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# Opportunities for Financial Institutions Resulting from the Patient Protection and Affordable Care Act

By Dennis Child

The Affordable Care Act (ACA) is arguably the most sweeping legislation to be passed in the last 60 years. From this point forward, almost every American will be affected in one way or another by the ACA. While controversy swirls as to the effects the ACA will have on the economy, health care users, health care providers, and health care issues in general, one thing is certain: the ACA is here to stay. The financial environment for consumers and businesses will shift dramatically as a result of the ACA. Furthermore, consumers will need help navigating through the ACA labyrinth to arrive at a point most beneficial for them. The purpose of this article is to point out that there could be some opportunities for financial institutions (FIs) to provide additional services to their clients and be favored with new sources of income as a result of the ACA.

The ACA will provide health insurance for many who were not insured or could not afford coverage before. For these consumers, their financial outlook will most likely improve.

For other people, the ACA could adversely impact family and small business budgets:

- Many now will pay higher health insurance premiums, deductibles, co-pays, etc.
- Consumers' health insurance costs could well increase every year into the foreseeable future
- Your clients' may be more limited than before regarding the availability of health care providers as HMOs become more prevalent and health insurance companies reduce the number of providers they will accept
- For years there will be continual changes to the ACA due to adverse selection issues, burgeoning costs to insurers and governments, consumer resistance and so forth. These changes will keep the health care insurance picture uncertain and complicate planning
- Many employers will be shifting more health care insurance costs to their employees
- It could well be that without changes in the ACA, more Americans may be uninsured than before the ACA
- Medicare costs are predicted to increase as a result of the ACA and there may be fewer Medicare health care providers
- For many Americans, federal and state taxes will increase to fund the ACA and Medicaid

In addition to finances, the ACA could affect Americans' other resources as well:

- There will be great uncertainty and confusion regarding how the law should be interpreted for years to come
- Consumers will face the challenge of choosing the right plan and plan options out of a myriad of possibilities
- Consumers might well need to assume more responsibility for health care decisions than before
- There will be changes in the way health care is delivered

Financial institutions will most likely be directly impacted by the ACA as well:

- Clients previously uninsured or underinsured: their finances will improve – they are in a better position to save, pay down existing loans, and take on new debt for long deferred purchases
- Clients experiencing a reduction in spendable income due to the ACA: FIs could see potential loan delinquency, less loan demand, and shifting needs regarding deposit accounts
- FIs will need to consider changes in marketing strategies, increased resources for delinquency control, and offering new services (Health Savings Accounts {HAS} for example)

For FIs looking to turn challenges into opportunities, the following should be considered:

- Enjoying positive public relations from being a direct or indirect provider of health care education and advisory services
- Increasing business accounts as a result of catering to the ACA needs of small employers
- Increasing deposits (HSA) and increasing credit and debit card business from special ACA related accounts
- Forming partnerships with health insurance brokers – sharing marketing and commission revenue
- Employees will be less dependent on employers' health plans – opens prospects of more members pursuing self-employment dreams – leading to small business loans and business deposit accounts
- Increasing cross sell opportunities by getting in front of health care consumers
- Identifying and marketing to members whose finances improve as a result of the ACA

For those FIs that pursue one or more of the opportunities noted above, increased revenues (direct/indirect returns-on-investment) would be expected to stem from:

- Commission sharing from health insurance broker partners
- Loan interest income from marketing to clients enjoying improved finances
- Income from investing/loaning increased deposits (HSAs)
- Income (interest and fees) from new products such as health care debit and credit cards
- Interest and fees from increased client base and cross selling resulting from education and advising services
- Interest and origination fees from small business loans

There are a number of processes a financial institution should have in place and steps to take before expending capital and time toward providing ACA related advisory services and products:

- Small Business Administration appointment to provide government guaranteed business loans
- Ability to develop objective strategic plans, profitability forecasts, and pro formas
- Consult with other institutions that have provided HSAs for an extended time
- Explore health insurance broker partnership possibilities
- Determine necessary changes in policies and procedures

Most importantly, a financial institution needs to have in place stochastically derived management tools:

- Credit Migration – to monitor existing loans with improving or digressing credit scores for delinquency control

- Risk Based Loan Pricing – knowing exactly how much to charge loans according to risk and expenses unique to each loan type and credit score strata
- Asset Liability Management modeling – usable from a management perspective that relies on a minimum of assumptions – (note: consider Earnings at Risk modeling)

The Affordable Care Act has created what could be a great opportunity for every financial institution depending on how managers are prepared and able to manage risk.  Managers need at this time to reflect on this critical question:

*As a result of the ACA every American will be relying on advisory resources and new financial products from one for more institutions somewhere (and probably establishing new relationships) – will they be coming to your institution for their needs?*

## Dennis Child

Marketing Director
TCT Risk Solutions, LLC (TCT)

Dennis Child is a 40 year veteran credit union CEO recently retired. He has been associated with TCT for 25 years. Today, Dennis enjoys providing solutions and training for credit union managers. He also uses his financial credentials and advisory skills to assist the Boomer generation plan and prepare for their retirement years. He and his wife, Geri, live in Logan, Utah. Dennis can be reached at (435) 770 0178 or dennis@tctconsult.com.
TCT is based in Boise, Idaho. Dr. Randy Thompson, CEO of TCT, designs his training and management tools using empirically based, statistically validated methods and research. TCT has provided services to financial institution professionals for 25 years. TCT's clientele include credit unions, credit union trade associations, and federal and state regulatory agencies. TCT can be reached at (208) 939 8366 or tctrisk.com.