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## **Supreme Court Upholds Health-Care Mandate**

The U.S. Supreme Court upheld the individual mandate in a narrow ruling last month, clearing the main hurdle for health-care reform known as the Patient Protection and Affordable Care Act (PPACA). While it is possible that the battle over the fate of the health-care law will now shift to the legislature, given the low probability of Republicans gaining a filibuster-proof majority in the Senate, Morningstar analysts believe the PPACA isn't likely to be repealed.

From the individual's point of view, most Americans will see little impact. The majority of the country receives health insurance through an employer, and those patients are unlikely to see changes. However, Americans who are uninsured or purchase insurance on their own will see a significant change. Uninsured Americans will be forced to purchase minimum coverage or pay a penalty (\$95 in 2014, but projected to increase to \$695 by 2016, as per the Supreme Court's official syllabus). The government will implement tax credits for Americans with incomes up to 400% of the Federal Poverty Level to help ensure that premiums are affordable. To facilitate the purchase, each state will be required to establish an insurance exchange which will make it easy to compare insurance plans. Also, starting in 2014, insurance companies will no longer be able to deny coverage to patients with pre-existing conditions, and will only be able to set insurance rates based on a limited number of variables, including geographic location, tobacco use, and age.

According to Morningstar analysts:

For the managed-care sector, the ruling may be largely a positive, as alternatives were a lot more punitive, particularly for firms operating in the individual marketplace. On the other hand, MCOs (managed-care organizations) may continue to face margin pressure from regulatory scrutiny of premium increases, minimum medical cost ratios, and cuts to Medicare Advantage reimbursements.

The other group most affected by the ruling is health-service providers, such as

hospitals. The law's reduction of uncompensated care combined with an influx of newly insured patients into the health-care system may be a positive for the health-services industry, while other components of the law, including lower Medicare payments and greater oversight of insurance premium increases, mostly mitigate such benefits.

For the Big Pharma group, increased demand for drugs as a direct result of the mandate may largely offset the increased fees and rebates associated with health-care reform. However, since costs related to health-care reform are front-end loaded (which started in 2010), and the increased demand may not likely begin until 2014 (when the mandate goes into effect), investors' sentiment toward the drug group may improve as the tailwind of increased demand for drugs begins to materialize in 2014. Generic drug manufacturers may remain largely unaffected; most of these companies have broad geographic operations and generic drug pricing has been relatively unaffected by the law.

The device side was viewed largely as a relative loser when the reform was passed. It is anticipated that the additional insured in 2014 will not significantly contribute to volume because many devices are concentrated among Medicare recipients. For example, an estimated 90%-95% of pacemakers in the U.S. are implanted in Medicare patients. With the law upheld, it also appears that the 2.3% medical device excise tax will stand.

There may also be some side effects of the new legislation that many people will not be too happy about. Health insurers may have to raise premiums, and employers may have to reduce what they pay in wages and other benefits in order to continue covering the cost of health care.

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