
Fitch: Fewer Uninsured Brighten U.S. Nonprofit Hospitals.

Fitch Ratings-New York/Chicago-23 September 2015: The reduction in the number of uninsured patients served by nonprofit hospitals is positive for the sector overall, Fitch Ratings says. The increased numbers of patients with coverage have helped hospitals sustain operating margins even as inpatient volumes have remained largely flat and top-line revenue growth continues to be pressured. Fitch expects the positive impact on performance to continue over the near term, especially as the healthcare exchanges mature and additional states consider expanding Medicaid.

The U.S. Census Bureau reported that the number of Americans without health insurance fell to 33 million in 2014 from 41.8 million in 2013. Moreover, the number of uninsured declined in every state, even those that did not expand Medicaid. In our view, this is positive for the sector as hospitals are now receiving reimbursement for patients that previously would have been written off as charity care or bad debt. Fitch believes the sharp drop in the number of uninsured Americans also reflects a greater awareness of the eligibility under state Medicaid programs, as Medicaid enrollments have risen in a number of states that did not expand Medicaid.

Fitch's rating actions over the last 18 months support this, as affirmations, upgrades and downgrades have shown little difference between those states that have expanded Medicaid and those that have not. The effect on individual hospital performance varies depending on a number of factors, even among states that have expanded Medicaid. In New York, for example, which already had a robust Medicaid program in place, the subsidized healthcare exchanges have proven more beneficial to hospitals, as the underinsured have fuller coverage, helping increase utilization in a state where medical costs to patients can be high.

The benefit of wider insurance coverage has helped mitigate the impact of tighter reimbursement increases from managed care and Medicare payors. Over the medium, Fitch expects Medicare's value-based reimbursement programs and managed care "risk-based contracts," combined with increasing consumerism among patients, could pressure sector profitability. Furthermore, the expected reduction and redistribution of federal disproportionate share funds could mute what has been solid performance for the healthcare sector.

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