Healthcare is generating significant numbers of restructuring cases

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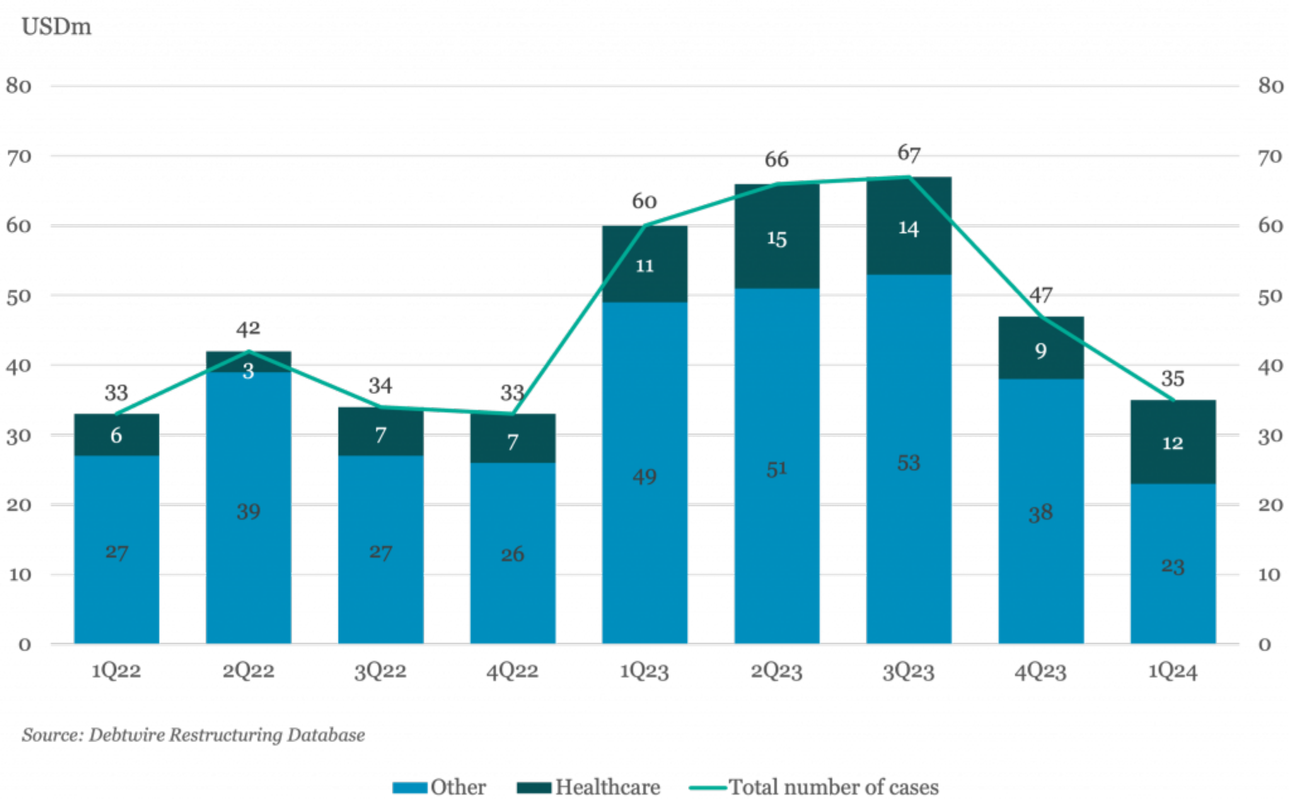

A guide to distress in healthcare

The US healthcare sector has been beset by malaise in recent months, with the number of restructuring cases lurching to 49 in 2023 from 23 the previous year. Prospects show little sign of improving in 2024, with a dozen Chapter 11 cases already on the table since 1 January, representing USD 3bn of liabilities. Overall, in the year to date (YTD) to 20 March, there have been 31 Chapter 11 applications for total debt of USD 6.5bn, with 11 of these coming from healthcare companies, or 36% of all Chapter 11 filings, per *Debtwire's* Restructuring Database.

Approximately one-third of all firms that filed for Chapter 11 protection between January 2022 and March 2024 have been healthcare focused, leading to questions about why there has been such an outbreak of distress in the sector.

Healthcare companies currently battle a variety of headwinds. Chief among these are reimbursement challenges stemming from Medicare cuts, changes in revenue cycles under the No Surprises Act, high labour expenses fuelled by soaring inflation, and steeper funding costs.

Cuts to reimbursement rates for physician pay have depleted medical services providers' collectibles since July 2022. Medicare first cut its rate by 2% in 2022, and then further reduced the repayment rate by 3.37% in January 2024.

The No Surprises Act – a federal law passed by the government to protect patients covered under individual or group health plans from unexpected hospital bills – came into effect on 1 January 2022. The act forbids health providers from charging patients directly for the portion of medical bills that exceed insurance protection for certain emergency services. It also established an independent dispute-resolution process between plans and providers. Multiple dispute-resolution cases have accumulated since the legislation was introduced, creating a significant collectibles backlog for hospitals.

In addition, some companies tried to take advantage of lower borrowing rates during the coronavirus (COVID-19) pandemic, fuelling growth through debt-backed acquisitions. Surging interest rates put a strain on these over-levered firms, which was further exacerbated by faltering cash flows created by the legislative measures implemented by the government.

(Past performance is no guarantee of future results.)