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PATIENTS FOR PROFIT: HOW PRIVATE EQUITY HIJACKED HEALTH CARE

Profit Strategy: Psychiatric Facilities Prioritize Out-of-State Kids

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(LYDIA ZURAW/KHN)

South Carolina children who need immediate, around-the-clock psychiatric care risk being stranded for days — even weeks — waiting for help, only to be sent hundreds of miles away from home for treatment.

The Post and Courier

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When no psychiatric residential treatment beds are open in South Carolina, some children must travel across the Southeast to facilities in Florida, Georgia, North Carolina, Virginia, Tennessee, Alabama, or Kentucky — anywhere a bed might be available.

The problem in South Carolina isn't a shortage of psychiatric residential treatment beds, state agency leaders say, but that so many of the state's 518 licensed beds for children are filled by patients from other states. At last count,

according to the state Department of Health and Human Services, about half the children assigned to a psychiatric residential treatment bed in South Carolina weren't South Carolinians.

The reason comes down to the bottom line of the facilities, which are driven by states' reimbursement rates, since Medicaid often covers such patients' care. South Carolina's rate has been about \$330 a day, one of the lowest for these services in the country, said Deborah McKelvey, executive director of Windwood Family Services in rural Charleston County. North Carolina's Medicaid rate is closer to \$500 a day, she said, and other states pay as much as \$800.

"It's like any business," said McKelvey, whose psychiatric residential treatment facility is a nonprofit with a mission to care specifically for South Carolina patients. Her facility operates at a loss and partly bridges the gap through fundraising.

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The state's seven other psychiatric residential treatment facilities for children operate as for-profit companies. Three are owned by Broadstep, a portfolio company of private equity firm Bain Capital. Some health care researchers said such ownership arrangements may prioritize profits over patient care.

"More than any other part of the health care services industry, private equity is pouring money into behavioral health," said Eileen O'Grady, a researcher for the watchdog group Private Equity Stakeholder Project. "We really don't have a clear window into how much money they're making. They're not required to disclose basically anything to the public."

The group published a report in February called “The Kids Are Not Alright” that outlines some measures that behavioral health facilities owned by private equity firms have taken to increase their profit margins in recent years, including reducing staff and deferring building maintenance.

“Despite horrific conditions at some youth behavioral health companies, their private equity owners have in some cases reaped massive profits,” O’Grady wrote.

Officials from Bain Capital and Broadstep would not agree to speak on the record and did not respond to written questions.

The influx of such investments has helped create a type of arms race. South Carolina Medicaid raised its reimbursement rate on April 1 to \$500 per child per day in a bid to entice the for-profit facilities to admit more of the state’s children. The adjustment is expected to cost the Medicaid agency an additional \$14 million every year, on top of the \$20 million it already spends on psychiatric residential treatment for children. The money should free up some bed space, said S.C. Health and Human Services Director Robbie Kerr. But it may not be enough in the long run.

“We already know our neighboring states are poised to raise their rates as soon as I do,” Kerr told a panel of lawmakers in January. “It’s going to be an inflationary spiral.”

It isn’t uncommon for U.S. children who need intensive psychiatric care to travel to another state for treatment. KHN recently reported that about 90 Montana children covered by Medicaid are spread out at psychiatric facilities across 10 states. Similar trends have occurred in Arizona, Minnesota, and Oregon. Many states have a shortage of psychiatric beds.

Yet many psychologists and child welfare experts suggest that kids who receive this care closer to home will be more likely to succeed. That’s mainly because patients can more easily maintain contact with their parents,

caregivers, and communities during stays that can average several weeks or months.

Medicaid documents show some of the companies in South Carolina have admitted children from as far away as Alaska and Vermont. Meanwhile, South Carolina ranks 50th among all states and D.C. — with only North Carolina ranking lower — for the share of children who have major depression and do not receive treatment for it, according to the advocacy group Mental Health America.

Some children, left untreated, become violent and suicidal and ultimately require care in a psychiatric hospital or a residential treatment facility. They may be experiencing anxiety, depression, or post-traumatic stress, or have a substance use disorder. In many cases, the pandemic has made their mental illness worse. It's also made psychiatric bed space scarcer.

At New Hope Carolinas, a for-profit facility for patients ages 12-21 in Rock Hill, South Carolina, 133 of 150 psychiatric beds were filled with patients covered by out-of-state Medicaid plans last summer, according to a report filed by the facility to the South Carolina Department of Health and Human Services. At Springbrook Behavioral Health in Greenville, a psychiatric residential facility that specializes in children with severe autism, only one of 40 Medicaid patients was from South Carolina. At a facility in Simpsonville called Excalibur-Venice, 41 Medicaid patients came from North Carolina and only 10 from South Carolina.

Excalibur-Venice is one of three facilities in South Carolina that fall under the umbrella of Broadstep, a Raleigh, North Carolina-based company backed by the private equity firm Bain Capital's Double Impact Fund. Broadstep's footprint encompasses dozens of similar psychiatric facilities in seven states, according to its website, and Bain Capital is far from the only private equity player making investments in behavioral health.

In its 2022 “[Global Healthcare Private Equity and M&A Report](#),” Bain & Company — a consulting firm separate from the private equity company but founded by the same businessman — reported that the pandemic has presented opportunities to invest in behavioral health care.

“With the reduced stigma for mental health services, combined with greater employer and payer commitments,” the report noted, “the addressable mental health market seems bound to expand over the next few years.”

Still, in the Carolinas, the need for psychiatric beds remains particularly acute. In mid-March, Bailey Pennington, a spokesperson for North Carolina’s Department of Health and Human Services, confirmed that 21 children from that state were in a holding pattern, waiting for a bed to become available at a facility in North Carolina or in another state. Nearly 250 North Carolina children covered by Medicaid were sent to an out-of-state psychiatric facility between mid-2019 and mid-2021, she said. And North Carolina, despite having twice as many residents and a much higher Medicaid enrollment, has fewer psychiatric treatment beds for children than South Carolina.

“I probably have five to 10 young people right now who could benefit from this level of care who are bouncing around from placement to placement,” said Michael Leach, director of South Carolina’s Department of Social Services.

In some cases, parents have abandoned their children because they can’t handle their mental health needs anymore, he said. Sometimes, law enforcement becomes involved, but parents refuse to retrieve their children. Kids sleep in county offices or hospital emergency departments, he said, when psychiatric beds aren’t available.

Often, beds in South Carolina are technically available, but the psychiatric facilities can’t retain staff to handle more patients. That’s when children may be sent out of state, Leach said. Nineteen South Carolina children in state custody were getting out-of-state psychiatric treatment, Leach said in mid-March.

“I have more need for [beds] right now than I have access to,” Leach said. “It’s a real thing.”

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