Fitch: Expiration of Home Healthcare Program Threatens US NFP Hospital Recovery

Fitch Ratings-New York-21 November 2024: Congressional failure to extend the Acute Hospital Care at Home program and certain features of telehealth policy could threaten the U.S. not-for-profit (NFP) hospital sector's nascent financial recovery, Fitch Ratings says.

The Acute Hospital Care at Home (hospitals at home) and certain Medicare telehealth services that were extended under the 2023 Consolidated Appropriations Act (CAA) will expire on Dec. 31, 2024, unless Congress acts to renew the programs. Hospitals have increasingly incorporated these services into their operations, which has helped to alleviate revenue and expense pressures. Hospital financials have shown signs of improvement, although challenges lurk with increased Medicare payors as the U.S. population ages, shifts from inpatient to outpatient services, and achieving sustainable levels of cash flow given high costs and fixed revenues.

The hospitals at home program was implemented by the Centers for Medicare and Medicaid Services (CMS) during the pandemic to allow Medicare-certified hospitals to provide in-patient care at home. Length of stay (LOS) increased during the pandemic, as staffing challenges in post-acute care settings, particularly at skilled nursing facilities (SNF), limited hospitals' ability to discharge patients. Employment at SNFs remains below pre-pandemic levels, and the program has helped hospitals reduce LOS by allowing certain lower acuity patients to recover at home. Hospital at home patient quality indicators and patient/caregiver satisfaction data have been positive for the program, according to a study conducted by the CMS as required under the CAA.

Telehealth, which was essential in providing access to care during the pandemic, has become a normal part of healthcare and hospital operations. The key provision that will expire in December allows Medicare patients to receive broad telehealth services at home. Telehealth reduces hospital costs and provides critical, additional revenue by increasing patient volumes and broadening access, especially in rural areas, where physician coverage is limited.

Not-for-profit hospital and health systems are slowly recovering from their worst year financially in 2022 due to high labor costs that contributed to operating margin pressure. The overall median operating margin improved to 0.4% in 2023 from 0.2% in 2022, but we expect ongoing stresses will keep margins compressed relative to pre-pandemic levels of 2%-3%, even as volumes remain strong. Labor costs, which have abated from pandemic peaks, remain elevated, and NFP hospitals have limited flexibility to raise rates.

We anticipate hospital Medicare volumes will increase over time, absent service line and catchment area expansion, as the baby boom generation ages. In addition, given the strong patient volumes, capacity constraints are re-emerging, with the need for capital spending and a corresponding increase in debt issuance.