



Pending Healthcare Reforms Could Have Great Impact On Lessors

By Alan N. Frankel

With a new U.S. Congress in place, many Americans wonder how it will treat healthcare reform.

Will the status quo remain in place, with healthcare costs continuing to spiral upwards? Or, will lawmakers finally seriously address the issue with a particular focus on unsustainable increases in Medicare costs?

Signs point to action, but the country faces potential draconian measures that will alter several healthcare segments and the financial wherewithal of hospitals and physician practices.

There are two areas of particular concern to lessors – outpatient diagnostic imaging and home healthcare. The leasing industry has substantial focus and exposure in both of these healthcare sectors.

Planned reductions in reimbursement for diagnostic imaging procedures performed in a physician's office or imaging center threaten the \$100 billion radiology and imaging marketplace. The changes would cause reimbursement reductions for similar images of contiguous body parts in the same session, and place caps on the technical component of imaging services provided.

These changes will create severe concerns for lessors in the imaging space. First, how will they protect investments already on the books? An increase in delinquency and defaults can be anticipated if the measures are adopted.

Secondly, well-established and proven credit modeling techniques will be rendered useless. The entire methodology behind credit analysis in this sector will need to be restructured.

The home healthcare segment has experienced major upheavals for

several years now. Past reductions in reimbursements created high delinquency rates and losses, with significant industry consolidation.

Proposed Medicare changes now being reviewed include revisions that enact a rent-to-own scenario for select durable medical equipment. This now includes respiratory equipment such as ventilators, respirators and CPAP (Continuous Positive Airway Pressure) machines. New regulations are in place that enable oxygen therapy equipment to be reimbursed over three years; almost everything else over one year.

Among the subsequent issues facing lessors is whether 12-month lease terms will be attractive. Much of the equipment is small ticket, and it is questionable if sufficient real cash returns could be realized to prompt the availability of financing.

Of greater concern is the market's demand for terms longer than 12 months. Will lessors be willing to fund the "air" inherent in leases as equipment title passes to the patient?

On a positive note, new healthcare information technology requirements are on the horizon that will provide great opportunities for the leasing industry.

Three years ago, President Bush mandated the country develop an automated and integrated Health Information Technology (HIT) system to ensure every patient's medical records are available at all times.

The hope is such a system leads to tremendous cost savings – up to an estimated \$160 billion annually – and the elimination of medical errors.

As the President's mandate takes hold, opportunities for equipment and software lessors will represent the largest opportunity for the industry in the healthcare sector. The cumulative costs for adoption of the

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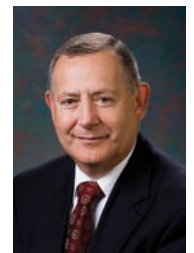
HIT standards are estimated at \$98 billion for hospitals and \$17 billion for physicians through 2015.

Leasing of healthcare equipment has been fashionable for some time, with new lessors entering the segment each year. This segment is unique among leasing markets, however, and evolving dramatically, with major changes expected in the near future if the new Congress keeps to its promise.

Lessors and healthcare equipment manufacturers must be ready for these changes. The Alta Group

can help them make the right decisions. The consulting firm has unique experience in helping finance companies evaluate new equipment providers. Conversely, they help manufacturers align themselves with the right financing partners.

Contact us to arrange a house call.



Mr. Frankel is a principal with The Alta Group. He can be reached at 1 610 664 5539 or afrankel@thealtagroup.com