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Fitch: Healthcare Expansion Under ARP Positive for NFP Hospitals

Fitch Ratings-New York/Austin-24 March 2021: The American Rescue Plan (ARP) contains a number of measures that would subtly improve the revenue profile and reduce cost pressures for not-for-profit (NFP) hospitals, Fitch Ratings says. In contrast to the Coronavirus Aid, Relief and Economic Security (CARES) Act, which allocated funds directly to hospitals based on size and coronavirus caseload numbers, the ARP only provides direct aid to rural providers. However, the ARP will help support hospital patient revenues by reducing the number of those who are uninsured, which is a credit positive for hospitals.

The most significant measures temporarily subsidize healthcare coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA), subsidizing the premium at 100% through the end of September; provide additional funding/incentives to expand Medicaid coverage in those states that have not yet done so; and expand Affordable Care Act (ACA) premium subsidies.

Medicaid expansion would have a materially positive effect on providers in states that choose to expand, as it will reduce exposure to uninsured patient revenue risk with a commensurate increase in Medicaid volume. The law increases the Federal Medical Assistance Percentage (FMAP) by 5pp for two years for states that have not already expanded Medicaid. States that expanded during the public health emergency may also receive the coronavirus 6.2pp FMAP increase. When Medicaid expanded in 2014-2015, upgrades of Fitch's rated credits outpaced downgrades by 3:1.

The ARP reduces insurance premium costs for plans offered through the ACA by increasing tax credits along with capping premium contributions at 8.5% of income for mid-level health plans. Those who earn 100% to 150% of the federal poverty level will not pay any premiums. Congress could potentially make some of these measures permanent, supporting the Biden administration's goal of improving access to healthcare.

In line with greater Medicaid coverage, the law increases Medicaid coverage for coronavirus testing and treatment and clarifies that the federal matching rate for vaccinations is 100% for those covered by Medicaid. The ARP also allocates \$50 billion for the Disaster Relief Fund, which could be used to help hospitals with personal protective equipment and other supplies.

The recent confirmation of Xavier Becerra as Secretary of the U.S. Department of Health and Human Services, who is considered a strong supporter of ACA expansion, is seen as further confirmation of the expected direction of healthcare policy. The Centers for Medicare and Medicaid Services (CMS) announced earlier this year that it plans to rescind approvals granted by the Trump administration that allowed states to implement work requirements in order to qualify for Medicaid.