Bond Case Briefs

Municipal Finance Law Since 1971

Moody's: Three risks reduce credit positives of Affordable Care Act for not-for-profit hospitals

New York, March 27, 2014 — Three risks are emerging to counter benefits not-for-profit hospitals should realize from the Affordable Care Act's reduction in the number of uninsured, says Moody's Investors Service. These are higher deductibles on plans sold through the insurance exchanges that could translate into bad debt for hospitals; negative pressures on reimbursements that may arise when insurers cope with possible reduced profitability; and, from lower hospital reimbursement from participating in newer "narrow" healthcare networks.

"After open enrollment for the ACA health insurance coverage ends on March 31, the credit implications, both positive and negative, will become clearer," says Daniel Steingart, an Assistant Vice President and Analyst at Moody's in the report, "US Healthcare Reform: Three Risks Reduce Credit Positives for Not-for-Profit Hospitals."

"Key for hospitals will not be the headline number of people purchasing insurance, but whether the ACA actually reduces the number of uninsured," says Moody's Steingart.

An expected reduction in uninsured is the most positive aspect of the ACA for the hospitals, says Moody's. The net benefit for hospitals has been eroded since the legislation was passed in 2010, first by the Supreme Court granting US states the option to not expand Medicaid insurance coverage in 2012, and now by the three emerging risks.

First, Moody's sees significant risk that people covered by the most popular insurance plans will be unable or unwilling to meet their deductibles. As a result, growth in insurance coverage will not necessarily translate into materially lower bad debt exposure for many hospitals, particularly for services where the deductible accounts for a substantial share of the negotiated reimbursement.

"Today's high deductibles are tomorrow's bad debt," says Moody's Steingart.

Second, if the insurers believe they are making little or no profit on plans, they will likely pressure hospitals to accept lower reimbursements or raise premiums, which could discourage people from buying insurance in 2015. The insurance industry's profitability is a key factor in hospital reimbursement because insurance companies tie their negotiations with hospitals to their own expectations of profitability.

Moody's says insurance companies will begin pricing policies for 2015 in the next few months, and negotiations with hospitals will extend through the beginning of open enrollment in November.

Finally, if narrow healthcare networks are successful, hospital reimbursements are likely to drop. In narrow networks, a group of hospitals, doctors, or other healthcare workers will negotiate lower reimbursement rates in return for the insurer's using them, leading to higher patient volumes that compensate for lower reimbursements. Hospitals that do not join narrow networks could lose business, while those that join may not see the higher patient volumes that will make up for the lower reimbursements.

For more information, Moody's research subscribers can access this report at https://www.moodys.com/research/US-Healthcare-Reform-Three-Risks-R-duce-Credit-Positives-for-Not–PBM_PBM166602.

Global Credit Research – 27 Mar 2014