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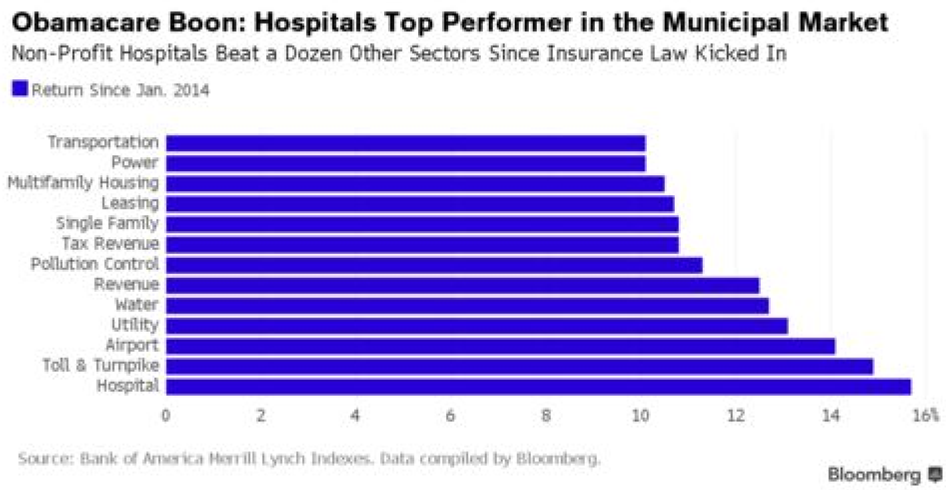
Fading Obamacare Gains Put Drag on 16% Hospital Muni-Bond Rally.

For municipal-bond buyers, the boost from Obamacare is waning.

Quarterly results from U.S. hospital chains such as HCA Holdings Inc. — which make more frequent disclosures than non-profit competitors — suggest financial gains from the federal law are growing more limited, according to Barclays Plc. That provides an early look at a trend that may also affect non-profit hospitals, whose municipal bonds have rallied, delivering 16 percent returns in the past two years as the providers were stuck with fewer unpaid bills.

"The effect of the Affordable Care Act is fading," said Mikhail Foux, the head of municipal strategy at Barclays in New York. "We don't really have any new states adopting Medicaid so you don't have that expansion."

The federal law has provided health-care coverage to 17.6 million Americans as a majority of states expanded access to the Medicaid program for the poor and others bought subsidized insurance. The factors that have driven that growth are now weakening: only one state, Montana, is set to expand Medicaid in 2016, while rising premiums may cause some consumers to go without or lose their policies for not paying their bills.



About 9.9 million people were paying for coverage purchased on the exchanges created by the law as of June 30, a decline of 300,000 from March 31, according to the Centers for Medicare & Medicaid Services. The U.S.
Department of Health & Human Services estimates that about 9.1 million people will be enrolled by the end of the year. The Obama administration is targeting a range of 9.4 million to 11.4 million by the end of 2016.

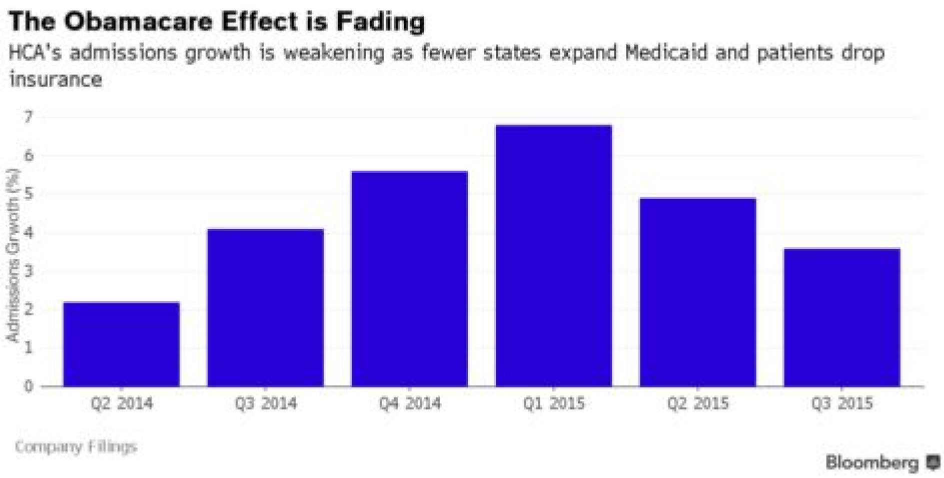
Mergers and acquisitions in the insurance industry — such as Anthem Inc.'s proposed purchase of Cigna Corp. — could strengthen the ability of companies to cut payments to hospitals for treatments, according to Foux.

"It's very safe to bet that a lot of hospitals across the country are not going to see as many people getting insurance as they had expected," said Jason McGorman, an analyst with Bloomberg Intelligence.

Consumers may be dropping plans purchased on exchanges because they don't cover their preferred provider, he said.

The law, which took full effect in January 2014, has been a boon to investors who hold tax-exempt bonds sold by hospitals: The securities have delivered outsized returns since then, beating a dozen other revenue-bond sectors, including toll roads, airports and utilities, according to Bank of America Merrill Lynch's indexes. The bonds' prices have slipped 0.4 percent over the past month amid speculation that the Federal Reserve will raise interest rates as soon as December.

The potentially diminished fiscal benefits were highlighted when HCA, whose 168 hospitals make it the largest system in the U.S., reported earnings for the quarter ended Sept. 30. Uninsured admissions increased 13.6 percent from a year earlier, boosting its costs for charity care and patients without insurance by $525 million, the Nashville, Tennessee-based company said.



Tenet Healthcare Corp. reported charity and uninsured admissions increased 3.7 percent in the quarter. Both HCA and Tenet said the growth was coming from uninsured patients in Florida and Texas, two states that haven't expanded their Medicaid programs.

For-profit corporations can serve as bellwethers for the industry. Unlike publicly traded hospital companies, non-profit and government-run systems aren't required to report financial information quarterly.

Last year, an improved economy and Obamacare boosted hospital admissions and revenue. With coverage expanding, hospitals didn't need to write off as much charity care. In 2014, their unpaid bills for treating the uninsured and those with little coverage dropped by $7.4 billion, $5 billion of which came from states that expanded Medicaid, according to a March estimate by the Obama administration.

Growing Very Rich

On Nov. 5, BBB rated tax-exempt hospital bonds — or those with the lowest investment-grade ratings — yielded 0.03 percentage point less than the index of like-rated revenue bonds, according to Barclays. That's a shift from May 2014, when hospital debt yielded 0.15 percentage point more.

Lower-rated hospitals "got very rich," Foux said. "I think that they're vulnerable when we start seeing financial results."

The spread, or extra yield, that hospitals offer over benchmark municipal debt has narrowed by more than 0.7 percentage point since early 2014, said Tom DeMarco, fixed income strategist with Fidelity Capital Markets, the trading arm of Fidelity Investments.

"That's been a heck of a run," he said. "I don't think, from a relative value perspective, the sector is that compelling."

The slowing gains from Obamacare may affect smaller hospitals the most, analysts said. That's because they have fewer resources to invest in technology, don't have as much clout to negotiate better prices for drugs and medical equipment and pay more to borrow.

"You're certainly seeing more haves versus have nots," said Emily Wadhwani, a Fitch Ratings analyst. "By a growing proportion, the have nots tend to be smaller providers."

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