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Fitch: US Supreme Court ACA Decision Neutral to NFP Hospital Ratings

Fitch Ratings-San Francisco/New York-17 June 2021: The outcome of the US Supreme Court ruling in the case of California v. Texas is neutral to not-for-profit hospitals and healthcare system ratings, Fitch Ratings says. The Court rejected the challenge to the Affordable Care Act (ACA) on the basis that the plaintiff states do not have legal standing to bring the suit. The Court did not rule on the validity of the ACA without the individual mandate requiring Americans to obtain insurance. The ruling maintains the status quo that has existed since the tax penalty for not obtaining health insurance was set at zero in 2017.

Today's ruling maintains healthcare coverage for tens of millions of Americans under the ACA, and we expect this to prevent a decline in operating margins associated with a shift in payor mix that would have reversed the positive margin trend evidenced at hospitals in the years following the ACA rollout. Fitch's not-for-profit (NFP) hospital operating margin median rose during those years the ACA was fully implemented, increasing from 2.2% in 2013 to 3.0% in 2014 and again in 2015 to 3.5%. Operating margins have continued to benefit since then, due to the incremental revenue from patients enrolled in the healthcare exchanges or under expanded Medicaid programs.

Rated hospitals saw a significant decrease in self-pay during 2014-2016, particularly at hospitals in Medicaid expansion states, which now number 38 plus Washington, DC. The Kaiser Family Foundation reports that the US saw a significant drop in the number of non-elderly uninsured to 26.7 million in 2016 from 44.4 million in 2013 following the enactment of the ACA in 2010 and implementation of key provisions in 2014, before increasing to 28.9 million in 2019 after the individual mandate was eliminated.

Premium subsidies and tax credits provided under the American Rescue Plan Act of 2021 that intend to make marketplace coverage plans more affordable are expected to modestly increase the number of insured. Insurance coverage affordability is the major concern for those who remain uninsured in the US.

Today's decision to uphold the ACA resolves another significant Supreme Court challenge to the law. It may also signal growing reluctance to invalidate a law that has become an important aspect of the US healthcare system by providing coverage to millions of Americans under Medicaid or private insurance. With the Supreme Court's ruling, we continue to believe that the ACA is likely to remain the law, even if portions of it are enhanced or diminished in future legislation.

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