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Fitch: ACA Exchange Drop May Pressure Hospitals Long Term.

Fitch Ratings-New York/Chicago-21 October 2015: The long-term impact on not-for-profit hospitals of a continued decline in buyers of health insurance through federal and state insurance marketplaces will depend on their state's Medicaid program and the portion of their patients that have benefits, Fitch Ratings says. The impact of the decline in the short term is expected to be slight even as enrollees through these exchanges fell from 11.7 million to 9.9 million from February to June of this year.

The cost of health insurance in the 19 states that have not expanded Medicaid benefits under the Affordable Care Act (ACA) is likely the biggest factor in the declines. Although many enrollees received federal subsidies for the majority of the cost, wage stagnation and other personal budget factors may make the uncovered cost of the benefits untenable for some. The New York Times reported that Mississippi, where 95% of enrollees received subsidies, saw an 8% decline in enrolment from March 31 to June 30.

The long-run impact on hospitals would depend, in part, on their state's Medicaid program. In New York, 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.

However, we would expect critical access hospitals (CAHs), which are inherently vulnerable to shifts in reimbursement due to their limited revenue base, to be at greater risk. The decline in the rural population that CAHs were created to serve is also pressuring the sector. This population shift is more common in the South and Midwest regions. Those regions are home to the most states that have not expanded Medicaid eligibility under ACA.

We believe the decline in enrollees could continue if stagnant wage growth for earners in the lowest quartile persists. According to the Bureau of Labor and Statistics, since 2000 the average hourly wage for non-management private-sector workers in the lowest quarter (when adjusted for inflation) has declined by 3%.