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Equipment Financing & the Affordable Care Act

ACA: Potential or Peril for Equipment Financing

Although the Patient Protection and Affordable Care Act of 2010 (ACA) is still in the early stages of implementation, it has already begun to drive changes within the health care field. Providers and insurers are working to implement the required changes, the outcomes of which will not be clear for several years. Health care organizations are proceeding carefully, uncertain of how the ACA will ultimately affect them. However, despite the ambiguity, it seems certain that increased regulation will mean increased equipment leasing needs, particularly in information management.

The improving, but still challenging economic environment is compounding the uncertainty. The recession and resulting unemployment have reduced patient volumes over the past several years. Medicare reimbursements to health care providers have been cut by 2% due to the government sequester. Although these cuts are not intended to be permanent, we expect that some cuts will be incorporated into federal deficit reduction plans. Because the United States currently spends almost one-fifth of the US GDP on health care, it seems inevitable that health care will be a target in the deficit reduction plan.

How the ACA is changing the health care field

With the intent of cutting costs, providing more affordable health care and increasing the quality of care for all Americans, the Affordable Care Act is shifting reimbursement models from a volume- to value-based system. Many providers are responding to this shift by creating new business models intended to deliver the highest quality of care at the lowest cost, often through implementing leading-edge technological innovations. These changes are also driving accelerated industry consolidation and specialization as providers seek to achieve economies of scale.

To improve quality of care, enhance communication and decrease readmission rates, the legislation promotes the creation of Accountable Care Organizations (ACOs). Information technology will play a very important role in the creation, operation and success of ACOs, as well as their ability to participate in the Shared Savings Program. These organizations receive large volumes of data from the Centers for Medicare & Medicaid Services with patient records that must be accessible to all areas of the ACO. This data must be integrated into their electronic health records and claims systems. Effective communication across multiple components of the organization will be essential to generate savings, so every member of the ACO will need to access and utilize these records. Additionally, the maintenance of this data is strictly regulated under HIPAA and will require secure networks for data housing and transmission. These requirements will likely result in increased financing needs among ACOs.

The Health Insurance Exchanges required by the Affordable Care Act are intended to offer affordable, quality health insurance to individuals and small businesses through a competitive marketplace. The details of these exchanges are not yet clear in many areas. However, the expansion in both private insurance and Medicare is predicted to reduce the financial burden on hospitals – especially acute-care facilities that have higher numbers of uninsured patients.

How will the ACA affect equipment financing?

We believe the legislation will present both challenges and opportunities for the health care finance industry:

The challenges to equipment financing:

[Reimbursement Rate Vagueness] Uncertainty around future reimbursement rates has caused some hospitals to put new equipment acquisitions on hold until they have a better sense of how the changes will affect their bottom lines.

[Cost Cutting Measures] The legislation's focus on cost cutting may also drive physician groups and hospitals to cancel new equipment acquisitions for fear that the acquisition costs will drive up their cost of care.

[Additional Credit Diligence] The recent cuts in reimbursement rates and recession-driven reductions in patient volumes may negatively affect the credit strength of some hospitals.

[Stark Law Ambiguity] Doubt about the In-Office Ancillary Services Exemption to the Stark Law has caused some physician groups to halt new equipment acquisitions. If this exception is narrowed or eliminated, demand for specialized medical equipment, such as imaging equipment, may decline.

[Delays Due to M&A] Provider consolidation may slow the equipment purchasing process as organizations integrate their existing systems and processes.

[Specialized Care on the Rise] Demand for new equipment within individual institutions may decline as providers move toward specialization and reduce the range of equipment they use.

[Medicare/Medicaid Insecurity] A lack of clarity around reductions and changes to Medicare and Medicaid Disproportionate Share Hospital (DSH) payments in the ACA may cause hospitals currently receiving these payments to postpone equipment acquisitions.

The opportunities for equipment financing:

[Disciplined Technology Strategy] The shift toward value-based reimbursements will give providers incentive to implement regular refresh cycles for equipment. Because newer technologies are more efficient and result in less downtime, they help to decrease patient wait times and improve patient outcomes, which will help providers achieve the highest reimbursement levels.

[Electronic Medical Records] Electronic health record incentives created by the HITECH 2009 Act will continue to push providers to acquire the technology needed to run robust EHR systems and reach meaningful use stages. The benefits of spreading payments over longer terms by financing the hardware and software will be increasingly attractive as providers try to maximize government reimbursements.

[Bond Financing for Equipment is Ineffective] With increased emphasis on cutting costs and spending health care dollars wisely, hospitals must work to understand their true costs and discover areas for strategic improvement. Demand for lease financing will increase as it becomes apparent that using long-term debt to finance short-lived assets is not a viable strategy. The goal should be to align repayment terms with the useful life of the equipment.

[Implement Better Communications Technology] Incentives for Accountable Care Organizations (ACOs) will drive providers to improve the way they communicate and share patient records in order to optimize the care continuum. Efficient communication across member organizations will be essential to ACO success and participation in the Shared Savings Program. This will increase demand for technology, especially among smaller practices and facilities.

[Improved Financial Position] Some outcomes of the ACA will have a positive impact on hospitals' financial positions, making them more favorable to lessors. For example, access to affordable insurance will reduce focus and spending on collections from self-pay patients and will save providers time and money. In addition, Medicaid expansion is likely to improve financial performance for most providers and could spur increased utilization by previously uninsured patients.

[Move to Mobile] Handheld technologies, such as tablet devices, are in the early adoption stages in the health care field and will likely play a critical role in improving performance in the future.

[Telehealth – And Other – Technologies] As more Americans gain health insurance, the gap between the number of patients and primary care physicians will widen. Telehealth may be used to help bridge that gap, increasing the demand for this technology.

The Benefits of Leasing Still Ring True

Whatever challenges and opportunities arise from the ACA, leasing still offers significant advantages to health care providers:

[Maximized Cash Flow] Leasing provides consistent, fixed payments with no large up-front costs, allowing hospitals to acquire equipment without large cash outlays.

[Low, Fixed-Rate Financing] Leasing provides a low-cost source of capital that complements standard bank lines of credit.

[Benefit From Residuals] The residual value of the leased equipment results in low financing rates.

[Strategic Equipment Acquisition] Leasing improves a hospital's access to the newest technology by allowing seamless system replacements, upgrades or additions during the lease or at the end of the lease term.

Despite the challenges, we remain optimistic about the changes underway. As the ACA drives provider consolidation, integration and improved communication, health care providers can leverage technology to improve care and reduce costs. Medical equipment advances continue at a rapid pace and patients demand access to the procedures made possible by these cutting-edge technologies. The shift to electronic health records will drive increased use of and investment in mobile devices. Health care providers will need finance partners who can help them take full advantage of these technologies while keeping costs in check.

About First American Healthcare Finance

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