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Fitch: Biden's Plans for Healthcare Largely Positive for NFP Hospitals

Fitch Ratings-New York/Austin/Chicago-03 February 2021: President Joseph Biden's plans to expand healthcare coverage under the Affordable Care Act would generally improve the financial position of not-for-profit hospitals, Fitch Ratings says. Not-for-profit (NFP) hospital margins have been squeezed by high pandemic caseloads and costs, with multiple pressures on revenues and expenses as well as an uncertain regulatory environment likely to continue. Reducing the number of uninsured and shifting the payor mix towards Medicaid coverage and privately insured will help mitigate revenue pressures.

Higher unemployment and administrative weakening of the Affordable Care Act (ACA) under the prior administration contributed to the numbers of those without health insurance. However, President Biden's recent executive order to open a three-month window sign up for healthcare through the ACA federal insurance marketplace highlights his intentions to expand coverage.

Expansion of the ACA is more likely now that democrats have a narrow majority in the Senate, but not one that is filibuster-proof. Biden did not campaign on more aggressive federal expansion of healthcare, such as a public option or Medicare for All, and this is not on the table, nor is it likely to gain traction. Some members of Congress have expressed concerns over the large federal budget deficit against a backdrop of significant federal stimulus spending. Medicare is already one of the federal government's largest budget items, but Medicare spending is unlikely to receive material scrutiny before the 2022 Congressional elections.

The Biden administration is expected to focus on reducing the number of those who are uninsured by raising the upper-income eligibility limit for healthcare premium subsidies, increasing premium tax credits for those purchasing plans through the ACA marketplace, raising the Medicaid poverty-level threshold and encouraging the 12 states that have not expanded Medicaid under the ACA to adopt expanded coverage. This latter change would be credit-positive for hospitals in states where Medicaid has not been expanded, although political headwinds in key states like Texas persist. It remains to be seen whether certain Medicaid waivers such as work requirements or block grants granted by the Trump administration will be rescinded by the Biden administration.

Congress may be able to pass a bill to reduce prescription drug prices. Lowering the minimum age qualification for Medicare may also be considered, although this will face political hurdles from deficit hawks, and would have mixed results for healthcare providers if a significant number of people move to Medicare from commercial payor coverage.

The Supreme Court is expected to rule mid-2021 on the challenge to the ACA, *California v. Texas*. Even if the Supreme Court decided that the individual mandate penalty is unconstitutional and inseparable from the rest of the law, some form of the ACA or its components could be reinstated through 'fixes' passed by Congress. Roughly 20 million individuals could lose healthcare coverage if the ACA does not survive. This would generally reduce hospital revenues and could exert downward rating pressure on hospitals, particularly in states that expanded Medicaid coverage under the ACA.

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