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Fitch Rtgs: US Healthcare Policy Proposals Will Weigh on NFP Hospitals

Fitch Ratings-New York-03 February 2020: Healthcare is a major 2020 US presidential election issue, and some leading proposals, if implemented, would have considerable credit implications for not-for-profit (NFP) hospitals, says Fitch Ratings. The outcome of the election will likely have significant ramifications for healthcare regulation and spending, although the success of any plan is dependent upon a party's control of both the White House and Congress.

Federal policy could take very different paths due to deep political polarization. In addition to bipartisan views, there are philosophical differences regarding healthcare policy among Democratic presidential candidates. Democratic proposals including "Medicare For All", "Medicare For All Who Want It", and "The Public Option" are top of mind as Iowans caucus today.

We believe the chances of a "Medicare For All" plan becoming the law of the land during the next presidential term are remote due in part to these divisions. Not only is private health insurance popular among many Americans but the costs of "Medicare For All" would be huge, making it difficult to garner support in Congress. Focus on the costs of any federal healthcare proposal will be intense, given projections of an increasing federal budget deficit reaching $1.0 trillion this fiscal year, according to the Congressional Budget Office.

Healthcare is a considerable portion of the economy, representing nearly 18% of GDP in 2018, according to the US Centers for Medicare and Medicaid. The federal government shoulders much of this cost, spending nearly $1.1 trillion on Medicare, Medicaid, the Children's Health Insurance Program, and veterans' medical costs, out of a total federal outlay of $4.1 trillion in federal fiscal year 2018.

The "Medicare For All" proposal essentially replaces commercial insurance payments with Medicare rates and would be an unambiguous credit negative for NFP hospitals. Only the most efficiently operated hospitals reportedly break even on Medicare rates. Effectively all profit margin is earned from commercial/managed care insurers. If the private insurance market were downsized significantly or eliminated altogether, hospital operating margins would be slashed, and unless Medicare reimbursement rates were revised upward, most hospitals would begin to run deficits.

A proposal being offered by more centrist Democrats is to keep the Affordable Care Act (ACA) and reintroduce the public option, which was part of the initial ACA proposals. The credit effect on NFP hospitals would depend on how any potential public option is structured. If set up to add competition to the health insurance market without meaningfully crowding out existing commercial payors, the number of uninsured could drop considerably, while providing stability in insurance markets in regions that currently have limited access. Alternatively, if a public option had structural price advantages over commercial payors, private health insurance might be dropped by employers and relegated to a small segment of the market.

Probably the best outcome in terms of hospital credit quality is if the ACA were left intact,

particularly if states that have not expanded Medicaid under the ACA reversed position. We observed a notable reduction in bad debt and an uptick in cash flow margins, which ultimately bolstered balance sheet strength, during the initial Medicaid expansion when the ACA became law. This supported an uplift in overall NFP hospital ratings in those states that expanded Medicaid.

Concurrent with these policy debates are on-going challenges to the ACA. Elimination of the ACA, through either the courts or administrative mandates, would be a clear credit negative for NFP hospitals. Millions of people would lose insurance coverage through a significant cutback in Medicaid eligibility and elimination of subsidized health marketplaces. Uninsured individuals would continue to seek care, resulting in an increase in hospital bad debt and charity care, leading to a reduction in hospital profitability.

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