



# Mental Health Practitioners

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# Coronavirus Update

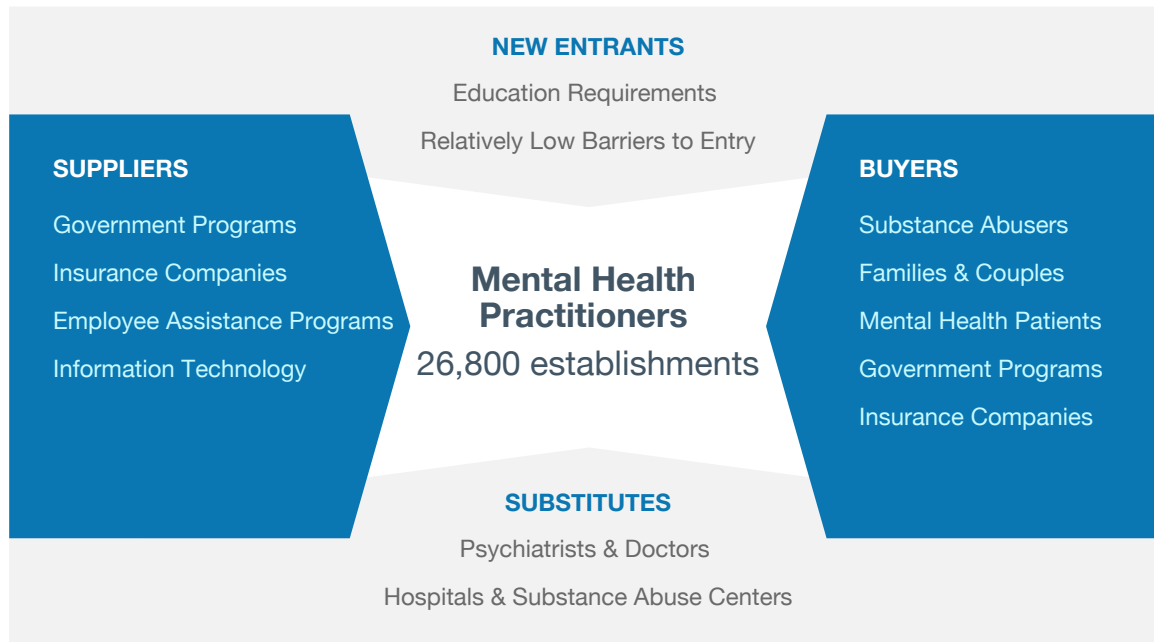
## Jan 22, 2022 -- Federal Public Health Emergency Extended

- The US Department of Health & Human Services (HHS) has renewed the Public Health Emergency (PHE) declaration for COVID 19 for another 90 days, beginning on January 12 (the date the PHE was previously scheduled to expire) and extending through April 16, 2022. The emergency measure linked to the PHE that may be of most interest to mental health practitioners is coverage of telehealth services. Medicare and Medicaid coverage of telehealth services was extended immediately. A public health emergency has existed since January 27, 2020. The PHE was renewed four times by former HHS Secretary Alex Azar and now by Becerra four times. PHE renewals keep in place flexibilities under Section 1135 waivers, such as the expanded use of telehealth. They also extend public aid programs. Industry experts say that waiver of cost-sharing for medical and behavioral telehealth services by health insurers is likely to be extended again by insurers who have done so for earlier PHE renewals. Industry stakeholders should remember that HHS retains the discretion to terminate the PHE at any time.
- The federal government awarded over \$8 billion in COVID-19 relief funding for behavioral health as of November 2021. Over 97% of this funding was provided to states and other recipients through six programs: one Federal Emergency Management Agency program, and five Substance Abuse and Mental Health Services Administration (SAMHSA) programs. Funding recipients in four states and Washington, DC, reported varying ways that they were using, or planned to use, relief funds to reach higher-risk populations. Officials in one state, for example, said they planned to use some mental health block grant funds to assist children and adolescents in the child protective services system. SAMHSA officials said that it would take time to determine who was served by programs that received federal relief funding but said that it was important to examine grantee data to determine whether target populations were reached and identify any coverage gaps.
- Many experts say that telehealth will likely become a permanent fixture in the healthcare landscape. “Research on telehealth use conducted during the pandemic showed that there was a 1400-percent increase in substance use care in telehealth,” said Dr. Lawrence Weinstein, chief medical officer at American Addiction Centers. Global venture capital funding for digital health companies hit a record \$15 billion in the first half of 2021, according to a report by Mercom Capital Group.
- A new Illinois law will allow for five excused absences from school without the need for a doctor’s note, beginning in January 2020. The excused absences will allow students to get the help they need, said State Representative Barbara Hernandez, who was a co-sponsor of the bill. The law applies to all public school students, ages 6-17. The law states that students who take more than two of the approved mental health days should be referred to appropriate school support services. Students in Oregon are also allowed to take up to five mental health days off, and similar laws have been proposed in Florida, Utah and other states. Montgomery County in Maryland has also added caring for mental health as an excused absence from school.
- Relaxed regulations that providers have relied on during the coronavirus pandemic to expand services are being terminated as state health emergencies are cancelled. Florida Governor Ron DeSantis, for example, let an executive order declaring a public-health emergency expire in late June. Many regulatory flexibilities that healthcare providers received during the pandemic, including flexibilities related to telehealth, also expired. Smartphones and traditional phones are no longer an acceptable platform for delivering telehealth services to non-Medicare patients in Florida. The state Agency for Health Care Administration has limited the frequency and duration of Medicaid behavioral-health services and has reinstated prior-authorization requirements for behavioral health services. The federal Public Health Emergency will expire on July 19 unless it is renewed.
- Mental health visits by new mothers were 30% higher during the COVID-19 pandemic than before the pandemic, particularly for those within the first 3 months after giving birth, according to research results published in the Canadian Medical Association Journal. Postpartum mental illness affects as many as 1 in 5 mothers and can have long-term effects on children and families if it becomes chronic. Mental health visits to both family physicians and psychiatrists were higher than before the pandemic, especially among parents with anxiety, depression, and alcohol and substance use disorders.
- Some industry experts are concerned that the pandemic-driven increase in availability of telehealth services will disproportionately benefit large multistate healthcare providers at the expense of small, local organizations. The head of Rimrock, Montana’s largest behavioral health provider, worries that an influx of out-of-state providers that don’t take Medicaid patients could lead to the loss of a significant number of its privately insured patients. Rimrock patients with private insurance subsidize patients who are on Medicaid, CEO Lenette Kosovich said. The difference in insurance reimbursement rates between the two is so great that the loss of those privately insured patients would hamper Rimrock’s operations. Blue Cross and Blue Shield of Montana spokesperson John

Doran said that he shares Kosovich's concerns that local providers could suffer or be driven out of business, particularly in smaller states. "The future of medicine has to include connecting a Montana patient to a Montana provider," Doran said.

- A study published in the Journal of Public Health found that the rates of depression (39%), anxiety (42%) and psychological distress (39%) were more than double the rates from before the pandemic. Depression, anxiety, and psychological distress burden differed significantly based on race, ethnicity, age, having children at home, employment as a health care worker, annual household income, and area of residence, according to the study. Males were more likely to have depression, and females were more likely to have anxiety symptoms.
- The \$2 trillion CARES Act passed in late March 2020 included a repeal of the Medicare requirement that only allows a health care professional to see a patient via telemedicine if they have previously seen that patient within the past three years. CARES allows the sharing of substance use disorder records with health care professionals. It also suspends the Medicare sequestration, which requires Medicare providers to reduce costs by 2%, through December 2020.
- Employment at offices of mental health practitioners increased 5.7% year over year in November 2021, according to the US Bureau of Labor Statistics.

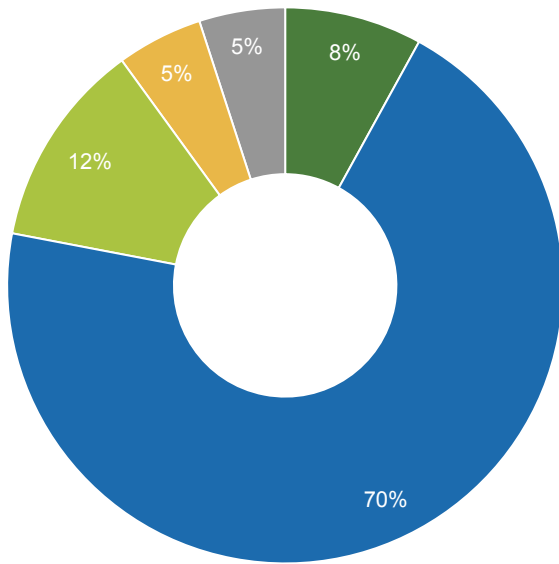
# Industry Structure



The average mental health practitioner operates out of a single location, employs about 4-5 workers, and generates \$435,000 annually.

- The mental health practitioner industry consists of about 26,800 establishments that employ about 126,000 workers and generate \$12 billion annually.
- The industry is highly fragmented; the top 50 companies account for 11% of industry revenue.
- The industry does not include psychiatrists, psychoanalysts, and psychotherapists having the degree of MD (Doctor of Medicine) or DO (Doctor of Osteopathy).

# Industry Demographics



- Corporations (8.0%)
- S-Corporations (70.0%)
- Individual Proprietorships (12.0%)
- Partnerships (5.0%)
- Non-profit/Other (5.0%)

Source: US Census Bureau



**Female Owned**

62.0%



**Minority Owned**

15.0%



**Veteran Owned**

6.8%

Source: Census Bureau

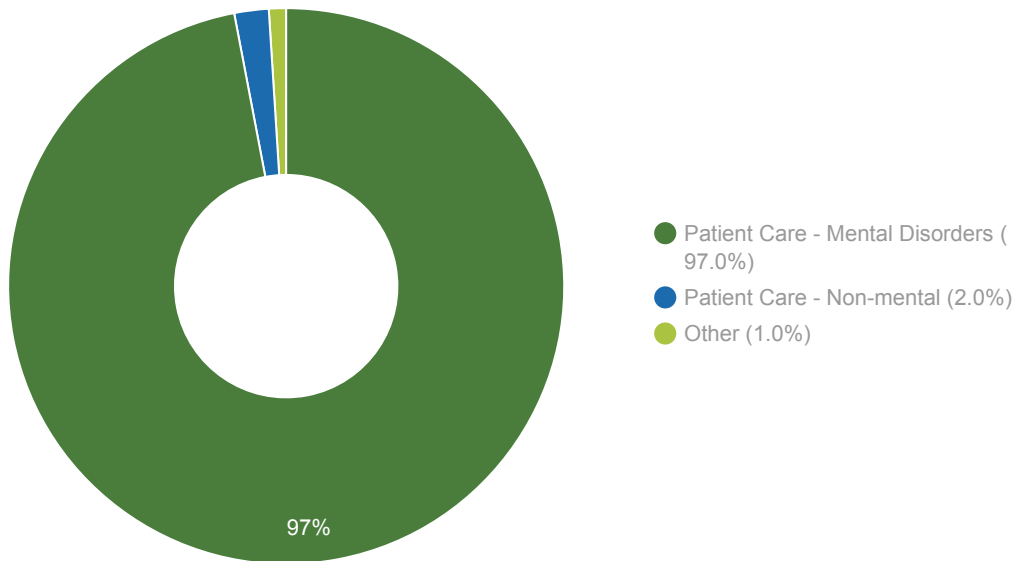
# How Firms Operate

## Products and Operations

Mental health practitioners diagnose and treat mental, emotional, and behavioral disorders and problems due to mental illness, alcohol and substance abuse, physical and emotional trauma, or stress.

- Patient care accounts for the majority of industry revenue.
- Practitioners may operate private or group practices or work within third-party facilities, such as hospitals, medical centers, substance abuse treatment centers, hospitals, and colleges.

**Mental Health Practitioners**



*Source: US Census Bureau*

Mental health practitioners help individuals manage and overcome mental and emotional disorders and problems with family and relationships. Practitioners include psychologists, counselors, therapists, social workers, and nurses. Mental disorders include anxiety, depression, bipolar disorder, and schizophrenia. In some cases, patients have co-occurring mental health and addiction disorders. About one in five Americans experience a mental illness and almost one in 25 live with mental illness, according to the National Alliance on Mental Illness (NAMI). Practitioners may specialize in a particular field, such as marriage counseling, eating disorders, or addiction, or offer a range of services.

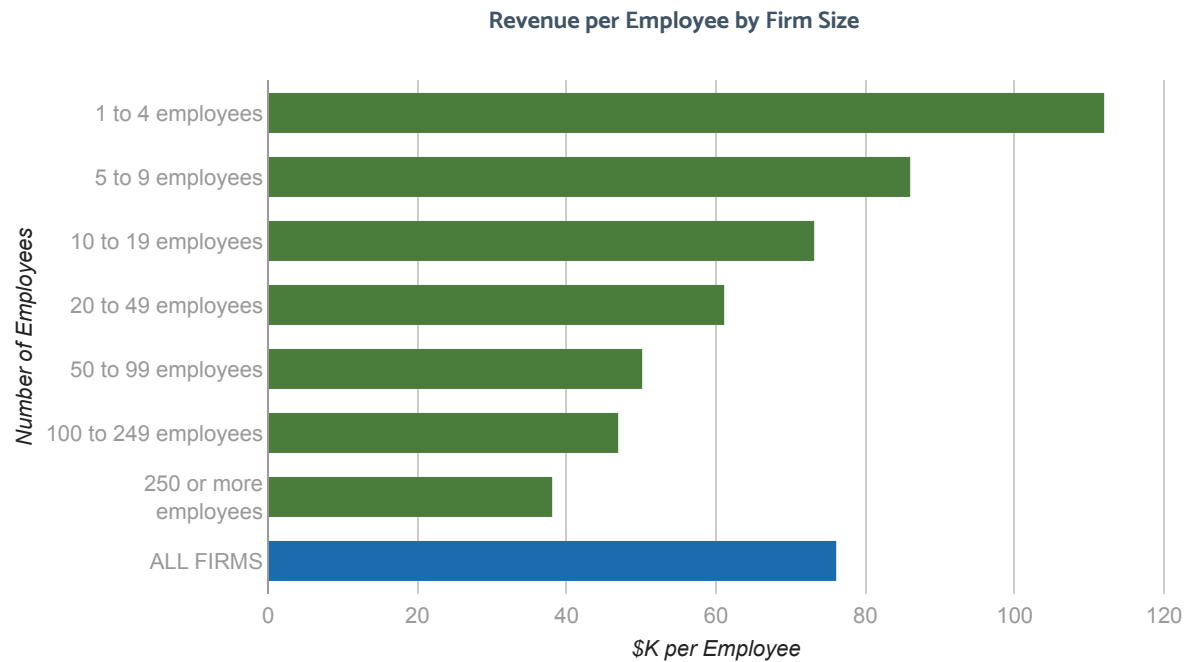
Treatment varies depending on the patient's underlying condition. Psychoanalysis and psychodynamic therapy involves discovering the unconscious, underlying meaning and motivation behind problematic behavior. Behavior therapy applies learning to develop normal and abnormal behaviors. Cognitive therapy focuses on thoughts that lead to behavior. Humanistic therapy emphasizes a patient's capacity to make rational choices and develop to their maximum potential. Integrative or holistic therapies blend different approaches to meet patient needs.

Counseling services include one-on-one, family, and group therapy. In some cases, services are provided through a phone call or online session. Most individual sessions last from 45 minutes to one hour. Group therapy may last several hours. Therapists generally see between six and eight patients a day, according to Psychcentral. Treatment duration varies depending on the underlying condition. About 40% of people in psychotherapy attend three to ten sessions and about one in nine use more than 20 sessions, according to a study published in the American Journal of Psychiatry.

Mental health practitioners may operate as part of a multidisciplinary care team that includes psychiatrists, social workers, and case

managers. When required treatment goes beyond a practice's scope of expertise, establishments make referrals to community agencies, treatment programs, or other medical professionals. Most mental health practitioners are not able to prescribe medication.

Referrals and contracts with third-party payers are important to generating new business. Practices may also advertise through websites and local publications. Psychologists need a doctoral degree. Mental health counselors and marriage and family therapists are typically required to have a master's degree and a license. Many professions require hundreds to thousands of hours of direct, clinical experience and continuing education.



Source: US Census Bureau

## Profit Drivers

### Growing Billable Hours

Practices increase revenue and operational efficiency when they achieve a high utilization of available billable hours for patient care providers. Offloading administrative work from care providers to other staff members can increase the number of hours available for seeing patients. Patient scheduling software can help to fill available hours for each care provider. No shows by patients results in lost revenue, so practices must also have processes in place to remind patients of appointments and follow-up on missed appointments.

### Increasing Average Hourly Rate

Mental health practitioners typically charge an hourly rate for their services and that rate varies, depending on the type of service provided, the skill and experience of the practitioner, and the ability of the patient to pay. Some practices charge patients on a sliding scale based on their ability to pay. Reimbursements from third-party payers are based on a fixed fee schedule and are typically lower than the amount charged to patients paying cash. Practices can increase their average hourly rate by catering to more affluent patients who pay by cash and increasing their mix of services that can command higher rates, such as marriage counseling.

### Improving Collection Percentage

The percentage of money billed that is actually collected from third-party payers is a key management metric for practices. Due to the complexities associated with medical billing and working with third-party payers, some practices collect less than 85% of the money owed by insurance companies, according to the American Counseling Association. Small practices with limited administrative resources are particularly challenged to achieve a high collection percentage and may choose to outsource to a medical billing service. Larger practices rely on in-house billing specialists and invest in medical billing software systems to help improve the accuracy and timeliness of claim submissions to third-party payers.



# Industry Trends

## **Trends are affected by the COVID-19 pandemic.**

Changes in revenue, employment, business practices, trade and forecasts are occurring rapidly and data reporting by the government lags the changes. We are tracking changes in the “Coronavirus Update” chapter.

## **Projected Industry Growth**

Job growth for mental health counselors and marriage and family therapists is expected to be robust, due to the implementation of the Affordable Care Act (ACA) and the 21st Century Cures Act, increased demand from military veterans, and growth in the number of individuals seeking treatment. Industry employment is projected to grow 22.3% between 2019 and 2029 for marriage and family therapists, much faster than the average for all occupations (3.7%), and 2.3% for psychologists, according to the Bureau of Labor Statistics. Increases in the number of insured and laws requiring parity private insurance coverage for mental illness boost the potential client pool and options for payment. The number of military veterans needing and seeking treatment is also projected to increase. Better awareness and programs designed to reduce the stigma associated with mental illness are expected to drive the number of individuals seeking treatment. Increases in demand are expected to cause shortages of mental health care providers in certain areas.

## **State Funding and Policy Varies**

Despite increased coverage and higher prioritization for mental health, funding for services remains a small percentage of state budgets. States spend between 0.7% and 5.6% of their annual budgets on mental health care, according to the Mental Illness Policy Org. State action regarding mental health varies considerably - some states have restricted access to psychiatric medications through Medicaid, while others exempt the same medications from Medicaid limits.

## **Mental Health Care for Veterans**

The VA Choice Act has removed barriers to access to mental health care for veterans and boosted demand for services. Legislation allows veterans to receive treatment at non-Veterans Administration (VA) facilities if they live more than 40 miles from a VA facility or have to wait longer than 30 days for an appointment. The legislation eliminates the barriers, prioritizes incentives for hiring mental health professionals within the VA, and allows veterans to receive instant authorization of non-VA care if the veteran is unable to receive adequate or timely mental health care at the VA. The average wait time for a mental health appointment at the VA was 36 days before the revised legislation, according to the National Council for Behavioral Health. The average wait fell to 26 days after the revised legislation, according to the General Accounting Office. The VA is striving to shorten wait times to 14 days. Legislation entitled the Commander John Scott Hannon Veterans Mental Health Care Improvement Act was enacted in January 2021 and provides community grants for mental health care services and funding to increase the number of suicide prevention coordinators at VA treatment centers.

## **Greater Use Of Telehealth**

The use of telehealth is increasing, particularly in underserved areas, as more states allow mental health care providers to use technology to deliver services. Telemedicine provides health care services to remote locations through video conferencing, telephone, and electronic communications. Telehealth is permitted in most states and legislation supporting the technology is moving forward, according to the National Alliance on Mental Illness (NAMI). However, Medicaid and private billing practices and licensure requirements lag the technology. Most states require a license in the state in which a practitioner operates and reimbursement for telehealth varies by provider. Confidentiality and security are also challenges for telehealth initiatives.

## **Improvements in Behavioral Health**

The overall behavioral health of the US is improving in certain areas, particularly among adolescents. According to the Substance Abuse and Mental Health Administration (SAMHSA), use of cigarettes and marijuana, and incidents of binge drinking decreased for children ages 12 to 17 between 2009 and 2019. In addition, the SAMHSA’s National Behavioral Health Barometer showed that 10% of people received treatment for illicit substance abuse in 2019 and the percentage of adults experiencing serious mental illness who received treatment has ranged from 63-69% between 2012 and 2019. The National Behavioral Health Barometer tracks behavioral

healthcare issues, including rates of serious mental illness, suicidal thoughts, substance use, underage drinking, and the percentages of those who seek treatment for these disorders.

## Employment and Wage Trends

### Employment by mental health practitioners increases

Overall employment by mental health practitioners changed 9.6% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

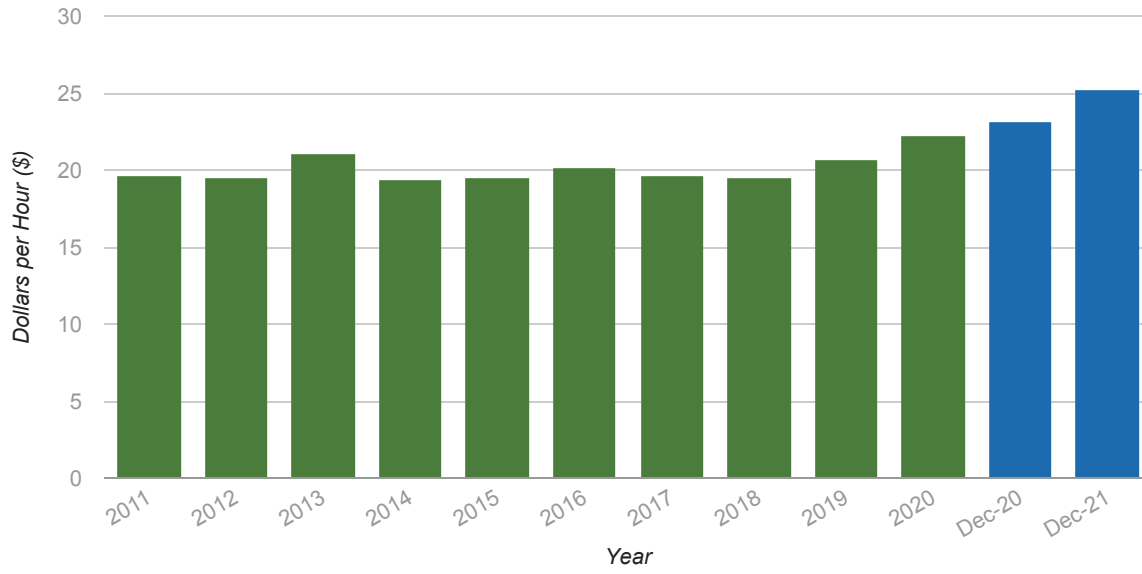


Source: Bureau of Labor Statistics

### Wages at mental health practitioners rise

Average wages for nonsupervisory employees at mental health practitioners were \$25.14 per hour in December, a 8.5% change compared to a year ago.

### Average Wages for Nonsupervisory Employees



Source: Bureau of Labor Statistics

# Credit Underwriting and Risks



<b>Business Exit Rates:</b>	7.0	Higher than US average for all businesses
<b>Cyclical Sensitivity:</b>	3.0	Low Sensitivity
<b>Barriers to Entry:</b>	4.6	Low initial capital; high regulatory/technical barriers; very low concentration
<b>External Risk:</b>	6.1	High external risk
<b>Industry Outlook:</b>	3.0	Higher than GDP; minimal cyclical risk
<b>Financial Summary:</b>	4.6	Average margins; high liquidity; moderate leverage

## Key Metrics

METRIC	VALUE	COMPARISON
<b>Performance During 2007–2009 Recession</b>	20.9%	0.0% GDP
<b>Business Exit Rate 2019–2020</b>	11.35%	9.0% All Industries
<b>Compound Annual Growth Forecast (2020–2025)</b>	7.79%	6.1% GDP
<b>SBA 7(a) Default Rate by Number of Loans (2010–2019)</b>	1.77%	3.82% All Industries
<b>SBA 7(a) Default Rate by Gross Loan Amount (2010–2019)</b>	0.78%	1.21% All Industries

## Underwriting Considerations

- Liability coverage is important. Confirm the company has appropriate coverage.
- Does the company have sufficient back office staff for billing and other administrative functions?
- Collateral in this industry would typically be AR. Confirm with an Attorney that the AR is able to be secured.
- What are the sources of revenue?
- Review and AR Aging looking for concentrations and AR over 90 Days. Look at the AR Day trends and compare to industry average.

## Industry Risks

### Dependence on Third-Party Payers

Mental health practitioners are highly dependent on government programs and third-party insurers to pay for services. Public sources, including Medicare, Medicaid, State Children’s Health Insurance Program (SCHIP), and other federal and state programs are the main payers of behavioral health services, according to the US Department of Health and Human Services. Medicaid is the largest payer of behavioral health services. Government programs and insurers reimburse practitioners for services based on a set rate that can vary, but is typically lower than fees paid by clients without coverage. The covered treatment period may fall short of the expected treatment period for a particular client. Government programs are also notoriously slow to pay.

### Health Care Reform

While the Affordable Care Act (ACA) expands behavioral health and substance use disorder benefits for 62 million Americans, the ongoing debate over the ACA in Congress introduces an element of uncertainty into the mental health care system. Some experts predict that the expansion of coverage for mental health and substance use disorders could cause an overwhelming influx in new

patients to participating behavioral health providers. Opponents continue to challenge the ACA and attempt to repeal or reduce funding for the act.

### **Competition from Alternative Service Providers**

Mental health practitioners compete with a variety of alternative service providers, including psychiatrists, a variety of health care providers, churches, and non-profit organizations. Clients that require medication as part of treatment require the services of a psychiatrist. General practitioners frequently write prescriptions for medication used to treat mental conditions. Practices also compete with in-patient care programs offered by hospitals, nursing homes, and substance abuse centers. Churches and non-profits may provide counseling services for free.

### **Battling The Stigma**

The stigma associated with mental health problems often discourages individuals from seeking help and can delay treatment. Stereotypes faced by people with mental health disorders or problems cause embarrassment and shame and can lead to discrimination. Self-stigma occurs when a person with mental illness internalizes negative public perceptions, leading to low self-esteem and low self-image. While awareness of mental health issues continues to improve, the associated stigma remains.

### **Liability For Conduct**

Mental health practitioners are liable for their professional conduct and, in some cases, the actions of clients. Lawsuits involve a variety of allegations, including negligence, breach of confidentiality, and inappropriate behavior. Therapists often work with clients in vulnerable or tenuous situations. Mentally unstable clients can be unpredictable and a challenge to handle. Due to well-publicized incidents involving the mentally ill and fatal crimes, almost every state has “duty to warn” or “duty to protect” laws that impose a legal duty on mental health professionals to warn third parties of patients’ threats to their safety. Other common professional liability allegations include inappropriate relations with clients or partners or family member of clients, sexual misconduct, and issues related to scope of care.

## **Company Risks**

### **Lower Reimbursements**

Fees for mental health practitioners are generally lower than those of psychiatrists and doctors. Government program and third-party insurer reimbursement rates are commensurate with the level of expertise and education. While lower fees make therapists and counselors a better option for clients financially, lower hourly rates put pressure on the business model and put pressure on practitioners to see more patients. The number of patients required to make a decent living often surprises practitioners who leave group practices to start their own.

### **Burnout Affects Treatment Quality**

Increasing caseloads, managed care complexities, excessive paperwork and the stress of listening to other people’s problems continuously can lead to burnout for mental health practitioners. Symptoms of burnout include exhaustion, depression, detachment and feelings of inadequacy. Compassion fatigue occurs when a counselor is traumatized by efforts to be compassionate with the person suffering from trauma. Burnout can compromise a therapist’s ability to deliver quality client care.

### **Lack of Resources**

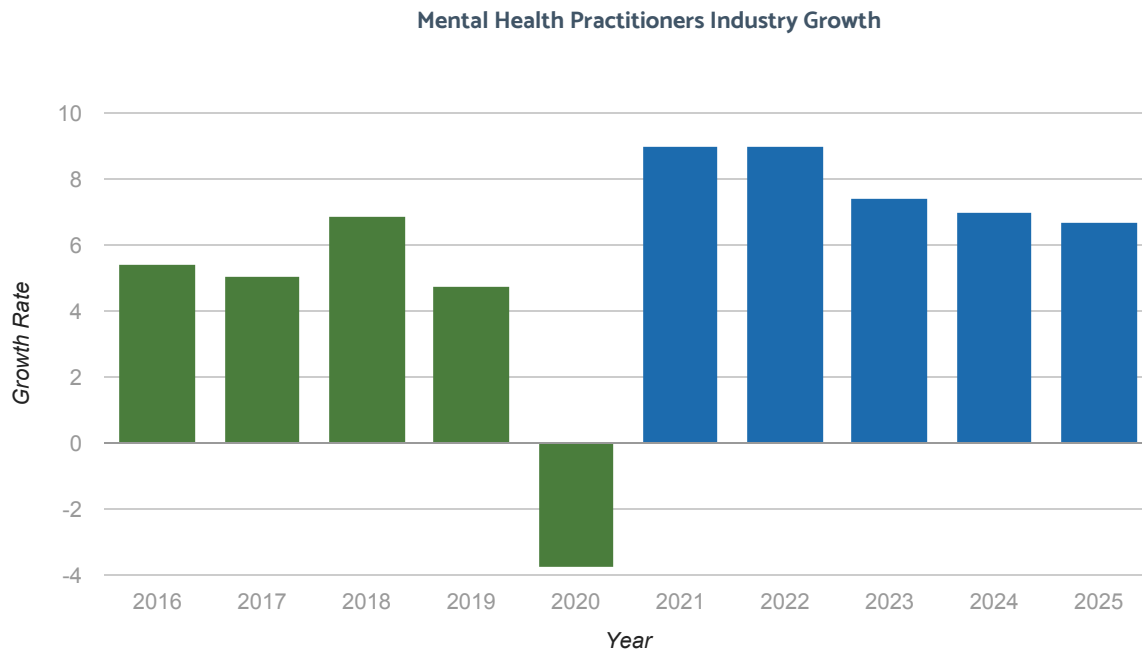
Unlike medical offices, mental health practitioners often lack large back office staffs to perform administrative work, such as billing and claims. The burden typically falls on a therapist or a single office manager. Solo practitioners typically struggle to perform administrative tasks in addition to caring for clients. When starting a solo operation, practitioners are frequently surprised by the amount of time required for activity not directly related to patient care.

# Industry Forecast

Sales for the US mental health practitioners industry are forecast to grow at a 7.79% compounded annual rate from 2020 to 2025, greater than the growth of the overall economy.

Vertical IQ forecasts are based on the Inforum inter-industry economic model of the US economy. Inforum forecasts were prepared by the Interindustry Economic Research Fund, Inc.

Last Update: August 2021



Source: Interindustry Economic Research Fund, Inc.

# Working Capital

## Sell and invoice

Mental health practitioners generate revenue by charging fees for providing mental health care services. Practitioners generally charge an hourly rate, which can vary. Marriage and family counselors charge between \$75 and \$200 an hour and the average hourly rate is about \$100, according to the Directory of Marriage and Family Counseling. Private sessions may last from 45 minutes to one hour. Some providers offer a sliding scale of fees based on income. Treatment typically requires multiple sessions, although the length of treatment varies according to the client's condition. Insurance providers and government programs (Medicaid) cover some types of therapy and reimburse for treatment according to a set schedule. Fees earned through cash-paying clients are generally higher than fees paid by third-party payers.

48% of other health practitioners said they go to their accountant or bookkeeper for cash flow advice, while 9% turn to their banker, 11% turn to an industry partner, and 52% do not seek advice, according to a survey of small businesses by Barlow Research Associates.

*Source: Barlow Research Associates.*

## Collect

Practices may offer customer credit, although some require cash payment at the time of service. Payment forms include cash, check, or third-party credit or debit card, and may involve a deductible or copay, depending on the client's insurance plan. Insurers and government programs generally allow practices to file a claim for a fixed period of time - from 90 days to 18 months. Practices that have contracts with third-party payers are generally not able to "balance bill" - bill the client for the difference between the hourly rate charged and reimbursement. Government payers are notoriously slow to pay. Collection periods range 16 to 40 days and receivables average about 12-18% of assets. With limited resources and the complexities associated with medical billing and working with third-party payers, some practices collect less than 85% of the money owed by insurance companies, according to the American Counseling Association. Some practices outsource the collection process to medical billing services.

## Manage Cash

Cash flow can be uneven and is a function of the number of clients, number of sessions, hourly rate, and how effectively a practice collects. The number of clients varies depending on a practitioner's specialty, effectiveness, and reputation. Treatment plans can last from a few sessions to several years, depending on the client's condition. Referrals, relationships with insurance providers and government programs, and participation in employee assistance programs (EAP) are key to establishing a stable base of clients. Practices may be subject to seasonal factors depending on the specialty - treatment involving children may slow during the summer and holiday periods. Some practices see a drop in business during the winter holidays.

Revenue for a practice is limited by the number of therapists employed and hours of operation. Therapists generally see between six and eight patients a day, according to Psychcentral. Some practitioners see clients outside of normal working hours to accommodate client schedules. Overscheduling can lead to burnout. No-shows represent lost revenue. Practices may sublet office space to other practitioners or related service providers.

Delays during the collection process also affect cash flow. Practices that are slow to file claims or submit erroneous claims that are rejected by payers often experience cash flow problems. Some clients are reluctant to commit to cash-only payment policies. Clients that stop treatment early or after a single session are more likely to delay payment or refuse to pay. Gross margins average 56-62% of sales.

## Pay

Labor is one of the most significant expenses and payroll averages about 18-22% of sales. The average pay is \$51,300 for marriage and family therapists and \$79,800 for psychologists. Specialized therapists generate higher earnings. Group practices generally employ

administrative staff to perform back office duties and work with third-party payers. Outsourced billing collection services charge a percentage of what is collected - roughly 6% of revenue.

Rent averages about 3-4% of sales and advertising averages less than 1% of sales. Solo practices may operate out of the therapist's residence to minimize rent costs. Operators also carry liability insurance.

## Report

After-tax net profit averages 6-12% of sales. The number of clients seen per week, hourly rate, and average reimbursement are key financial metrics for mental health practices. The percentage of money collected from third party payers and the number of overdue accounts are good indicators of the effectiveness of accounts receivables operations.

## Cash Management Challenges

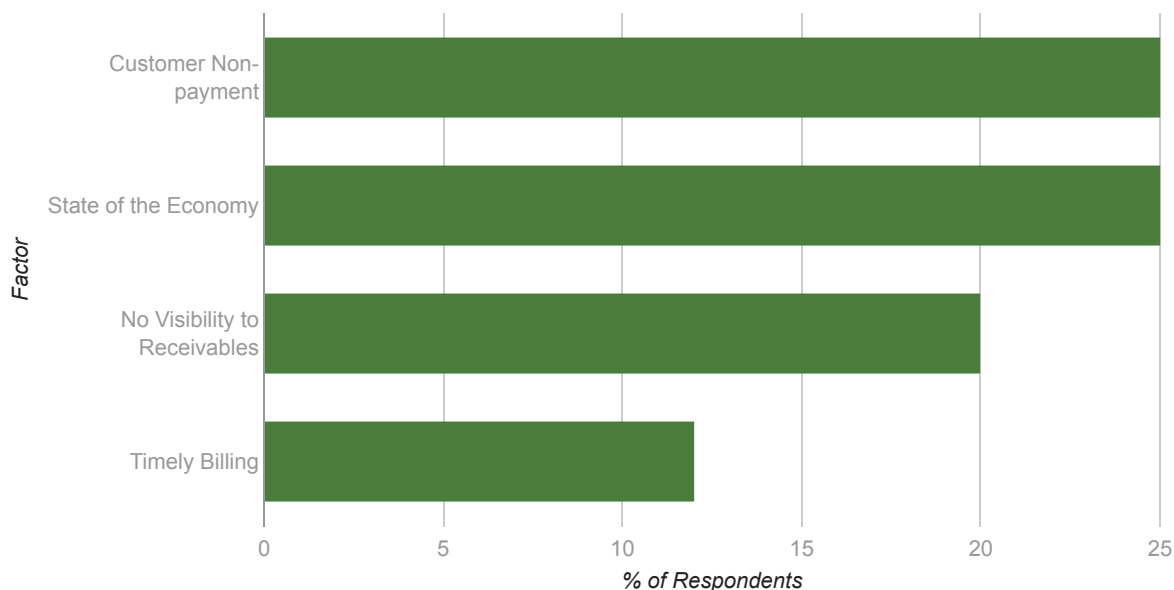
### Timely Collection From Third-Party Payers

Mental health practitioners rely heavily on reimbursements from government programs and third-party insurers to pay for their services. Timely collection of reimbursements can be difficult due to the complexity of billing codes required by Medicaid and third-party insurers. Incomplete or inaccurate claims can delay reimbursement. Limitations on covered treatments can also make it difficult to collect for the full amount of treatment provided. Billing codes have become even more complex with the adoption of new standards, known as ICD-10, which became effective in October 2015.

### Cash Shortfalls When Demand Slows

Depending on their specialty, practices may see seasonal periods of slow demand. Demand for services for children typically fall during school vacations, such as the summer and spring breaks. Demand also falls during major holiday periods. Practices may face cash shortfalls to cover operational expenses when revenue is reduced.

## Factors Causing Cash Flow Stress: Other Health Practitioners



Source: Barlow Research Associates



# Capital Financing

Projects that require capital financing include the purchase of property, buildings, furnishings, fixtures, and technology and information systems. Many mental health practitioners rent office space in lieu of purchasing to reduce upfront capital investment. Solo practitioners may work out of home offices and can operate with minimal start-up costs.

To work with insurance providers and government programs, mental health practitioners are often required to invest in expensive computer and information technology. Specialized systems provide electronic billing and electronic health records management and are often necessary for regulatory compliance. The burden of learning and supporting intricate software programs for different payers has forced some firms to form group practices or join large medical groups that offer mental health care as part of a comprehensive care program.

Practices also require capital to fund growth initiatives, by expanding existing locations, adding new locations, or acquiring other practices. Expansion allows firms to offer additional services, treat more patients, and serve new geographical markets. Purchasing an existing practice requires the selling practitioner to endorse the new therapist and the selling practitioner may be involved after the transaction to ensure a smooth transition.

Sources of financing include commercial loans, personal savings, and credit cards.

## Examples of Equipment Purchases



### **Therapy Couch**

*\$700 - 3,000*

Couch to help patient relax during talk therapy sessions.



### **Mental Health Practice Management Software**

*\$2,000 and up, depending on the number of users*

Practice management software designed for mental health and substance abuse solo and group practices. Features include patient scheduling, billing, medication management, clinical documentation, and reporting. Some systems also include Electronic Health Records (EHR).

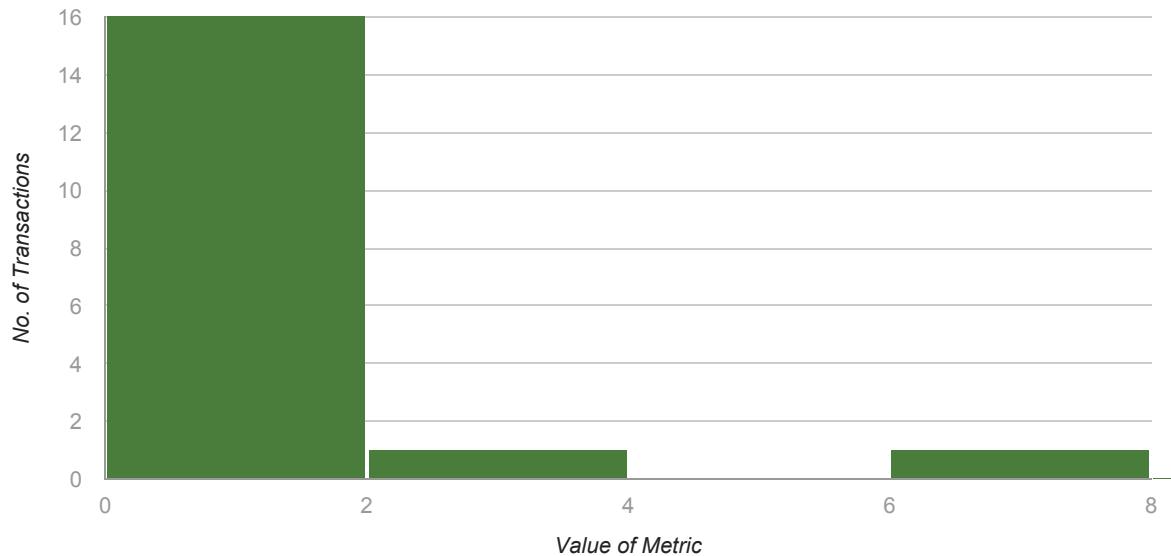
# Business Valuation

This data on business valuations is supplied by DealStats, an online database with the most complete financial details on nearly 36,000 acquired companies. These companies are mostly small and medium-sized private firms.

## Summary Valuation Data for Mental Health Practitioners

	MEDIAN	MEAN	# TRANSACTIONS	DATES
Price to Net Sales	0.46	0.9	18	12/01/1996–06/17/2021
Price to Gross Profits	0.46	0.74	16	12/01/1996–06/17/2021
Price to EBITDA	4.28	7.12	15	12/01/1996–06/17/2021
Price to EBIT	4.27	12.56	17	12/01/1996–06/17/2021

Click on the metric below to see a distribution of transactions for the industry:



Source: DealStats

Count: 18

Min: 0.01

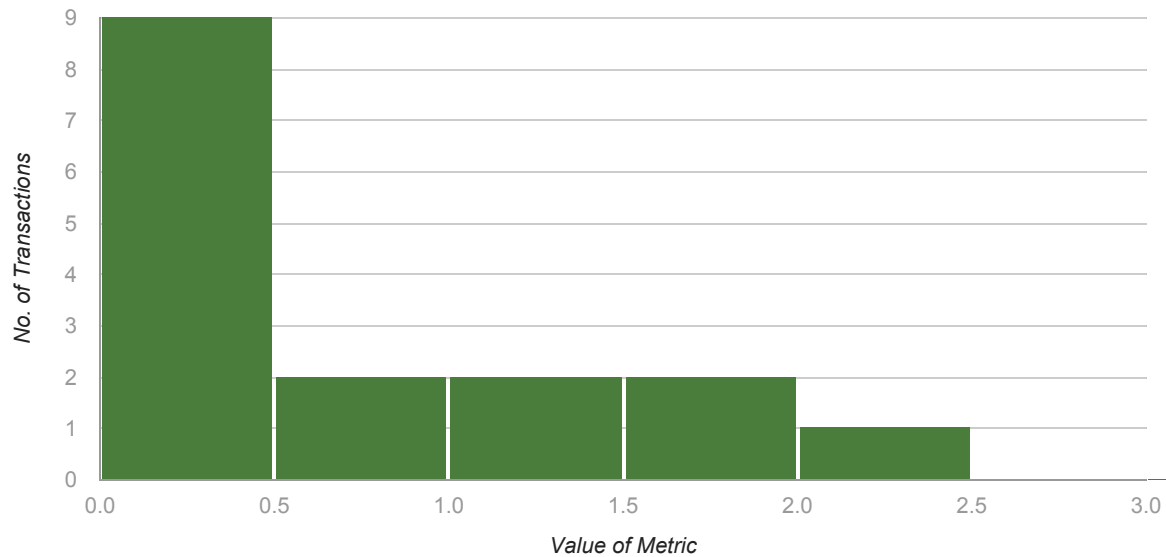
Max: 6.52

Mean: 0.9

Median: 0.46

Price to Sales = Selling Price/Net Sales

Date range: 12/01/1996 - 06/17/2021



Source: DealStats

**Count:** 16

**Min:** 0.01

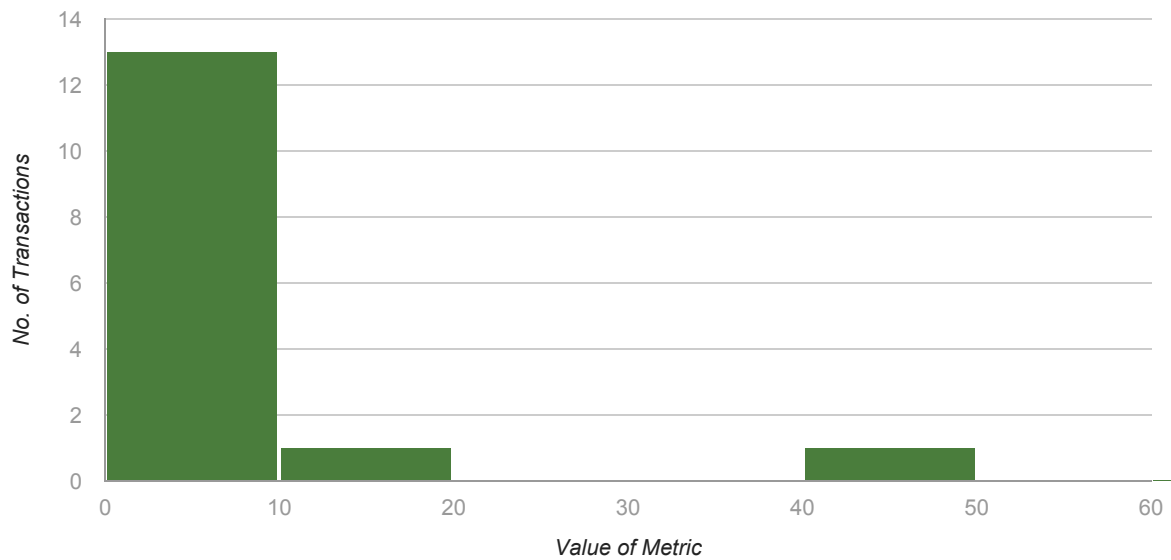
**Max:** 2.43

**Mean:** 0.74

**Median:** 0.46

*Price to Gross Profit = Selling Price/Gross Profit*

*Date range: 12/01/1996 - 06/17/2021*



Source: DealStats

**Count:** 15

**Min:** 0.02

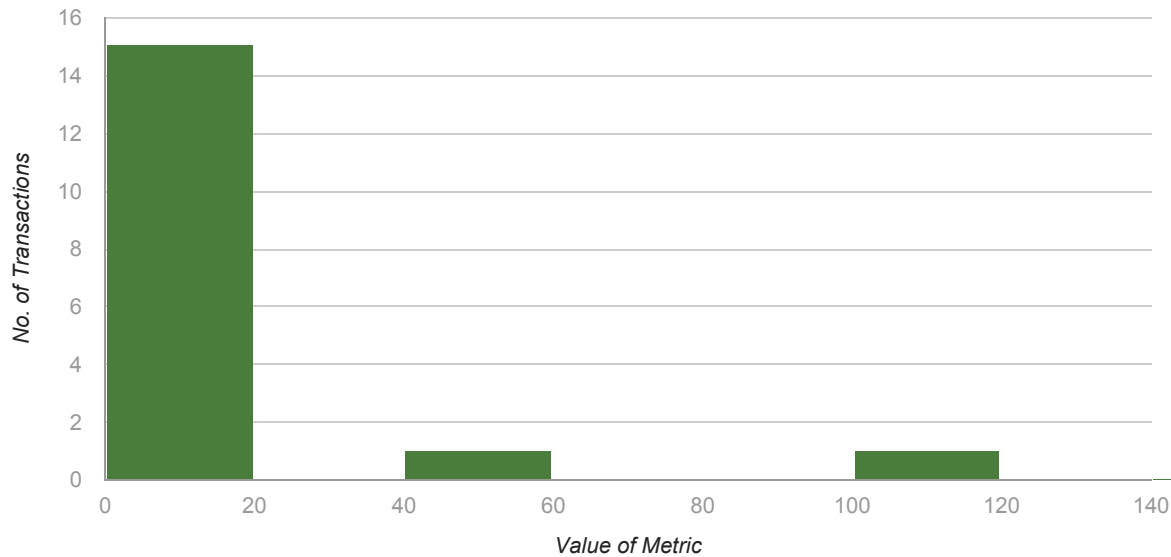
**Max:** 45.0

**Mean:** 7.12

**Median:** 4.28

*Price to EBITDA = Selling Price/Operating Profit + Depreciation & Amortization*

*Date range: 12/01/1996 - 06/17/2021*



Source: DealStats

**Count:** 17

**Min:** 0.02

**Max:** 103.53

**Mean:** 12.56

**Median:** 4.27

*Price to EBIT = Selling Price/Operating Profit*

*Date range: 12/01/1996 - 06/17/2021*

**Selling Price, also known as MVIC (Market Value of Invested Capital)** is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer. The MVIC price includes the noncomplete value and the assumption of interest-bearing liabilities and excludes (1) the real estate value and (2) any earnouts (because they have not yet been earned, and they may not be earned) and (3) the employment/consulting agreement values. In an Asset Sale, the assumption is that all or substantially all operating assets are transferred in the sale. In an Asset Sale, the MVIC may or may not include all current assets, non-current assets and current liabilities (liabilities are typically not transferred in an asset sale).

Source: DealStats 2019 (Portland, OR; Business Valuation Resources LLC). Used with permission. DealStats is available at <https://www.bvresources.com/learn/dealstats>

# Financial Benchmarks

The following financial benchmark data is based on annual financial statements submitted by member institutions of the Risk Management Association from Q2 of the first year listed through Q1 of the following year.

## Financial Ratios (Mental Health Practitioners, Industry-wide)

MEASURE	2018-19	2019-20	2020-21
Current Ratio <sup>?</sup>	2.39	2.18	3.17
Quick Ratio <sup>?</sup>	2.04	2.06	3.03
Days Inventory <sup>?</sup>	0.4	0.9	0.53
Days Receivables <sup>?</sup>	16	40	36
Days Payables <sup>?</sup>	18.2	54.87	11.88
Pre-tax Return on Revenue <sup>?</sup>	2.88%	2.74%	-1.35%
Pre-tax Return on Assets <sup>?</sup>	9.31%	5.29%	-1.34%
Pre-tax Return on Net Worth <sup>?</sup>	14.44%	8.11%	-1.87%
Interest Coverage <sup>?</sup>	16.16	12.15	6.79
Current Liabilities to Net Worth <sup>?</sup>	.32	.35	.14
Long Term Liabilities to Net Worth <sup>?</sup>	0.23	0.19	0.26
Total Liabilities to Net Worth <sup>?</sup>	.55	.54	.40
<i>Number of Firms Analyzed</i>	88	71	56

## Income Statement (Mental Health Practitioners, Industry-wide)

ITEM	2018-19	2019-20	2020-21
Revenue	100.0%	100.0%	100.0%
Cost of Sales	40.97%	38.23%	47.59%
Gross Margin	59.03%	61.77%	52.41%
Officers Compensation	3.39%	4.33%	4.29%
Salaries-Wages	14.56%	16.22%	15.06%
Rent	3.04%	3.44%	2.26%
Taxes Paid	1.83%	1.99%	1.75%
Advertising	0.72%	0.81%	0.35%
Benefits-Pensions	1.26%	1.42%	1.89%
<i>Number of Firms Analyzed</i>	88	71	56

ITEM	2018-19	2019-20	2020-21
Repairs	0.38%	0.44%	0.51%
Bad Debt	4.92%	5.2%	1.11%
Other SG&A Expenses	14.15%	15.01%	11.71%
EBITDA	14.78%	12.91%	13.48%
Amortization-Depreciation	1.98%	1.76%	2.11%
Operating Expenses	46.23%	50.62%	41.04%
Operating Income	12.8%	11.15%	11.37%
Interest Expense	1.53%	1.62%	1.12%
Other Income	0.04%	-0.18%	-1.5%
Pre-tax Net Profit	11.24%	9.71%	11.75%
Income Tax	-0.46%	-0.16%	-0.85%
After Tax Net Profit	11.7%	9.87%	12.6%
<i>Number of Firms Analyzed</i>	88	71	56

## Balance Sheet (Mental Health Practitioners, Industry-wide)

ASSETS	2018-19	2019-20	2020-21
Cash	38.31%	37.13%	58.62%
Receivables	12.08%	13.08%	9.62%
Inventory	0.43%	0.07%	0.77%
Other Current Assets	5.83%	3.3%	1.28%
Total Current Assets	56.66%	53.58%	70.29%
Net Fixed Assets	27.84%	29.63%	19.49%
Net Intangible Assets	6.14%	4.37%	7.39%
Other Non-Current Assets	9.36%	12.43%	2.81%
<i>Total Assets</i>	100.0%	100.0%	100.0%
LIABILITIES			
Accounts Payable	2.55%	2.94%	3.87%
Loans/Notes Payable	10.84%	12.57%	29.71%
Other Current Liabilities	12.68%	11.17%	14.42%
<i>Number of Firms Analyzed</i>	88	71	56

**LIABILITIES**

Total Current Liabilities	26.08%	26.68%	48.0%
Total Long Term Liabilities	24.88%	31.03%	39.68%
Total Liabilities	50.95%	57.7%	87.68%
Net Worth	49.05%	42.34%	12.32%
Total Liabilities & Net Worth	100.0%	100.0%	100.0%
<i>Number of Firms Analyzed</i>	88	71	56

Vertical IQ financial benchmark data is based on data provided by the Risk Management Association (RMA) and Powerlytics, Inc. RMA's Annual Statement Studies provide comparative industry financial benchmarks based on financial statements of small and medium business clients of RMA's member institutions. Additional detail on income statement line items is provided using Powerlytics financial benchmarks, which are based on reporting submitted to the IRS. Additional detail on these data sources can be found at [RMA](#) and [Powerlytics](#).

# Bank Product Usage

## Top Bank Products Used by Mental Health Practitioners

The following table provides the frequency of bank product usage by Mental Health Practitioners with less than \$10 million in annual revenue. It is provided by Barlow Research Associates, Inc., the premier market research firm in the financial services industry.

BANK PRODUCT	% OF FIRMS
Business checking account services	98.0
Business savings or money market account	79.0
Point-of-sale credit card processing	71.0
Business debit card or business check card	59.0
Automated clearing house services (ACH)	57.0
Electronic payments initiated through the Internet (Bill Payment)	57.0
Overdraft protection for business checking	50.0
Business credit card issued in your company's name (Visa, MasterCard, Amex, etc.)	48.0
Commercial real estate mortgage	42.0
Wire transfer services	39.0
Remote deposit capture (scanning checks at your office or by mobile device for electronic deposit)	38.0
Commercial real estate mortgage (company occupied building)	38.0
Payroll processing	35.0
Money market mutual funds or short-term investments	34.0
Company sponsored 401(k), SEP, pension or profit sharing plan	33.0
Credit lines secured by receivables, inventory, property or other assets	33.0
Certificates of deposit	30.0
SBA loans	30.0
Commercial real estate mortgage (investment property)	24.0
Unsecured short-term loans or working capital line of credit (less than one year)	23.0
Account reconciliation processing (ARP)	23.0
International (foreign exchange, import/export letters of credit)	19.0
Term loans or equipment financing (one year +)	18.0
Equipment leasing	13.0
Accounts receivable collection (lockbox)	13.0
Overnight investment or sweep accounts	8.0



Barlow's Small Business Banking program is a multi-client research program sponsored by leading banks. Each quarter, a stratified random sample of businesses throughout the United States with sales between \$100,000 to \$10 million compiled from an independent list provider are invited to participate in a comprehensive banking survey of over 100 questions. The results measure channel adoption, bank satisfaction, brand power, account management, service quality, business product usage and the selling abilities of leading providers. The results in this chapter are calculated directly from the business product usage section and represent usage for the average small business (\$100K-\$10MM).

For more information on Barlow's banking research, go to <http://www.barlowresearch.com/>

# Quarterly Insight

1st Quarter 2022

## Post-pandemic Adjustments Coming

The healthcare system may be entering what David Muhlestein, chief strategy and chief research officer for the consulting firm Leavitt Partners, sees as a post-acute COVID-19 period. Providers and payers will need to adjust and perhaps manage costs without the significant levels of funding that the federal government has invested in shoring up the health system during the height of the pandemic. Another factor may be an uptick in the use of healthcare services as people who held back from getting care start needing it, possibly when their disease is at a more serious stage. Providers will need to be more flexible than they have been in the past, Muhlestein predicts. “For a long time, the health system has been based on building capacity around well-reimbursed procedures,” he notes. Space and resources were devoted to a single purpose. Now and in the immediate future they will need to be more nimble, reallocating room and resources from one kind to another.

4th Quarter 2021

## Workplace Issues Not Improving

Workers reported a 21% increase in burnout and 17% increase in physical symptoms of stress between December 2020 and July 2021, according to a survey by the digital wellness company meQuilibrium. Symptoms included muscle tension and fatigue and added work-life balance challenges and overall job stress. US workers are some of the most stressed employees in the world, according to polling firm Gallup, with 57% reportedly feeling stress on a daily basis in the last year. Rates of daily stress, worry, sadness, and anger have trended upward for American workers over the last decade, and the pandemic only added concerns. About 50% of employees believe that work itself has become too stressful, according to one recent Talkspace survey, with the main causes of stress being busier days or weeks, the pressure of working toward a promotion or raise, managing high turnover, and juggling multiple projects at once. The country’s recent quitting spree has likely exacerbated these problems.

3rd Quarter 2021

## Employers Prepare for Return-to-work Issues

Employee health benefit programs will be more focused on investing in mental healthcare needs as the country emerges from the coronavirus pandemic, and will reduce the prominence of physical wellness programs, according to Brenna Shebel, vice president at Business Group on Health. Employees may face stressors such as starting to commute to work again or helping their children transition back to in-person school five days a week. Providing benefits and services to support employees’ mental health is the top priority for employers at this stage of the return to pre-pandemic activities.

2nd Quarter 2021

## Pilot Programs Offer Care in Retail Settings

A CVS Pharmacy pilot program launched in January provides mental health counseling in some of its retail stores. The program operates in stores in Houston, Philadelphia and Tampa, FL, with plans to expand to 34 additional locations this year. CVS hopes to increase access by lowering the cost of care for those in need through agreements with insurance companies to cover visits. Walmart Health recently opened 20 in-store health centers around the country, based on a similar model.

1st Quarter 2021

## Many Patients Prefer Online Therapy

Almost 50% of psychiatry patients, parents or proxies of patients who had originally had in-person appointments scheduled with

University of Michigan psychiatrists but who had been forced to switch to remote care when lockdowns began would prefer to continue with video teletherapy after the pandemic, according to study that appears in JMIR Formative Research. About 83% of those who switched to remote care chose video chat sessions, while 13% chose telephone sessions. Respondents older than 44 years of age were more likely to express a preference for therapy sessions held over the phone. About 12% of respondents opted to postpone treatment until in-person options became available again. Most participants reported that their care had met or exceeded their expectations. Parents of children receiving care found video chats to be specially engaging.

## 4th Quarter 2020

### **Federal Public Health Emergency Extended**

The US Department of Health & Human Services (HHS) announced on October 2 that the Public Health Emergency (PHE) declaration for COVID-19 will be renewed for another 90 days, beginning on October 23 (the date the PHE was previously scheduled to expire) and extending through January 20, 2021. The emergency measure linked to the PHE that may be of most interest to mental health practitioners is coverage of telehealth services. Medicare and Medicaid coverage of telehealth services was extended immediately. Industry experts say that waiver of cost-sharing for medical and behavioral telehealth services by health insurers is likely to be extended again by insurers who have done so for earlier PHE renewals. Industry stakeholders should remember that HHS retains the discretion to terminate the PHE at any time.

## 3rd Quarter 2020

### **Federal Telehealth Funding Has Broad Support But Hasn't Been Approved**

Nearly 20 telemedicine bills have been introduced in the US Congress, according to the Holland & Knight law firm, but lawmakers are reluctant to pass legislation that would add significantly to Medicare's estimated annual budget of \$750 billion. Over 9 million Medicare beneficiaries used telemedicine services in the early months of COVID-19, according to Health Affairs magazine. Medicare's coverage for many telehealth services is scheduled to end when the COVID-19 epidemic is no longer a public health emergency. The health emergency declaration was extended for another 90 days on July 23. Congress would have to pass specific legislation to make some of Medicare's changes permanent.

## 2nd Quarter 2020

### **Reimbursement Issues Continue Despite Greater Acceptance of Telehealth**

Policymakers and insurers across the country say they are eliminating copayments, deductibles, and other barriers to telemedicine, but the process hasn't always been smooth. Industry experts say that many insurers have waived copays and other telehealth cost sharing for in-network doctors only. Another issue is that carriers promoting telehealth have little power to change telemedicine benefits for self-insured employers whose claims they process. Blue Cross Blue Shield, Aetna, Cigna, and UnitedHealthcare, four of the largest insurance companies, say that improved telehealth benefits don't necessarily apply to self-insured employers. Neither governors nor state insurance regulators can force self-insurance plans, which are regulated federally, to upgrade telehealth coverage.

# Industry Terms

## **Balance Bill**

Practice of billing the client the difference between the rate charged and amount reimbursed by third-party payers.

## **Behavior Therapy**

Applies learning to develop normal and abnormal behavior.

## **Cognitive Therapy**

Focuses on thoughts that lead to behavior.

## **Compassion Fatigue**

Occurs when a counselor is traumatized by efforts to be compassionate with the person suffering from trauma.

## **Duty to Warn/Duty to Protect**

Imposes a legal duty on mental health professionals to warn third parties of patients' threats to their safety.

## **Humanistic Therapy**

Emphasizes a patient's capacity to make rational choices and develop to their maximum potential.

## **Integrative or Holistic Therapies**

Blend different approaches to meet patient needs.

## **MHPA**

Mental Health Parity Act, legislation requiring parity coverage for mental health benefits that are part of group health plans.

## **NAMI**

National Alliance on Mental Illness

## **National Behavioral Health Barometer**

Tracks behavioral healthcare issues, including rates of serious mental illness, suicidal thoughts, substance use, underage drinking, and the percentages of those who seek treatment for these disorders.

## **Psychoanalysis/Psychodynamic Therapy**

Involves discovering the unconscious, underlying meaning and motivation behind problematic behavior.

## **Self Stigma**

Occurs when a person with mental illness internalizes negative public perceptions, leading to low self-esteem and low self-image.

## **Telehealth/Telemedicine**

Provide health care services to remote locations through video conferencing, telephone, and electronic communications.

# Web Links

## [National Alliance on Mental Illness \(NAMI\)](#)

News, trends, statistics and legislative information

## [American Counseling Association](#)

News, trends, legislative affairs

## [Substance Abuse and Mental Health Services Administration \(SAMHSA\)](#)

Statistics, trends, government studies

## [American Psychological Association](#)

News, trends, studies

## [PsychCentral](#)

General industry overview

# Related Profiles

## Individual and Family Services

NAICS: 6241 SIC: 8322

## Mental Health & Substance Abuse

NAICS: 621420, 623220 SIC: 8361, 8093

## Physician Practices

NAICS: 621111 SIC: 8011

## Psychiatric Practices

NAICS: 621112 SIC: 8011, 8031

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