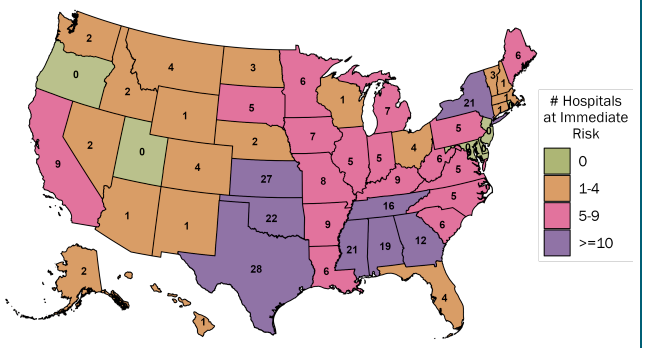
CENTER FOR HEALTHCARE QUALITY & PAYMENT REFORM

Preserving Access to Care in Rural Communities

Over the next several years, millions of Americans could lose access to essential healthcare services, including primary care, emergency care, maternity care, laboratory testing, inpatient care, and rehabilitation. It isn't because they'll lose health insurance. It's because there will be nowhere in their community they can use their insurance.

The people who are at risk live in the more than 600 small rural communities where the local hospital could be forced to close. The latest hospital financial data show that in over 300 of these communities, the rural hospital is at *immediate* risk of closure, i.e., it could be forced to shut down in less than 3 years. CHQPR's report on *Rural Hospitals at Risk of Closing* shows there are rural hospitals at immediate risk of closing in almost every state. In 12 states, 20% or more of the rural hospitals are at immediate risk.

Rural Hospitals at Immediate Risk of Closure



Most people who live in urban areas have access to multiple emergency rooms, urgent care centers, primary care practices, laboratories, rehabilitation centers, and other healthcare providers where they can readily obtain healthcare services. In small rural communities, however, there is typically just one source for all of those services – the rural hospital. If that hospital closes, all or almost all healthcare services would disappear from the community, and residents would be forced to travel a half hour or more each way if they have an accident or even if they need a simple lab test to manage a chronic condition. Many people could die or develop more serious health problems if they cannot receive prompt care in an emergency or if they fail to receive primary care or necessary preventive services because those services are no longer available in the community. (More information on how a rural hospital closure affects a community is available here).

The United States will never have a truly equitable healthcare delivery system if the millions of people who live and work in rural areas, such as those who work on the farms and ranches that supply the nation's food, do not have access to essential healthcare services in their community.

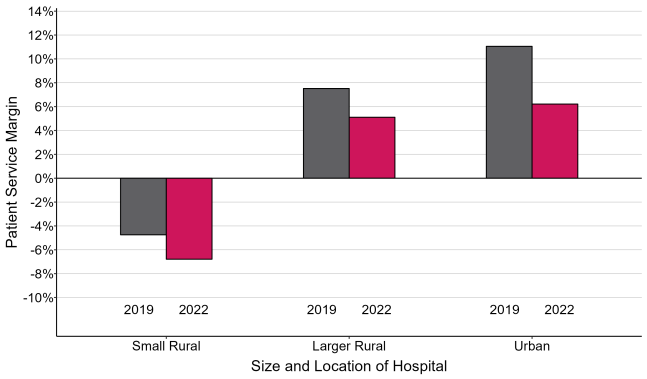
Small Hospitals Are Paid Less Than It Costs to Deliver Essential Services

The primary reason that small rural hospitals are facing closure is because health insurance plans pay them less than what it costs to deliver essential services. The hospitals' financial losses have been growing because the cost of delivering healthcare services has been increasing and payments from health plans haven't kept up.

Higher costs have had a negative impact on profit margins at every hospital in the country. But in most cases, urban hospitals and even large rural hospitals have continued to make profits on patient services. Their profit margins may be *lower* than in the past, but the margins are still *positive*.

In contrast, most *small* rural hospitals have been *losing* money on patient services for several years, including prior to the pandemic. For them, "lower margins" means even bigger losses, and the bigger the losses, the sooner the hospital will run out of money and be forced to close.

Median Margin on Patient Services, 2019-2022



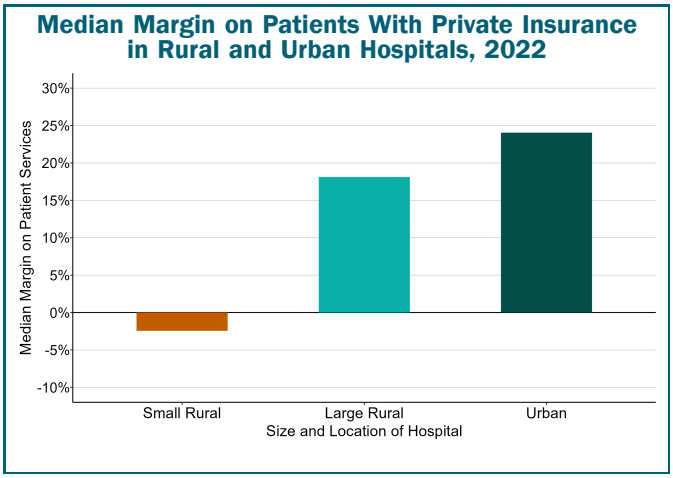
Most small rural hospitals were able to offset their financial losses and avoid closure over the last two years because of the significant amount of federal pandemic assistance grants they received. However, those grants have now ended, while costs have continued to increase, so small rural hospitals are facing bigger losses with no way to pay for them. (More detail on how rural hospitals' costs and revenues changed over the past several years is available in CHQPR's report on *The Impact of the Pandemic on Rural Hospitals*).

Problems Are Caused by Low Payments from Private Insurance Companies

The primary reason most small rural hospitals lose money is inadequate payments from private insurance companies. In contrast, most urban and large rural hospitals make large profits on the services they deliver to patients with private insurance.

All hospitals lose money on uninsured patients, and most lose money on patients with Medicaid. However, large hospitals

can offset these losses with the profits they make on patients with private insurance, while small rural hospitals cannot. A common myth about small rural hospitals is that almost all of their revenues come from Medicare or Medicaid, but the fact is, on average, more than half of the services at small rural hospitals are delivered to patients with private insurance. As a result, even a small percentage loss on these patients has a big negative impact on the hospital's overall margin.



There are multiple ways in which private insurance companies underpay small rural hospitals for their services:

- The insurance company pays the rural hospital less than it pays larger hospitals for the same service;
- The insurance company fails to pay more when the cost of delivering a service is higher in the rural area than urban areas (more information on why it costs more to deliver essential services in rural communities is available here);
- The insurance company uses problematic prior authorization rules to deny payment for a service even though the patient needed treatment and it was covered by their insurance;
- The insurance company rejects the claim submitted by the hospital for minor technical reasons;
- The insurance company delays payments by many months, forcing the hospital to borrow money from other sources to pay its own bills.

Big hospitals make profits on patients with private insurance because they can afford to hire staff and consulting firms to negotiate with insurance companies for higher payments, to challenge inappropriate prior authorization denials, and to resubmit rejected claims until they are paid. In contrast, most small rural hospitals do not have the resources to do any of those things, so the small hospitals end up with large financial losses for a large portion of their patients.

Medicare Advantage Plans Are a Growing Part of the Problem

Large hospitals routinely complain that the payments they receive for Medicare patients are too low. In contrast, most small rural hospitals are designated as Critical Access Hospitals, and the Centers for Medicare and Medicaid Services (CMS) pays them based on the actual costs they incur delivering services to patients who have Original Medicare insurance.

However, *Medicare Advantage* plans are operated by private insurance companies, not by CMS, and they pay small rural hospitals in the same problematic ways as other commercial plans. They are not required to pay Critical Access Hospitals the same amounts as Original Medicare does, and they can deny and delay payments to small hospitals in ways that CMS does not. As a result, many small rural hospitals experience financial losses when seniors in their community enroll in Medicare Advantage plans. (More information about the problems caused by Medicare Advantage plans is available here).

Most Proposed "Solutions" Won't Prevent Rural Hospital Closures

Understanding the real causes of the financial problems at small rural hospitals makes it clear why most proposed policies will do little or nothing to solve them:

- **Medicaid Expansion.** Medicaid expansion reduces the number of citizens who don't have insurance, but losses on services to uninsured patients are only a small part of rural hospitals' financial problems. As a result, expanding Medicaid alone will not prevent rural hospitals from closing or ensure that Medicaid beneficiaries in rural areas have access to essential services. (More information about the impacts of Medicaid expansion on rural hospitals is available here.)
- **Eliminating Inpatient Services.** Under the new federal "Rural Emergency Hospital" program, a small rural hospital can receive an additional $3 million annual federal grant to help pay for services, but only if the hospital stops delivering inpatient care. Eliminating inpatient care would mean senior citizens and other residents of the community would have to be transferred to a distant city if they needed a short hospital stay for treatment of a chronic disease exacerbation or a common condition like pneumonia. Moreover, because of staff shortages in larger hospitals, there may not be a hospital bed available in the other city. In addition, Critical Access Hospitals can only participate in the Rural Emergency Hospital program if they give up cost-based payment for outpatient services, which would reduce their *revenues* rather than reduce their *losses*. (More information about the impacts of eliminating inpatient services is available here.)
- **Giving the Hospital a "Global Budget."** Some people claim that a small rural hospital would be better off financially if its Medicare and Medicaid payments were reduced but the hospital had more flexibility in using the funds. However, in Maryland's global budget program, the only small rural hospital in the state was forced to close despite having a global budget, and a global budget demonstration project developed by the Center for Medicare and Medicaid Innovation (CMMI) was terminated at the beginning of 2023 after it became clear that it would harm small rural hospitals rather than help them. (More information about the problems with the global budget concept is available here.)

What Should Be Done to Preserve Access to Essential Healthcare Services in Rural Communities?

In order to ensure residents of rural communities have access to essential healthcare services, private health insurance companies (including Medicare Advantage plans) have to pay rural hospitals enough to cover the cost of delivering essential services in their communities. Unfortunately, health insurance companies are unlikely to do this unless regulators require it or the health plans' customers demand it:

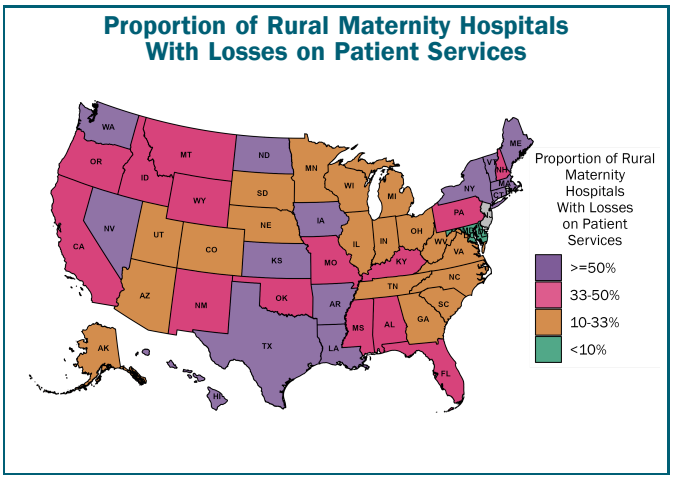
- Employers need to choose health plans for their employees based on whether the plans pay the local hospital adequately and appropriately, not just based on whether the premiums or administrative fees are lower than other insurance companies charge. It does little good to pay a smaller premium for insurance if there is nowhere to use the insurance because the community hospital has closed.
- Medicare beneficiaries should not enroll in a Medicare Advantage plan if their local hospital says the plan is not paying adequately for services.

The financial problems at small rural hospitals are caused not only by the inadequate *amounts* they are paid for services, but also by the problematic *method* all payers use to pay for services. Small rural hospitals are not only paid too little when they treat a patient, they are paid nothing for what residents of the community would likely view as one of the most important services of all - the *availability* of physicians, nurses, and other staff to provide care quickly if the resident experiences an injury or health problem. In order to ensure the rural hospital has adequate revenues to support the fixed cost of this *standby capacity*, the hospital needs to receive **Standby Capacity Payments** from both private and public insurance plans, in addition to being paid Service-Based Fees that cover the variable costs of individual services. More details on this approach are available in CHQPR's report *A Better Way to Pay Rural Hospitals*.

The Cost of Inaction

Action is needed immediately to prevent more rural hospital closures. Once a hospital announces it is closing, it is likely too late to save it. Moreover, long before it shuts down entirely, the hospital will probably be forced to eliminate important healthcare services in an effort to stay afloat. This will harm the patients who need those specific services.

For example, many rural hospitals are already eliminating maternity care because of the high costs and low payments for those services from both commercial insurance plans and Medicaid programs. Fewer than half of the rural hospitals in the country still offer labor and delivery services, and more than 1/3 of the rural hospitals that do still have labor & delivery services have been losing money, so their ability to continue delivering maternity care is at risk. Elimination of rural maternity care services in additional communities will likely result in increases in the nation's already-high rates of infant and maternal mortality. (More detail is available in CHQPR's report *The Crisis in Rural Maternity Care*.)



The amounts insurance plans pay for services at small rural hospitals will have to increase in order to prevent them from closing. Because the at-risk hospitals are very small, it would only cost about $4 billion per year nationwide to prevent all of them from closing and to preserve access to healthcare services for the millions of people who would otherwise lose it. This is a tiny amount in comparison to the more than $1.3 *trillion* currently spent on all urban and rural hospitals in the country.

At the same time that these small rural hospitals are losing money and facing closure, there are many other hospitals, primarily in urban areas, that are highly profitable. In 2022, there were over 1,000 hospitals in the country that made profits of more than 10% on patient services. Their combined profits totaled more than $88 billion. A small reduction in the payments to these high-profit hospitals would generate enough money to pay the small rural hospitals adequately while still leaving the large hospitals highly profitable. (Profit margins for individual hospitals in both urban and rural areas can be found at RuralHospitals.org).

Failure to provide the funds needed to sustain small rural hospitals would be penny-wise and pound-foolish. Spending by health insurance plans would likely increase by a greater amount if the hospitals close. This is because the reduced access to preventive care and delays in treatment resulting from a rural hospital closure will cause residents of the community to have more serious health problems that require expensive services in urban hospitals. Paying more now to preserve rural healthcare services is a better way to invest resources and to improve the health of all citizens.