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Fitch Ratings: Fortunes May Soon Turn for the Better for U.S. NFP Hospitals

Fitch Ratings-Austin-26 March 2019: Though not over yet, U.S. not-for-profit hospitals appear to have weathered the worst of their operational challenges with more performance stability not far off, according to Fitch Ratings in a new report.

Among the developments generating the most market interest is the emergence of non-traditional competitive entrants like Amazon with grand designs to reinvent healthcare delivery. Whether they succeed in the long run remains to be seen, but it seems inevitable that these non-traditional entrants will ultimately change the way individuals interact with the sector. As such, hospitals will become more concerned with “steerage” into the providers care delivery system versus “leakage” outside the provider system.

Another headwind for the sector is payor mix, which is shrinking. Commercial contracts are yielding diminishing margins at the same time that commercial payors are decreasing as a percentage of revenue due to the growth of Medicare enrollees. “With an estimated 10,000 people set to turn 65 years old every day over the next decade, the spread between the profit generating commercial business and break-even to unprofitable government payors will continue to shrink,” said Senior Director Kevin Holloran.

Interestingly, it’s the very same Baby Boomer generation that will actually benefit some hospitals over time. “With almost all providers aiming to break even or better on Medicare, organizations that successfully absorb Medicare reimbursements will find themselves well positioned for the future,’ said Holloran. Many providers will find themselves the beneficiary of a growing book of business that is characterized by heavy healthcare usage.

Elsewhere, profitability for hospitals and healthcare systems is still on the decline, though the pace of declines appears to be leveling off. “Operating margin percentages for most hospitals are actually lower than those experienced during the Great Recession of over a decade ago,” said Holloran. “What has yet to be determined is whether margins continue to fall over the longer term, or if this is the point where the sector’s rally begins.”

Despite the heavy headwinds and pressures on operational performance, the healthcare sector has historically been successful at maintaining generally consistent margins over an extended period of time – through both ups and most importantly through downs. As such, not-for-profit hospitals will begin to find their operational footing as 2019 progresses.

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