Moody's Downgrades Health Insurers, Cites ObamaCare Uncertainty

In announcing credit rating firm Moody's downgrade of all health insurers, Senior Vice President Stephen Zaharuk placed the blame firmly and directly on the Obamacare rollout and implementation:

> The ongoing and unstable and evolving environment is a key factor for our outlook change. The past few months have seen new regulations and announcements that impose operational changes well after product and pricing decisions were finalized.

Translation: Health insurers could lose their shirts if the assumptions they made in their premium calculations prove false. So far, it doesn't look good. Zaharuk cited some of those uncertainties, including the demographics of those enrolling for coverage. The insurers assumed that the Obama administration was right when it estimated that at least 2.7 million young and healthy individuals aged 18 to 34 would sign up by the end of March. Only 24 percent of the 2.2 million enrolled by the end of the year fall into that category. Put another way, so far just 528,000 of the 2.7 million needed to make the math, and the economics, work out are in that category.

That's why, in its report, Moody's cut its earnings estimate for all insurers by a full third, while expecting enrollments will fall short by two-thirds.

There are other uncertainties, including the decision by the administration to allow insurers to continue to offer "bare bones" (read: low profit margin) coverages in response to pressure from those previously insured who had their present insurance plans terminated. The administration delayed the premium payments deadline (delaying expected cash flows to the insurers), delayed the sign-up date, pushed back the second-year enrollment period until after the November elections, and extended the enrollment deadline for those with pre-existing conditions.

There's also the industry's new tax on medical devices that insurers somehow had to factor into their calculations. Said Zaharuk: "While some insurers built this tax into their premium calculations, the amounts [they receive] may still be insufficient to cover their share of the assessment."

Also, many ObamaCare enrollees are actually pouring into the states' Medicaid programs, and insurers have no direct way to offset those increased expenses and will have to eat any losses, perhaps for years. Zaharuk explained: "The Medicaid business is particularly vulnerable to this disconnect as insurers cannot pass on additional costs to consumers, and it remains to be seen whether states will permit insurers to factor in the assessment costs in determining Medicaid reimbursement rates."

Health insurers are vulnerable on other fronts as well. Gallup just published its latest "Well-Being Index," which shows the uninsured rate to be virtually the same as it was two years ago, despite the enormous marketing efforts by the administration touting the wonders of ObamaCare, and actually significantly higher than it was in January 2008, long before the federally mandated law was birthed in the hothouse of central planning. In addition the Congressional Budget Office (CBO) estimated that, even under the most favorable circumstances, by 2016, when Obamacare was assumed to be fully functioning, 31 million citizens will remain uninsured. This means insurers can't count on that huge block of customers to enhance their revenue streams.

Moody's was not optimistic:

> In 2015, insurers will need to deal with the implications of the employer mandate and the second year of the individual mandate. Both require substantial lead time with respect to product development and pricing. Ad hoc changes to these provisions, as experienced at the end of 2013 … add additional risks and financial uncertainty.

When asked by Kate Rogers of *Fox News* what it would take for Moody's to reverse its downgrade, Zaharuk said:

> We would need [to see] some positive enrollment numbers, the back-end problems with the exchanges fixed, and the regulatory environment … stabilized.
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> Positive news would help the situation.

How likely is that? Responded Zaharuk:

> The first test comes in March when we will see what enrollment looks like, if the back-end issues are fixed, if people are getting access to health care, and what the costs … are.
>
> If these things don't work, it may have a longer and more detrimental effect on the industry as they struggle under the new law.

Whether intended or not, this disruption in the healthcare marketplace is having its consequences, nearly all of them negative. First experienced by the consumers, they are now spilling over, inevitably, to the insurers.

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