

# **Bond Case Briefs**

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## **S&P: Supreme Court's ACA Ruling Has No Impact on Health Care Sector.**

DALLAS (Standard & Poor's) June 25, 2015—Today's decision by the Supreme Court affirmed health care coverage for millions of Americans by its ruling which validated the legality of federal subsidies under the Affordable Care Act (ACA) in states where the state did not set up its own insurance exchange, but rather relied on the federal exchange. The subsidies have given lower-income Americans a chance to purchase insurance on the public exchange, the loss of which would have jeopardized as many as 6.4 million individuals in 34 states who purchase private health insurance through the federally run exchanges, according to the Centers for Medicare and Medicaid Services.

Standard & Poor's Ratings Services believes that this ruling will not have any impact on rated U.S. not-for-profit and for-profit providers, as it is a continuation of the current operating environment. [\(Watch the related CreditMatters TV segment titled, "The Supreme Court's Ruling Won't Affect U.S. Health Care Companies' Credit Quality," dated June 25, 2015.\)](#)

However, the subsidized exchange business is proving to be a benefit to U.S. health care providers, and that benefit will likely continue, although the benefit is proportional to each participant's share of the marketplace. While some of the conditions that gave rise to the ACA in the first place—medical costs that are too expensive; dwindling levels of employer sponsored care; huge number of underinsured/uninsured with limited access points—still burden the health care delivery system and remain potent concerns for the United States, the ACA and the insurance exchanges are helping to alleviate some of these concerns.

In addition, as the ruling represents an affirmation of the status quo, we don't expect it to have any credit implications for the state sector. It's possible that had the court ruled in favor of the plaintiffs, some states would have been motivated to attempt to establish their own state run health insurance exchanges. Alternatively, policy advocates in the states without state-run exchanges may have urged the legislatures in those states to backfill the withdrawal of federal subsidies. The court's ruling frees these states from having to consider undertaking these administratively complex and costly policy initiatives.

It is quite likely that political wrangling will still occur over the ACA and its assorted components, so the story is probably going to continue to unfold at least through the upcoming elections. But today's ruling maintains the ACA in its current form. The ACA is here to stay, including its goals of greater health care access for millions of Americans; higher quality care for all; and lower costs.

### **HEALTH INSURANCE**

Today's ruling is a positive for the U.S. health insurance industry, especially for insurers that have invested heavily to compete on the insurance exchanges. This will help resolve an uncertainty that has been a pain point not just for insurers, but for the ACA as a whole. This ruling confirms that business as currently structured and forecast through the ACA continues for insurers and insureds, and supports the broader directions of national health care reform.

However, if the results had been different (i.e., the ruling had banned the use of subsidies for individuals gaining access to coverage via a federally facilitated exchange) there would likely have been a precipitous drop in the membership and premium base for insurers that are heavily concentrated in the individual insured marketplace reliant upon a federally facilitated exchange for distribution. Additionally, this ruling avoids the very real possibility of increased adverse selection impacting the insurers. The lack of subsidies would have resulted in higher net premiums for the affected individuals, and a rapid rise in premiums, which could in turn have increased the possibility of higher acuity individuals being the only ones willing to pay the higher premiums thereby increasing insurance risk.

Uncertainty is generally bad for credit, and makes it harder for insurers to price appropriately. The resolution of this issue does somewhat reduce the previously elevated industry risk and also puts the ACA on a stronger footing. However, it is important to note that 2014 was a fairly volatile year for many insurers due to underwriting losses in their individual lines of business. Higher-than-expected medical services utilization and cost trends negatively impact many insurers. Somewhat offsetting the earnings volatility and also supporting our stable view on the health insurance sector is the generally strong capitalization level in the health insurance industry.

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Primary Credit Analyst: J. Kevin Holloran, Dallas (1) 214-871-1412;  
kevin.holloran@standardandpoors.com

Secondary Contacts: Martin D Arrick, New York (1) 212-438-7963;  
martin.arrick@standardandpoors.com

Joseph N Marinucci, New York (1) 212-438-2012;  
joseph.marinucci@standardandpoors.com

David P Peknay, New York (1) 212-438-7852;  
david.peknay@standardandpoors.com

Gabriel J Petek, CFA, San Francisco (1) 415-371-5042;  
gabriel.petek@standardandpoors.com