball’s chance” of taking hold in the next four years
- Federal or state insurance “mandates” affect healthcare collection agencies in unique and contradictory ways—as employers and recovery professionals
- In 2009, the combined average premium and out of pocket healthcare costs for U.S. workers are expected to increase by 9 percent; annual wage gains for American workers average less than half that (between 3 & 3.5 percent in 2008)
- Even in overly simple terms, the risk (myth?) of “nothing to collect” under a universal system becomes a paradox if un- and underinsured patients have “no remainder” in the face of rising healthcare costs, including insurance premiums and prescription drugs

## Straw Man #1: Uninsured Americans v. Uncompensated Care

- **Impact on Medical Collections (continued):**
- Healthcare reform could unlock opportunities for ARM companies:
  - Rising medical costs (premiums, HDHPs, prescriptions) and a challenging economy lead many patients to forego preventative care; coverage reform, for example, might curtail that trend, making collection efforts less politically volatile
  - Multiple-front wars are expensive & the federal government is unlikely to take on Big Insurance and Big Pharma simultaneously; reform in one industry will likely leave collection dollars on the table in another as household budgetary shortfalls persist
  - S-CHIP expansion carries the greatest probability of ratification in the near future; reducing the headline risk associated with attempting to collect from sick children can only benefit healthcare agencies and debt buyers

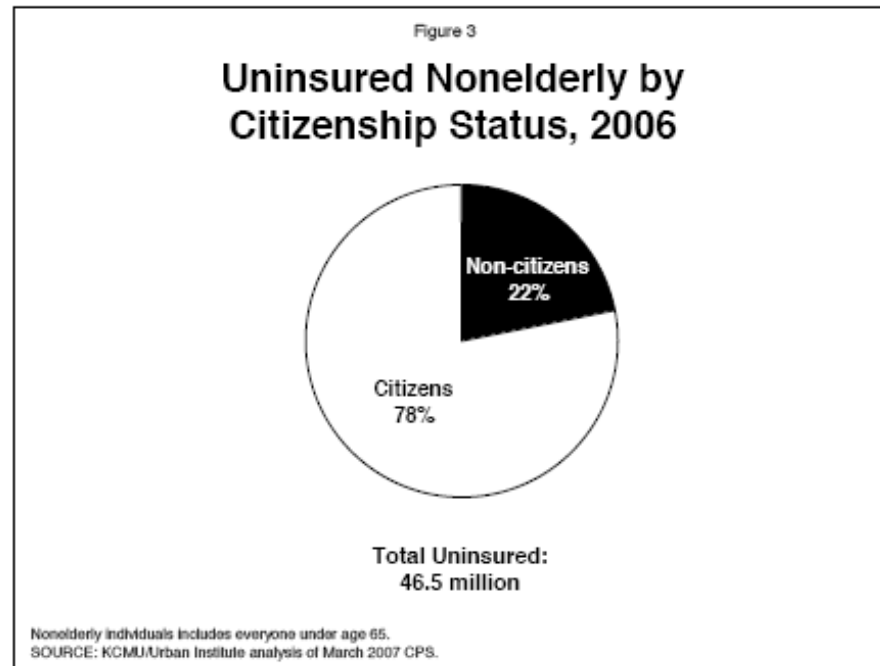
## **Straw Man #2: The Immigrant v. Just-can't-Pay Joe**

- **The Big Picture:**

- Cost drivers for the U.S. healthcare predicament are often placed squarely on the shoulders of immigrant populations (documented or undocumented) in America
- Employment, not healthcare, is the primary incentive for immigration
- Due to their limited access to employer-based health coverage and restrictions for public coverage, non-citizens (legal and undocumented) are far more likely to be uninsured than citizens, 47 percent v. 15 percent, respectively
- But because non-citizens represent a relatively small share of the U.S. population, they are not the primary cause of the nation's growing uninsured problem. Although legal and undocumented non-citizens accounted for 22 percent of the nonelderly uninsured in 2006, citizens still made up the bulk of the uninsured (78 percent)

## Straw Man #2: The Immigrant v. Just-can't-Pay Joe

- Further, the majority (76 to 80 percent) of the growth in the number of uninsured from 2000 to 2006 occurred among citizens, not legal and undocumented non-citizens



## Straw Man #2: The Immigrant v. Just-can't-Pay Joe

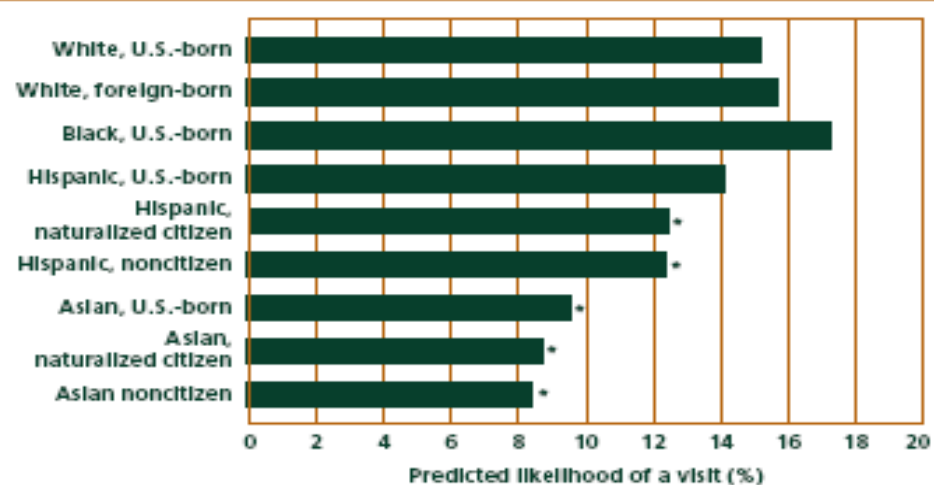
- Federal law generally prohibits undocumented immigrants and recent legal immigrants from receiving Medicaid and S-CHIP coverage
- But federal statutes make an exception for “emergencies,” the definition of which is ambiguous and thus shifted to individual states for adjudication
- As a result of their lower use of care, non-citizens have significantly lower per capita health care expenditures than citizens. In 2005, average annual per capita health care expenditures for non-citizens were \$1,797 versus \$3,702 for citizens
- Although non-citizens have mediocre access to care and receive less primary care than citizens, they are significantly less likely than citizens to use Emergency Departments (ED). Thirteen percent of adult non-citizens report an ED visit in the past year compared to 20 percent of citizens. Further, communities with low rates of ED use tend to have much *higher* concentrations of non-citizens than areas with high rates of ED use



## Straw Man #2: The Immigrant v. Just-can't-Pay Joe

- From *Emergency Department Care in California* published in August 2008 by the Public Policy Institute of California

**Figure 9. Likelihood of Visiting an Emergency Department by Adults Ages 18–64, by Race/Ethnicity and Nativity/Citizenship**



Source: Authors' calculations from adult CHIS sample, 2005.

Notes: Results are from weighted regression models and have been adjusted to account for other demographic and health-related characteristics. Predicted likelihoods are calculated by holding all other characteristics at their mean values. Refer to the technical appendix at [http://www.ppic.org/content/other/808SMOC\\_technical\\_appendix.pdf](http://www.ppic.org/content/other/808SMOC_technical_appendix.pdf) for more details.

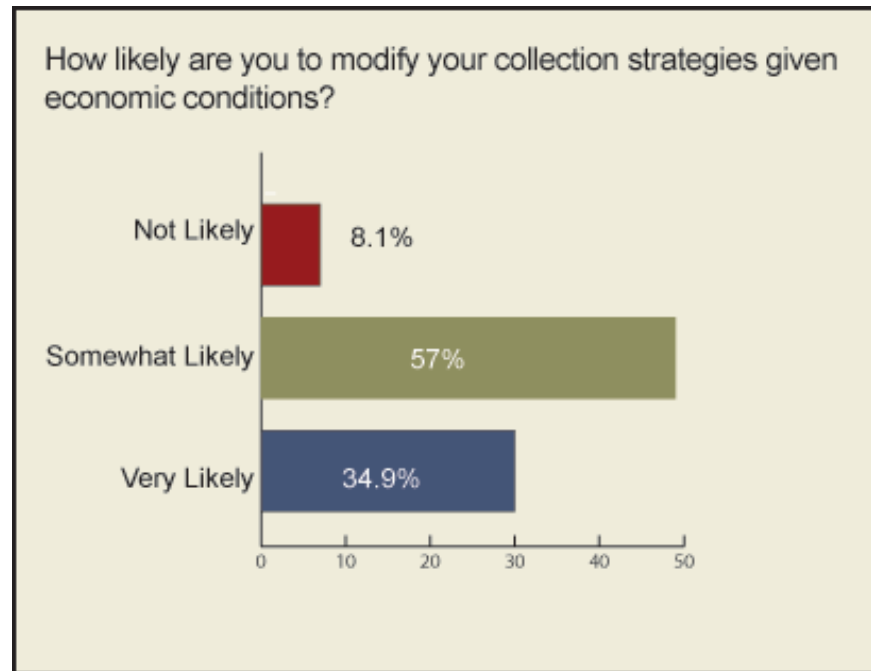
\* Denotes a significantly different value from that of U.S.-born whites at or below the 5 percent significance level.

## Straw Man #2: The Immigrant v. Just-can't-Pay Joe

- **Impact on Medical Collections:**
- Rethinking this “problem” could unlock opportunities for ARM companies:
  - In 2006, there were 37 million foreign-born immigrants living in the United States. Individuals born in Mexico are the largest group from a single country, comprising nearly one-third (31 percent) of immigrants in 2006. Another 14 percent were born in other Central or South American countries, according to the Pew Hispanic Center
  - Immigrants make up about 13 percent of the total U.S. population. The large majority of immigrants—69 percent—are here legally
  - Assuming those figures, more than 17 million Spanish-speaking immigrants live in the U.S., roughly 12 million of whom are documented

## Straw Man #2: The Immigrant v. Just-can't-Pay Joe

- **Impact on Medical Collections (continued):**
  - According to ARM industry executives, the down economy will stimulate new approaches to the collection of delinquent healthcare paper



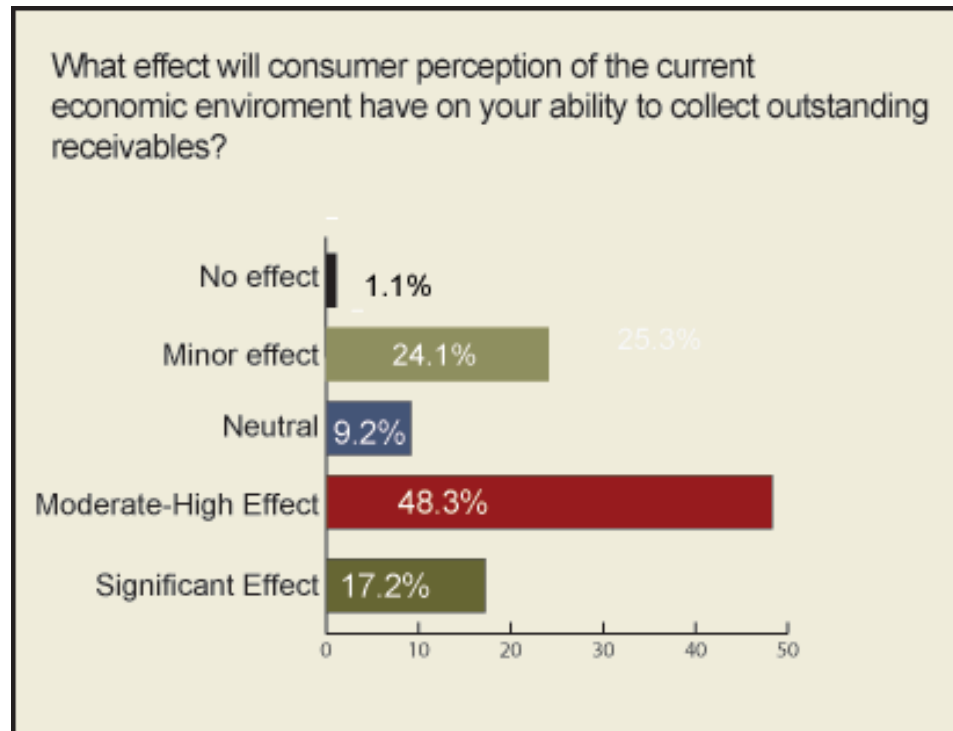
As Yet Unpublished Findings from insideARM's Quarterly Confidence Survey

## Straw Man #2: The Immigrant v. Just-can't-Pay Joe

- **Impact on Medical Collections (continued):**
  - Expanding healthcare ARM services to providers in geographic areas with high concentrations of immigrant groups could fill a void in an underserved “sub-market” for traditionally underserved populations
  - Broad ARM service offerings and a “partnership presence” with healthcare creditors in a given community—as well as promoting job creation, etc.—are likely to provide positive social capital
  - **Under certain conditions, healthcare creditors might be more amenable to ARM service providers establishing operations in near-shore locations like Mexico given the type of accounts they intend to work**
- And finally, when basing straw man arguments on a Just-can't-Pay Joe who also happens to be a plumber, it's worthwhile to remember that he might just be a tax scofflaw too

## Predictions: Healthcare

- The U.S. economy, all formal and fancy definitions aside, is in recession. Ask yourself whether the names of government economists or Tallahassee homeowners' are more likely to appear at the top of your collection letters



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## Predictions: Healthcare

- The healthcare market in ARM, like the larger industry, is recession-resistant, not recession-proof; the good news is that the ARM industry ordinarily follows a LIFO structure
- The current economic climate will mean increased placement levels and declining liquidation rates, though placements may start to level off as well
- Hospitals—burdened by rising uncompensated care expenses and facing restricted access to credit—may be more eager to sell portfolios of delinquent accounts; investment cash flow being deployed as capital source v. supplement
- Empirical evidence suggests that many healthcare agencies' 2008 revenues will at best be flat—with some reports of 10-12 percent declines—compared to 2007

**The broad healthcare crisis is deepening and will increase the need for diverse healthcare receivables management solutions**

## Predictions: Healthcare

- Hefty Spike in Medical Placements Expected
  - Q308 Healthcare Collection Agency Placements

What is the current status of placements and what are your projections for the future?					
	Significant decrease	Moderate decrease	Neutral	Moderate increase	Significant increase
Current status	3.4%	6.9%	19.5%	<b>44.8%</b>	25.3%
Six months hence	1.1%	4.6%	5.7%	<b>56.3%</b>	32.2%
Twelve months hence	1.2%	2.3%	7.0%	44.2%	<b>45.3%</b>

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## Predictions: Healthcare

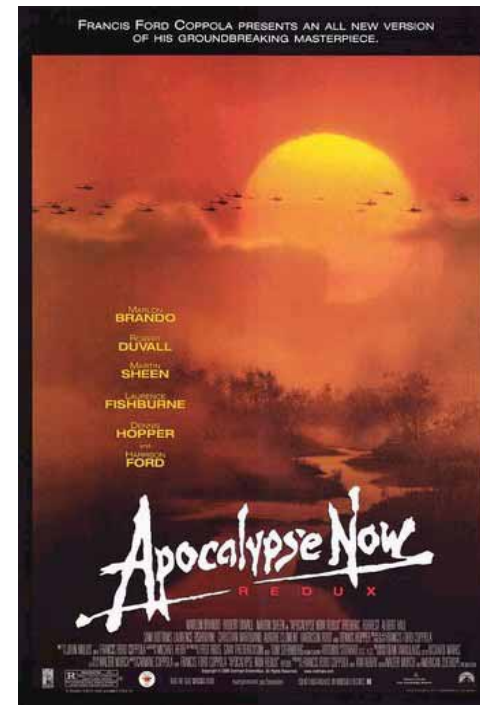
- Optimistic View of 2009 Results
  - Q308 Healthcare Collection Agency Performance

<b>How would you rate the current performance of your firm and what do you expect for the future?</b>					
	<b>Poor</b>	<b>Weak</b>	<b>Average</b>	<b>Strong</b>	<b>Excellent</b>
Current performance	0.0%	14.0%	<b>38.4%</b>	36.0%	11.6%
Six months hence	0.0%	8.0%	36.8%	<b>46.0%</b>	9.2%
Twelve months hence	0.0%	4.7%	28.2%	<b>48.2%</b>	18.8%

As Yet Unpublished Findings from insideARM's Quarterly Confidence Survey

## Predictions: Healthcare

- The future of healthcare collections?



**Political change and economic uncertainty can be catalysts for growth and reinvention in the emerging healthcare collections market**

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**how the economy and election '08  
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