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Fitch: Clinton's Healthcare Plan Mixed for Nonprofit Hospitals.

Fitch Ratings-New York-04 November 2016: If Hillary Clinton's presidential bid is successful and her broad healthcare proposals are implemented, they have the capacity for near-term benefits for nonprofit hospitals, but they may also create some operating risk and uncertainties. While the proposed universal Medicaid expansion and proposed cost controls are generally positive over the near term, the longer term effect of expanding Medicare eligibility and implementing a "public option" is uncertain, Fitch Ratings says.

On the positive, Clinton's plan to expand Medicaid in the 19 states that have thus far declined to do so would be beneficial in the short term for nonprofit hospitals in those states. Mirroring the impact seen in states that have already expanded Medicaid, Fitch would expect an increase in patient volumes and reduction in bad debt and charity deductions from revenue. Hospitals in the few states that have implemented expansion alternatives — such as waiver programs — would likely experience a more muted benefit.

However, over the long run, Fitch would expect the benefits to wane with deterioration in payor mix. As seen in states that expanded Medicaid, hospitals have experienced a decline in commercial insurance which has not been fully offset by reduced bad debt or supplemental reimbursement from the state through programs like the Disproportionate Share Hospital program and provider-tax and provider-fee programs. These supplemental revenue streams are always susceptible to cuts in funding.

Similarly, Clinton's plan to expand access to health insurance exchanges regardless of immigration status, as well as increasing reimbursement to aid access in rural areas, is likely to be positive for nonprofit hospitals. Likely outcomes include a reduction in charity and bad debt expense, and incremental reimbursement for telehealth, federally qualified health centers and rural health clinics.

The impact of Clinton's plan to implement premium and drug cost controls is uncertain and will vary by hospital especially related to premium increases with the growing interest in owning health plans.

Lastly, Clinton's proposal to broaden Medicare eligibility and provide a "public option" has the potential to negatively impact the sector, though the plan details remain unclear. Her proposal includes allowing people over 55 years old to purchase Medicare coverage, which may push revenue mix further toward Medicare and away from commercial insurance, compressing overall reimbursement. The impact largely depends on whether existing supplemental reimbursement mechanisms that offset care would be reduced for the uninsured/underinsured. The impact could also hinge on whether the incremental revenue from Medicare/Medicaid, and the public option, reimbursement would offset that loss.

Fitch has not commented on the Trump healthcare plan due to the lack of specificity on what would be implemented after "repeal and replace." The Trump platform emphasizes the use of health

savings accounts, increased price transparency, modification of state insurance laws and allowing easier access to foreign pharmaceuticals, which may or may not have a residual impact on hospital providers.

A repeal of the current Medicaid program (and the expansion of eligibility) with a block grant program would have to be evaluated on a state by state basis. The level of infrastructure and investment in the current ACA has been significant. However, the ongoing pressure on healthcare costs and funding and push toward value-based reimbursement by Medicare would likely result in reform measures remaining in place regardless of a repeal of ACA.

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