

Bankruptcy Law

DISTRESSED DAILY: Health Care Needs ‘Massive Restructuring’

By Lauren Coleman-Lochner

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Federal support of the U.S. health system through the depths of the pandemic may have just delayed an inevitable and far-reaching reorganization.

That was the outlook of restructuring advisers and lawyers last week at the Turnaround Management Association’s annual meeting in Nashville, Tennessee. The federal money papered over financial distress from hospitals to nursing homes, setting up a “massive restructuring” in coming years, Bobby Guy, a health-care attorney at Polsinelli, said during a panel discussion.

The U.S. health-care system is trying to chart a course back to more typical operating conditions as vaccines roll out and the worst of the pandemic recedes. Some observers say it won’t be easy, arguing the system was already deeply troubled before Covid-19 upended health facilities.

“We don’t have a current safety net that fits and we don’t have a plan to replace the safety net that exists,” Guy said.

For John Tishler of law firm Waller Lansden Dortch & Davis, the next wave of restructuring will come from losing “the sugar rush from the government money, and the cost of labor.” That’s particularly true for the nursing-home model, which was built on cheap labor, Tishler said at the same conference. Continuing care retirement communities, assisted living and senior living will be on the leading edge of distress because reimbursements aren’t even close to costs.

Activity will also be driven by private equity exits, although in many cases “there’s no one on the other side of the exit,” said Chuck Salvo of advisory firm ToneyKorf Partners.

Rural hospitals, too, are a hot spot of distress because they were already suffering financially before the pandemic, Jim Coleman of Alliant Management Services said. Many can be turned around with good management, or through acquisitions. But for those more than an hour outside of urban areas, finding a buyer is tough.