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Any Supreme Court ruling hurts nonprofit hospitals

3:37pm EDT

NEW YORK, June 14 (Reuters) - No matter how the U.S. Supreme Court decides on the national healthcare law, nonprofit hospitals will face a rocky future, Moody's Investors Service said in a study published on Thursday.

Within the next two weeks the highest court in the country is expected to rule on the constitutionality of the healthcare reform law, known as the Patient Protection and Affordable Care Act, that has inspired both political and legal battles from the moment President Barack Obama signed it into law more than two years ago.

"Regardless of the court's ruling and the result of the November elections, policymakers will be faced with addressing the steep federal budget deficit, which almost certainly will include altering federal funding for Medicare and Medicaid," says the study.

The Wall Street rating agency has a negative outlook for non-profit hospitals and expects rating downgrades for the sector to outpace upgrades this year. The median average ratings for the 500 institutions in the sector is A3.

All non-profit hospital bonds are considered expensive by analysts who predict some price correction.

Daniel Berger, a senior market strategist for Thomson Reuter's Municipal Market Data (MMD) published a study in May predicting that the 10-year credit spread over the AAA yield curve to increase by 30 basis points. That level closed at 136 basis points on Wednesday, up from around 127 basis points on May 11.

INDIVIDUAL MANDATE, THE BEST FEATURE

According to Moody's, the best possible outcome from the Supreme Court would be a full confirmation of the law, dubbed "Obamacare." That would be "credit neutral," the agency said.

However, the outlook on the sector will remain negative.

"Since its passage, we have viewed healthcare reform as a net credit negative because it mandates annual Medicare reimbursement reductions to hospitals, which outweigh the benefits of lower rates of uncompensated care," Moody's said

Striking down the requirement that individuals purchase health insurance while maintaining the rest of the law, or throwing out the law entirely, however, would be a "credit negative."

The law has been challenged by 26 states which contend the so-called individual mandate is unconstitutional. But, Moody's said, that feature is the most positive for not-for-profit hospitals that tend to treat a higher proportion of the uninsured.

"The number of uninsured Americans will remain high and result in continued growth in uncompensated care...while Medicare reimbursement rate increases would slow down," Moody's said about nonprofits' conditions if only the mandate were struck down.

The pressure on revenue growth combined with increasing uncompensated care could hurt their finances, it added.

States operate Medicare health programs for 49 million seniors and Medicaid insurance for the poor with partial reimbursements from the federal government, and nonprofit hospitals rely heavily on those public dollars.

Medicare, which costs \$549 billion a year, is set to exhaust its trust fund in 2024, according to the federal government. The healthcare law lowered the annual increases in Medicare payment rates.

If the Supreme Court decides the entire healthcare law is unconstitutional, then nonprofit hospitals will be pitched into legal and regulatory uncertainty over "unsustainable Medicare spending," Moody's said.

In this case the hospitals would "face the likelihood of even larger federal funding cuts than those embedded in the law and strikes an ominous tone for the not-for-profit healthcare sector."

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