Healthcare Provider
2025 Preview

CAPSTONE

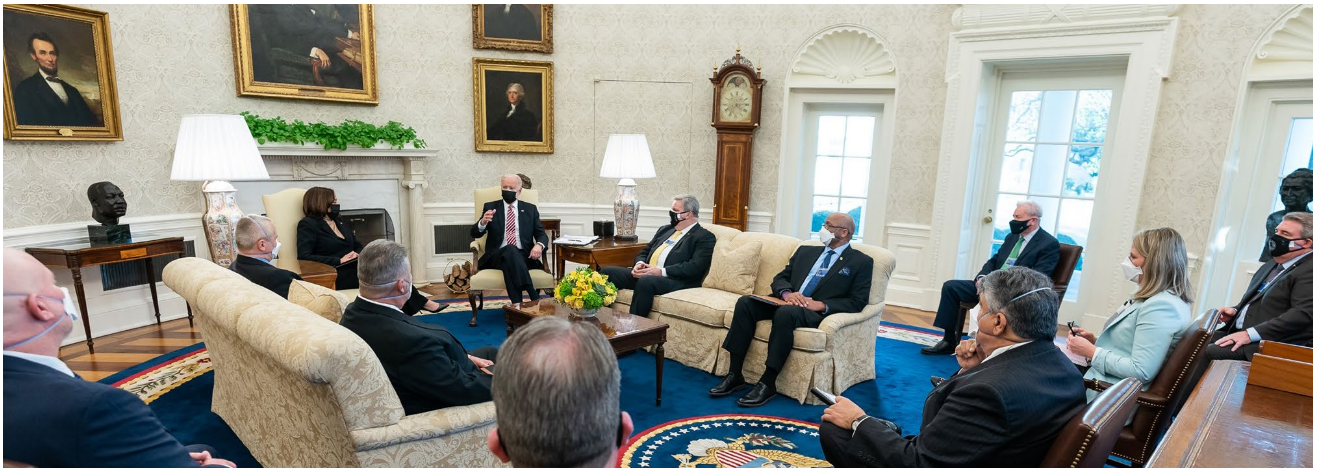
Healthy Diagnosis: Providers Well-positioned for the Year Ahead

THE BOTTOM LINE

Capstone believes 2025 will feature a broadly positive policy backdrop for healthcare providers, with three major themes dominating. We expect a reversal of labor union alignment rules passed by the Biden administration, stepped-up momentum in Congress to resolve the future of the physician fee schedule (PFS), and relative insulation for "core population" services from the potential trickle-down effects of potential Medicaid cuts.

Outlook at a Glance

- PRO-LABOR UNION RULES LIKELY PULLED BACK, BENEFITTING PERSONAL CARE AND NURSING FACILITIES
- REPUBLICANS TO STEP UP PHYSICIAN FEE SCHEDULE (PFS) PERMANENT RELIEF EFFORTS AS CONGRESS SEEKS PAYFORS
- 'CORE POPULATION' SERVICES UNLIKELY TO BE IMPACTED BY REPUBLICAN EFFORTS TO CUT MEDICAID



Pro-Labor Union Rules Likely Pulled Back, Benefitting Personal Care and Nursing Facilities

Winners	Addus Homecare (ADUS), Ensign Group (ENSG)
Losers	None.

The reversal of Biden-administration labor union rules will benefit certain niche provider types, namely nursing home staffing platforms such as the Ensign Group (ENSG) and personal care providers such as Addus Homecare (ADUS). The Biden administration finalized rules for minimum staffing standards and personal care passthrough (80/20) in April, though neither rule is likely to come to fruition under President-elect Trump.

Finalized in April, long-term care minimum staffing standards and personal care passthrough requirements are likely to be blocked by Congress and the incoming Trump administration, respectively. Neither rule will lead to any real impact on providers, as long-term implementation timelines prevented staffing (2026) or the 80/20 pass-through requirements (2030) from taking effect during the Biden-Harris administration.

While each rule could be blocked by either Congress or the Trump administration, Capstone believes nursing home hours per resident day (HPRD) staffing standards are likely to be blocked by Congress to capture the $22 Billion in savings associated with the rule. Ancillary healthcare initiatives are already jostling for position to receive a cut of this pay for.

The Trump administration is likely to block the 80/20 passthrough rule on its own accord through rulemaking, though this policy may be left on the backburner during the administration's early days. This policy is relatively niche and will be lower on the priority list behind Medicare Advantage and Affordable Care Act reform, which the administration will focus on in its first two years of unified power. As a timeline proxy, the Trump administration previously reversed an Obama-era rule on short-term health plans in August 2018, and Biden waited until July 2023 to switch the rules back to the Obama era. Even if we do not see action in the first two years, we would be surprised if Trump allowed this rule to take effect.

Republicans to Step up PFS Permanent Relief Efforts as Congress Seeks Payfors

Winners	U.S. Physical Therapy Inc. (USPH), ATI Physical Therapy, Inc. (ATI), EyeCare Partners, Radiology Partners
Losers	None.

Capstone believes Congressional efforts to design a permanent PFS fix will be unencumbered by the changes of power. PFS relief remains non-partisan and has been a joint effort led by Senators Mike Crapo (R-ID) and Ron Wyden (D-OR) on the Senate Finance Committee. PFS relief would broadly lift physician groups, especially those with office-based concentrations such as U.S. Physical Therapy (USPH), while continuing to lift reimbursement for other provider groups, including EyeCare Partners and Radiology Partners.

A series of proposed cuts from CMS and subsequent temporary relief from Congress have complicated the last five years of PFS rulemaking. Annual increases to the system remain constrained by 1) frozen rates from 2020-2025 as required by Congress and 2) system-wide cuts stemming from agency budget neutrality requirements after large increases to evaluation and management (E&M) services in 2021. Congressional frustration with the annual 'doc fix' and physician complaints of margin compression has gained momentum throughout this period. Capstone believes the policy is turning the corner on reaching a solution.

Beginning in 2026, physicians are eligible for marginal inflation increases, +0.75% for providers in risk-based arrangements or +0.25% for all other providers. Many specialties, such as physical therapy, have limited access to CMS-designed risk-based arrangements and, therefore, will struggle to obtain higher inflationary updates.

Congressional debate focuses on resolving the lack of annual inflationary update similar to other payment systems (often in the range of 2.5-3.0%) while still incorporating value-based care (VBC) requirements. Capstone believes that despite the high cost of full PFS relief ($80-100B for a full inflationary update), pathways remain for either partial or full relief. Republican focus on cutting spending in other sects of healthcare, primarily Medicaid, should create savings available to fund PFS relief that otherwise would have been inaccessible in a split or Democrat-controlled Congress.

‘Core Population’ Services Unlikely to be Impacted by Republican Efforts to Cut Medicaid

Winners	Aveanna Healthcare (AVAH), Sevita Health
Losers	Molina Healthcare (MOH), Centene (CNC)

Finally, certain provider specialties may also be indirectly impacted by conversations surrounding Medicaid cuts, which may flow down to state-provider contracts or managed care insurer-provider contracts. Capstone believes Medicaid services to populations Republicans will refer to as “core Medicaid,” including pediatrics, and the disabled will remain insulated from this pressure, though services for the broader adult population would be threatened under cuts.

Capstone believes investor attention on the possibility of Medicaid cuts is appropriate, though downstream effects to select provider groups are likely overappreciated. Three Republican proposals to Medicaid are likely to be considered in the upcoming Congress: 1) Reducing Medicaid

expansion population matching rates, 2) moving state Medicaid financing from per-enrollee matching to block grants, and/or 3) reducing the floor on federal matching rates from 50% to 40%.

Each Republican proposal would create significant savings for Congress, including an estimated $252B from reducing matching rates for Medicaid expansion and $57B from reducing the FMAP floor. These proposals would shift the cost burden primarily to states, though some portions of the expansion population could matriculate to the exchange market on ACA subsidies (subject to their own extension debate in 2025).

Notably, however, populations served by Aveanna and Sevita are protected under Medicaid via disability pathways, which typically results in automatic eligibility or a heightened income eligibility for the family. Republican proposals primarily target adults covered by Medicaid with higher incomes. Under block grant proposals, Republicans have cited a key driver in the grants would be to restrict funding for the “medically vulnerable populations” from being used for the expansion populations – protecting the pool of funding available for these companies’ services.

Capstone believes companies such as Aveanna and Sevita will remain protected in Medicaid as services for core populations, while providers seeing a higher share of the adult population and managed care organizations such as Centene and Molina could see losses in their populations served.

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