Rural Hospitals' Financial Health: A National Perspective

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Director, Sheps Center

18 Jan 2023

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THE CECIL G. SHEPS CENTER
FOR HEALTH SERVICES RESEARCH

Presentation in one slide

- Current hospital finances
- Near term forecast
- Rural Inpatient Use
- Mergers
- REH

- Some metrics show that hospital finances were strong during the pandemic, due to CARES
  - Depends on your lens
  - Likely to return to pre-pandemic levels
- Rural hospitals continue to pivot to outpatient-focused facilities
- Populations served by rural hospitals that merge see some benefits and some disadvantages
- The REH represents a willingness by feds to try new models in rural healthcare

Disclaimers, etc.

- Work here draws from work of the North Carolina Rural Health Research Center / UNC Sheps Center
  - This work was partially supported by the Federal Office of Rural Health Policy (FORHP), Health Resources and Services Administration (HRSA), U.S. Department of Health and Human Services (HHS) under cooperative agreement # U1CRH03714. The information, conclusions and opinions expressed in this brief are those of the authors and no endorsement by FORHP, HRSA, HHS, or The University of North Carolina is intended or should be inferred.
- No conflicts to report
- Focus on national, rural, and Northeast (USCB) perspectives
- Data here largely drawn from Medicare Cost Reports
  - Non-audited, publicly available
  - Differing definitions (e.g. ”system”, “operating margin”, “system-affiliated”)
  - 12-18 month data lag
  - Rural definition likely varies from yours
  - ➔ *results here will almost certainly vary from other reports*

Published reports suggest high profitability, but will it last?

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- Some analyses and media coverage suggest "record profits" during the pandemic
  - CARES money offset a cratering in operating margin
- Important to separate total margin from operating margin
  - Wang et al (2022) found from 2019 to 2020 stable to increasing *total* margin but a sizable decline in *operating* margin (-1.0% to -7.4%)
- Nerdy caveats:
  - Let's denote *patient margin* as patient revenue only – no other operating income; "Operating margin" has various definitions across studies
  - Our results will differ from others – decisions on data cleaning, definitions, etc.

10.1001/jamahealthforum.2022.1018

Trends in Margins: Pre-Pandemic

- Current hospital finances
- Near term forecast
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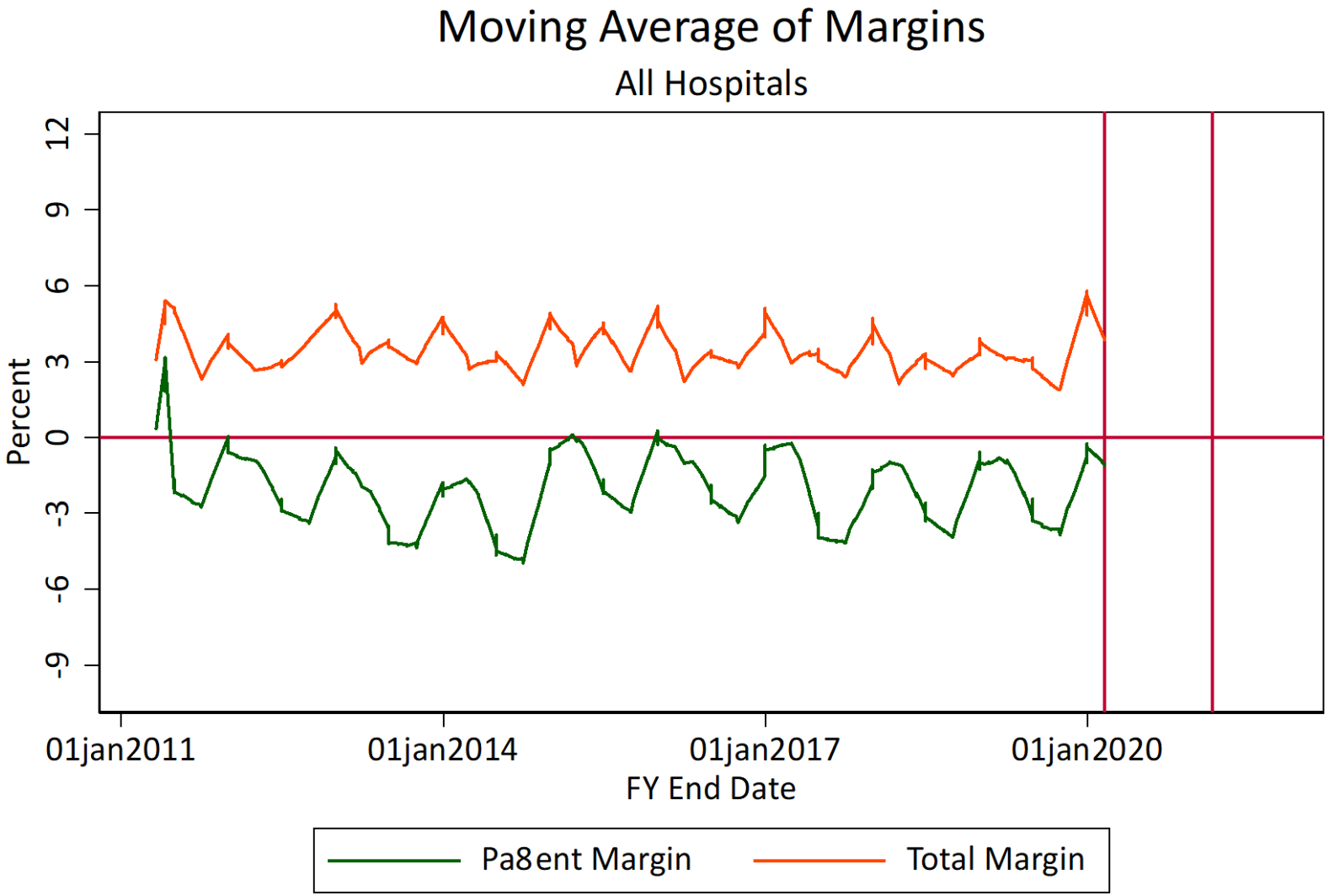

Red ver8cal lines denote 3/1/2020 and 3/1/2021

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Trends in Margins: Less than One Year After Onset

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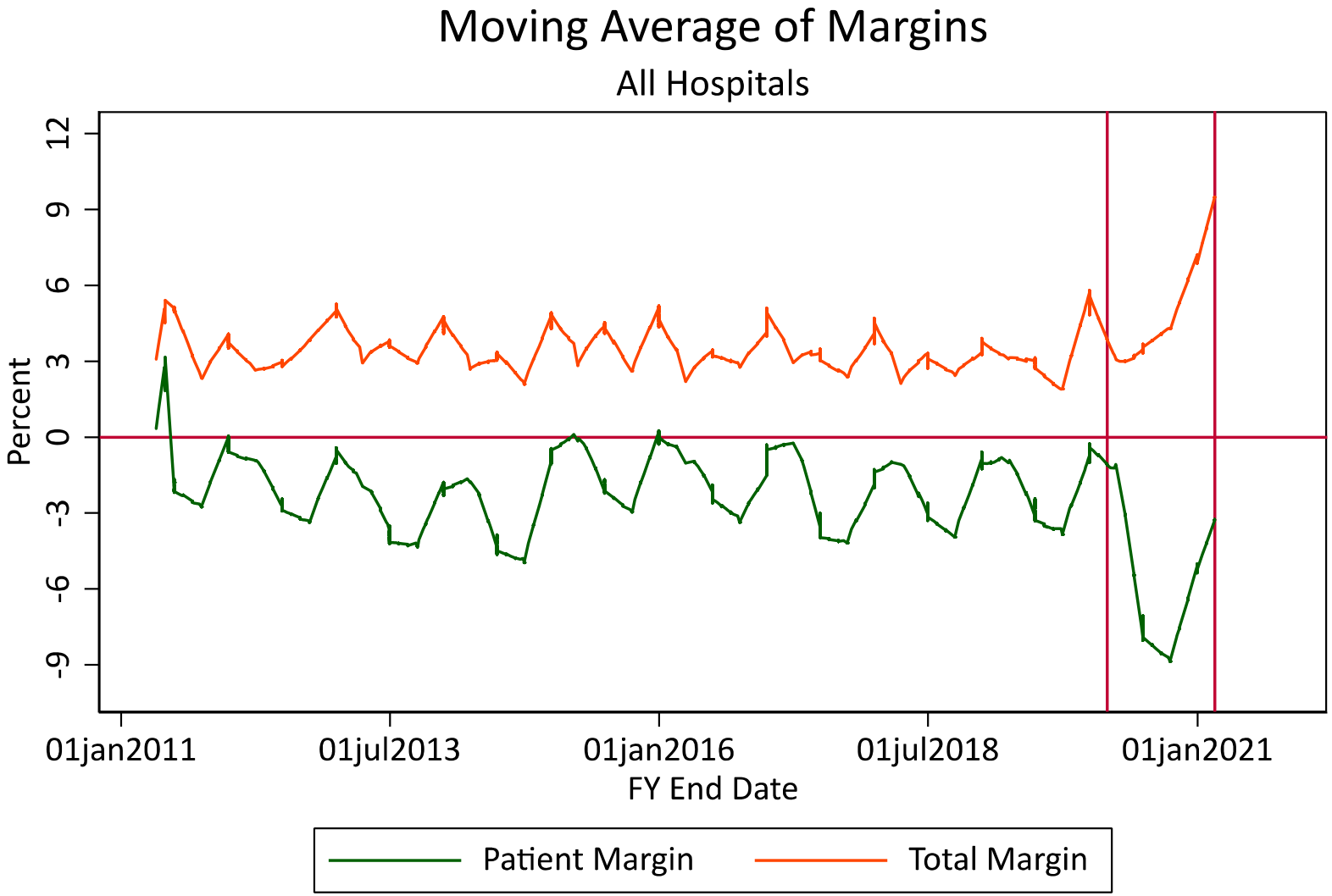

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Trends in Margin: 1 Year After Onset

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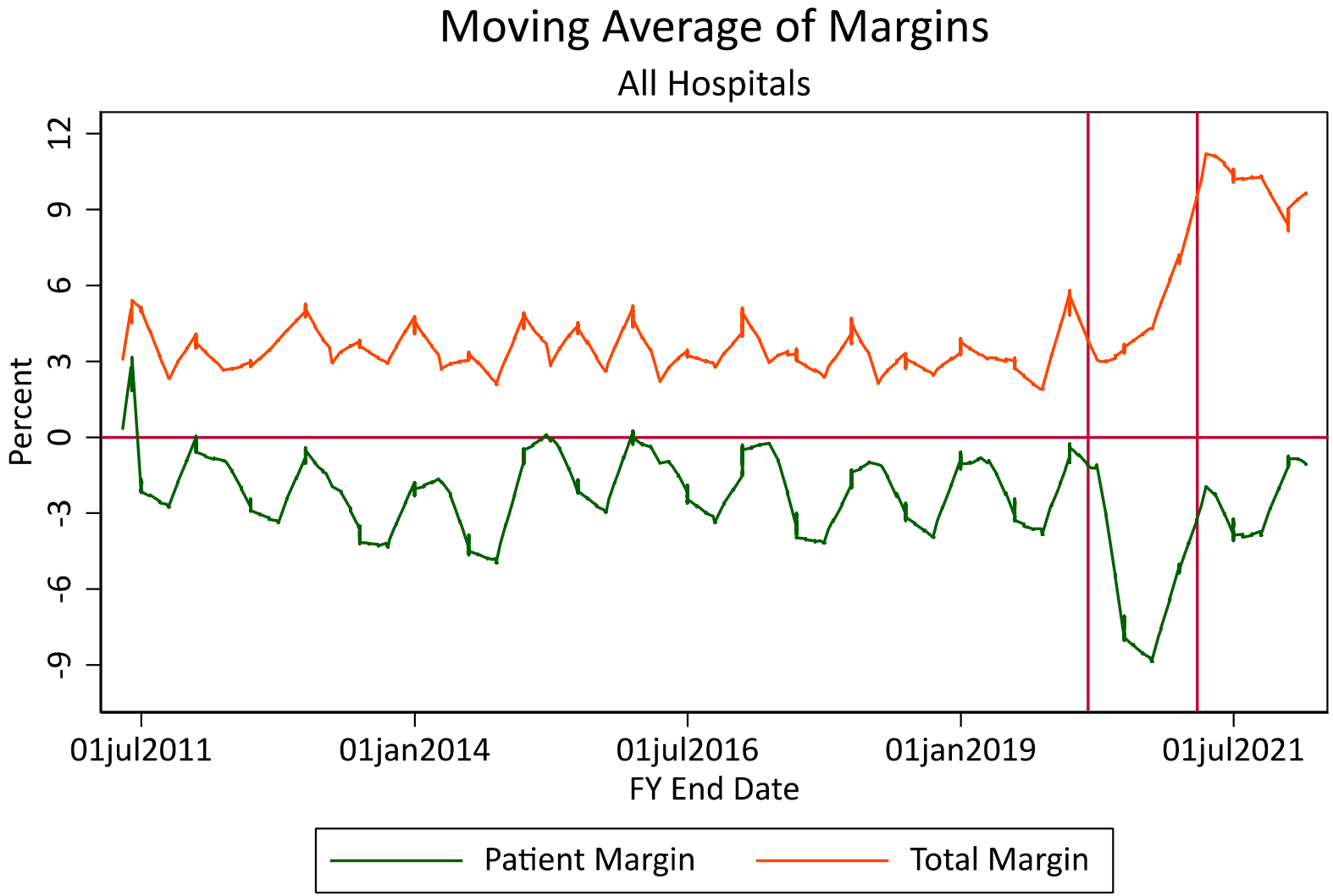

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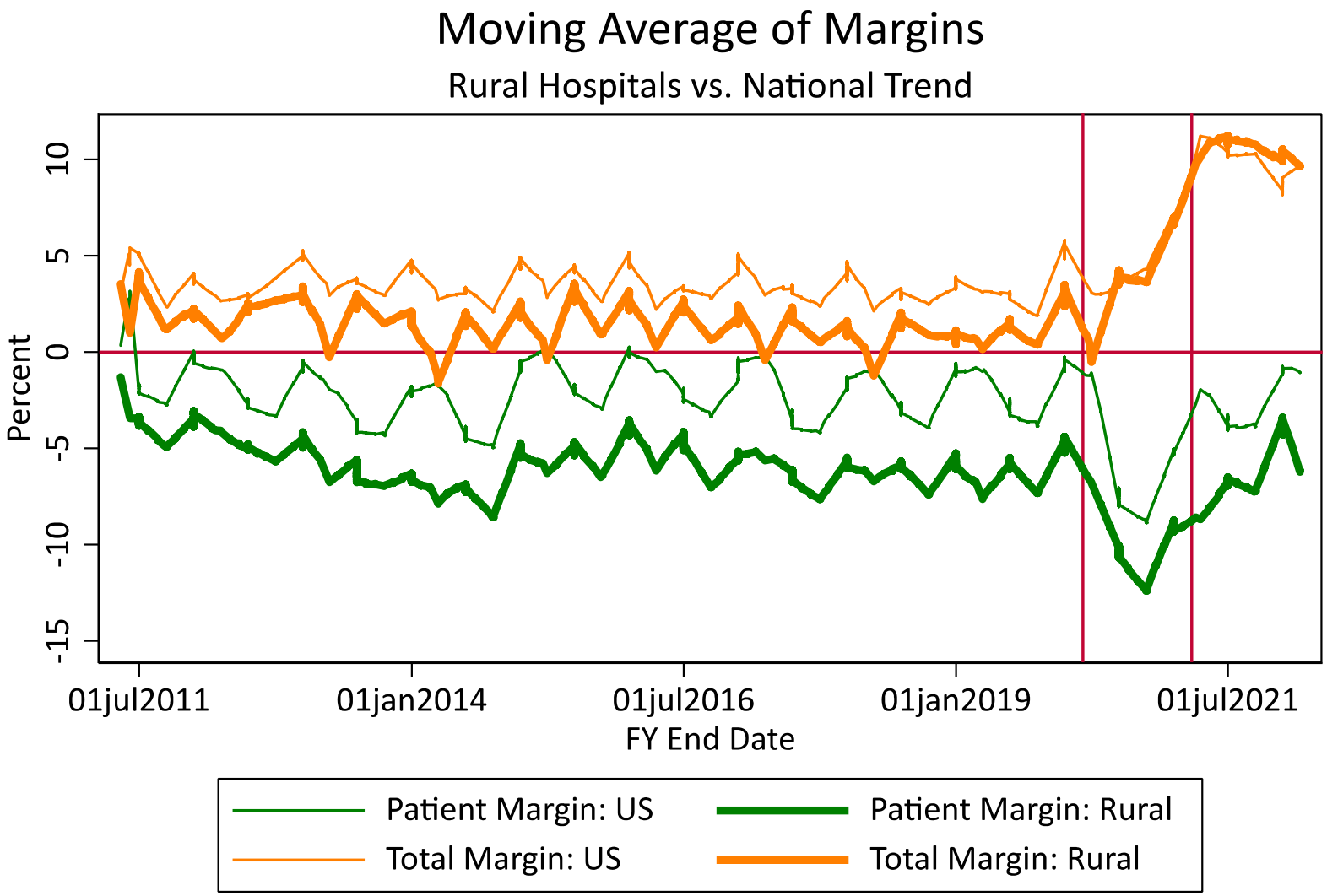

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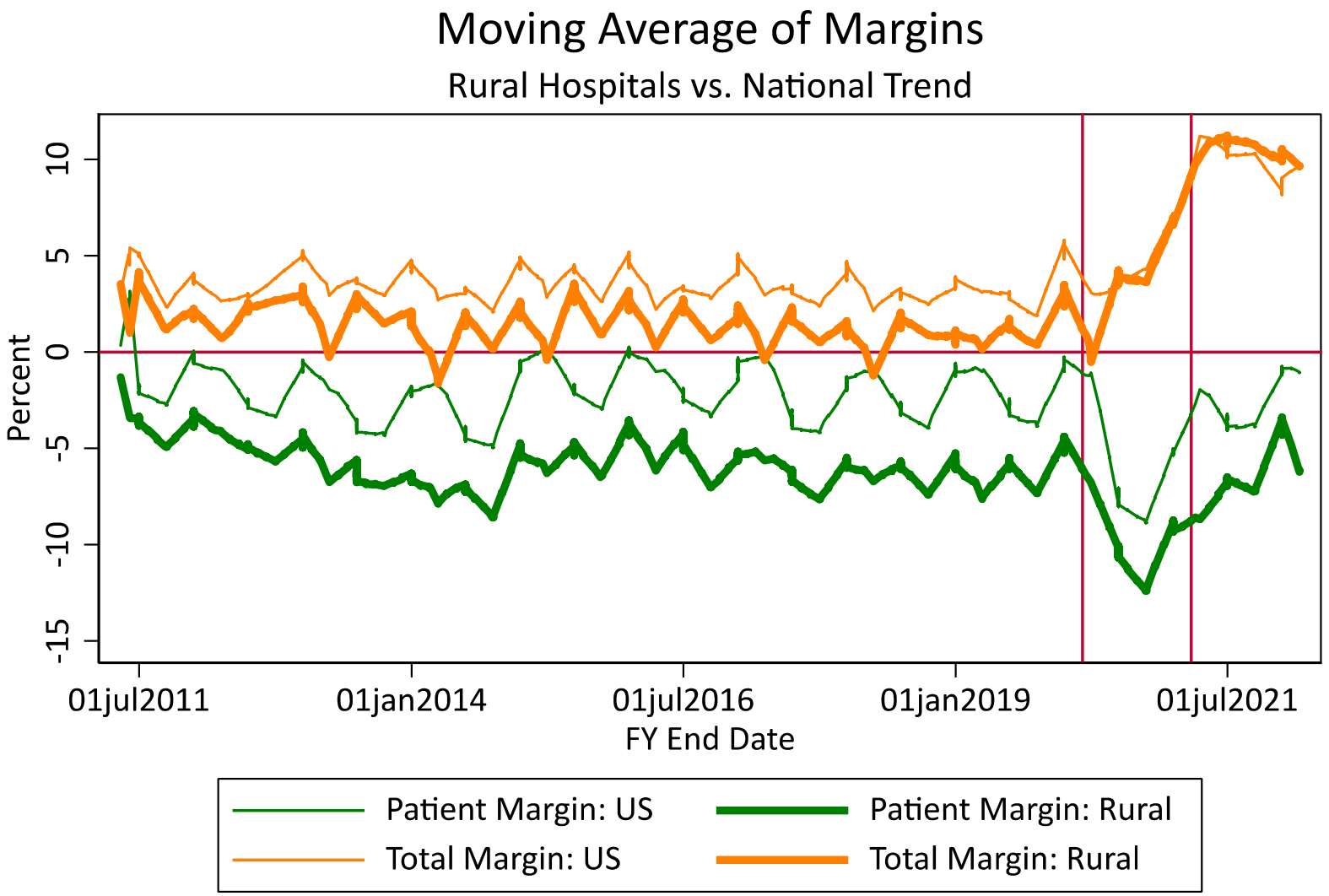

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Gap in TM disappears; CARES effect?

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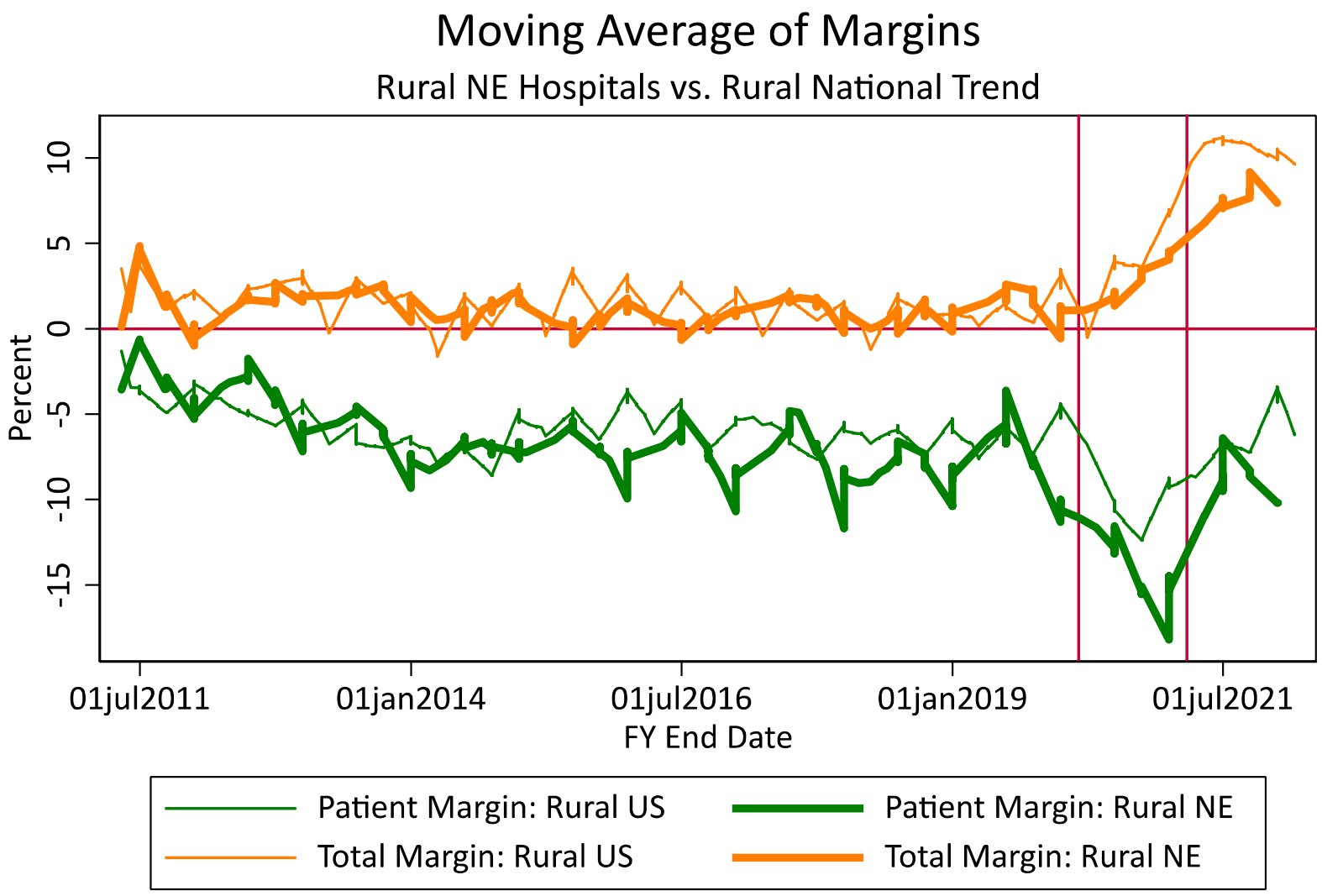

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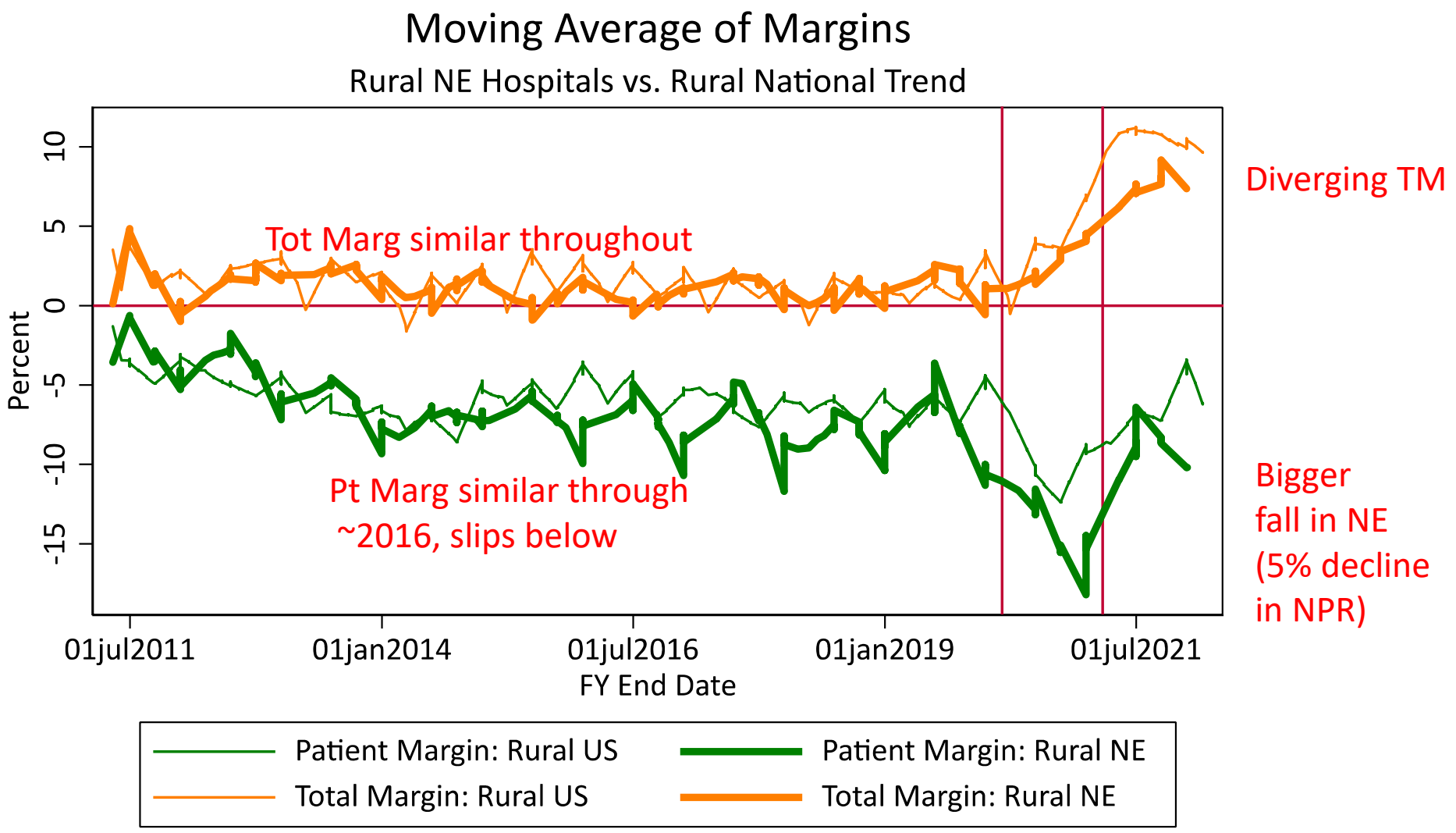

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Net Patient Revenue in Northeast Rural Hospitals Has Recovered More Slowly

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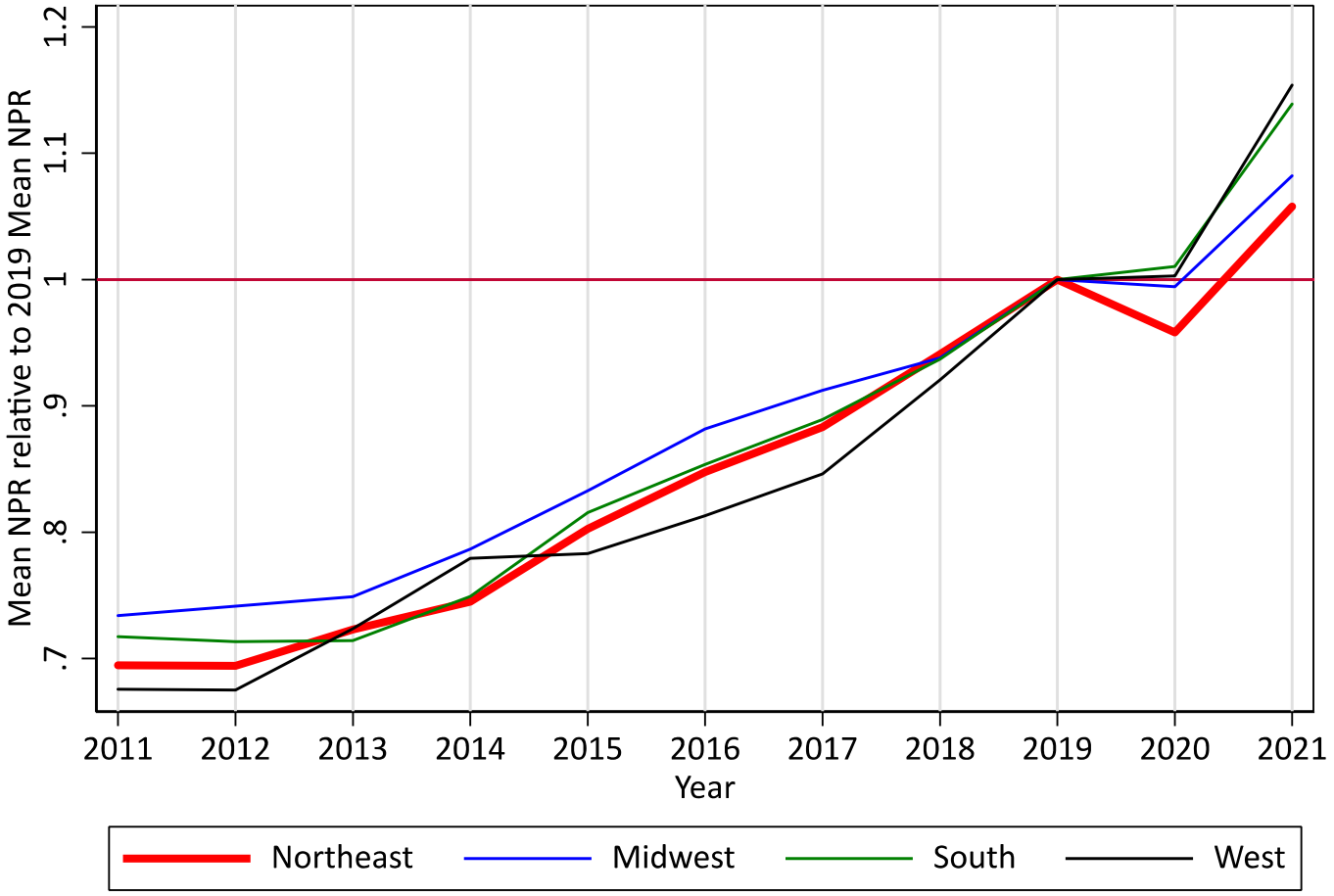

Rural Hospitals

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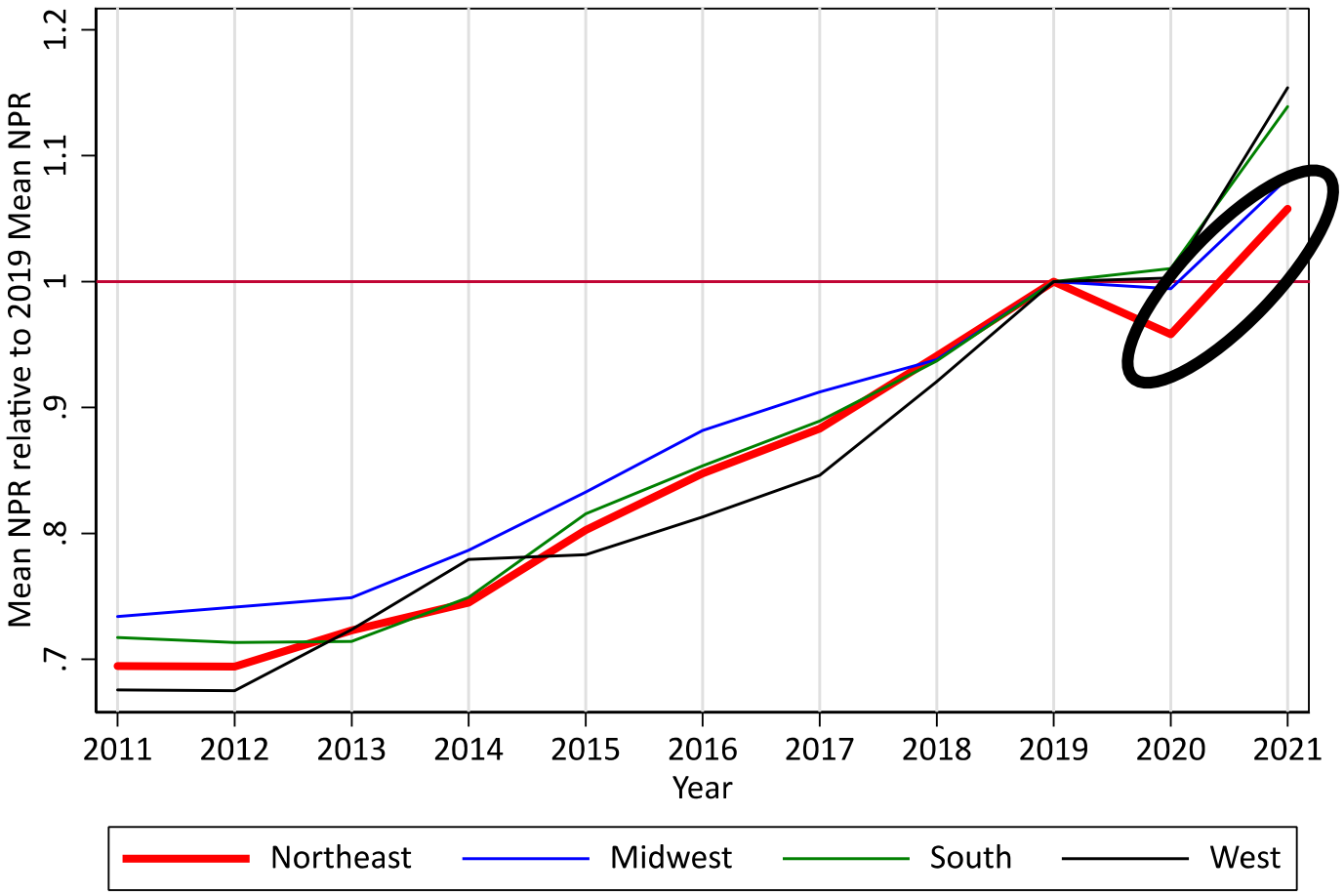

NPR 5% lower in 2021, trails other region recovery

Rural Hospitals

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Rural Hospitals Are Generally Financially Weaker, and Received More Federal Support

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- A constant finding is that rural hospitals have weaker finances
- To recognize potentially poorer ability to weather pandemic, CARES had special targeted provisions for rural hospitals

Table 1. Estimated Distribution of Provider Relief Funding to Hospitals as of February 2021 (millions)

			General distribution		General, safety-net, rural, and tribal distribution		General, safety-net, rural, tribal, and high-impact distribution	
Hospital type	**Number of hospitals**	**Number of beds (thousands)**	**Total funding**	**Funding as a share of FY 2018 operating expenses**	**Total funding**	**Funding as a share of FY 2018 operating expenses**	**Total funding**	**Funding as a share of FY 2018 operating expenses**
Urban	3,567	567.8	$18,643	2.0%	$30,305	3.3%	$49,273	5.3%
Rural	2,454	102.5	$2,433	1.9%	$14,261	11.0%	$14,967	11.5%
Total	6,021	670.3	$21,077	2.0%	$44,566	4.2%	$64,241	6.1%

Source: COVID Relief Funding for Medicaid Providers, MACPAC Issue Brief February 2021. (https://www.macpac.gov/wp-content/uploads/2021/02/COVID-Relief-Funding-for-Medicaid-Providers.pdf)

Rural Margins Were Lower than Urban, but Increased More During Pandemic

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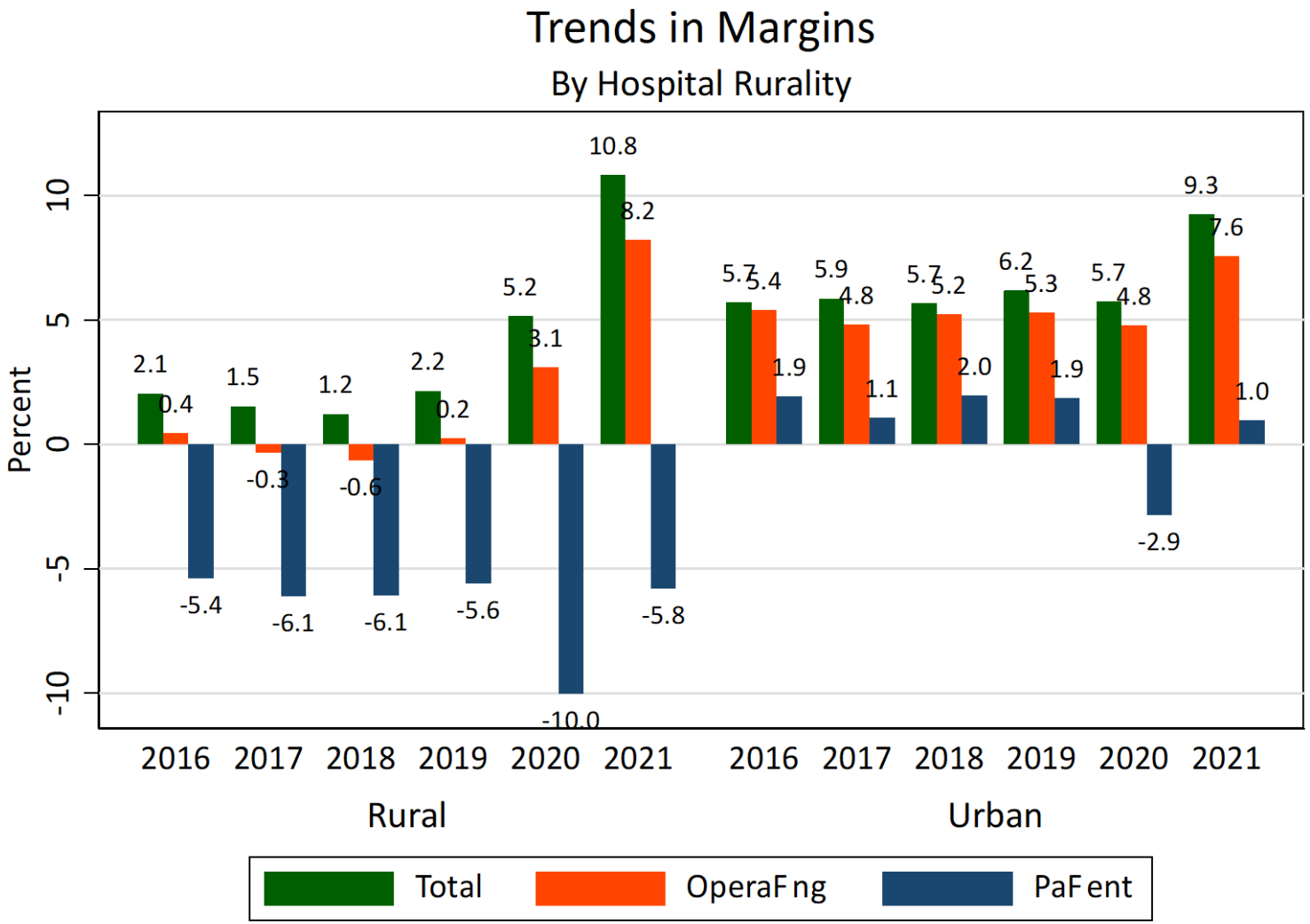

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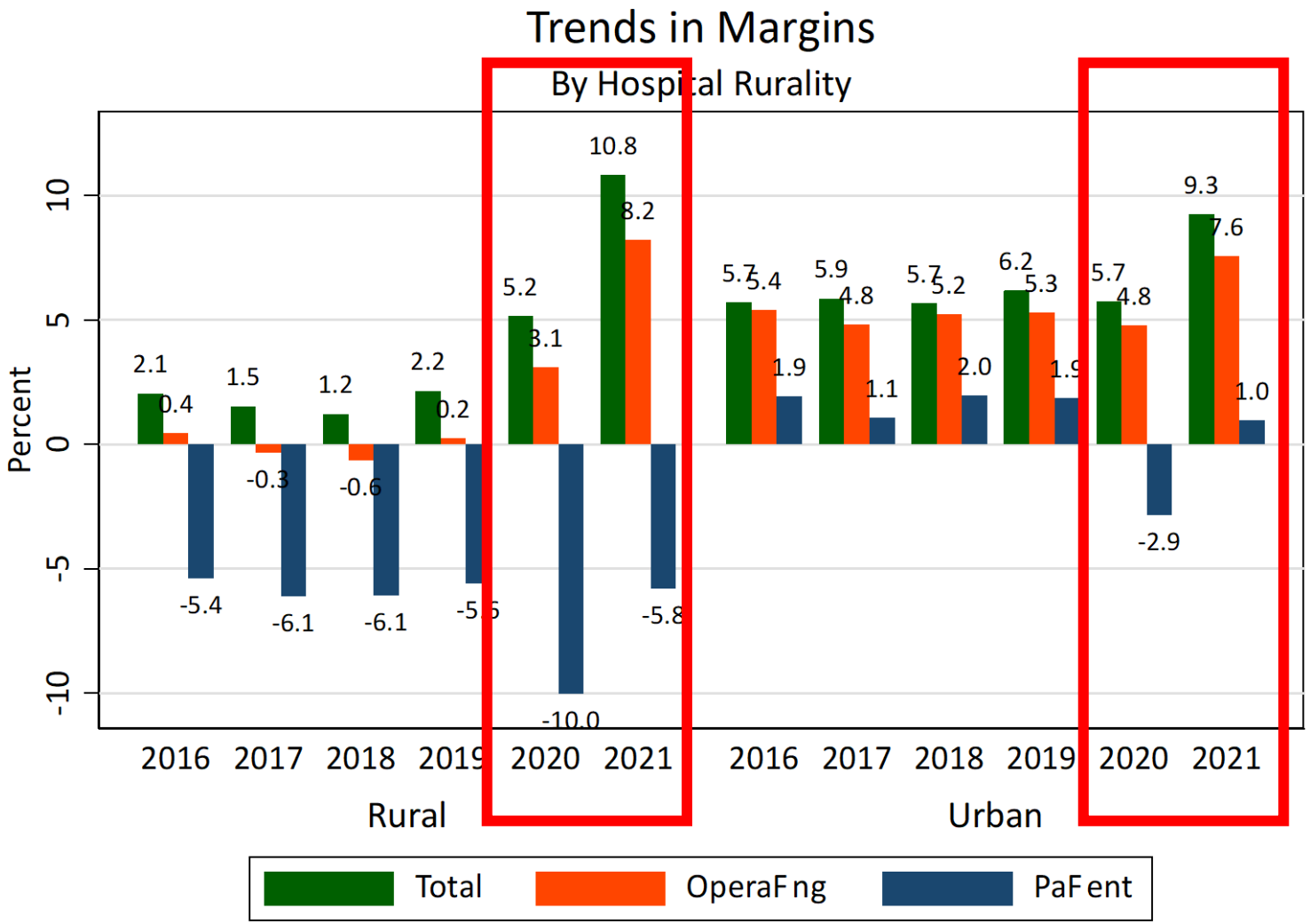

So where does that leave us? Crisis over?

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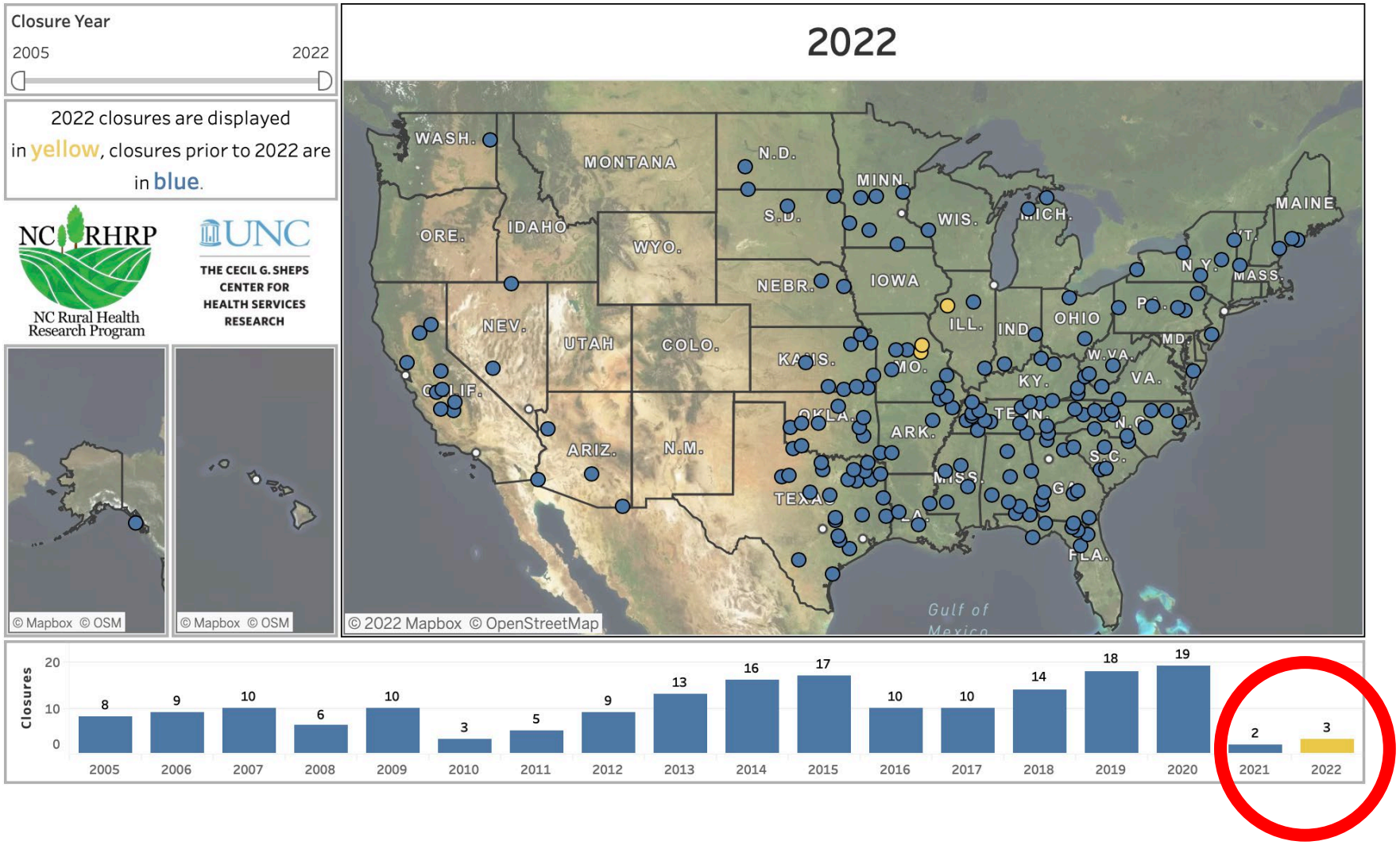

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NC RHRP
Findings Brief
NC Rural Health Research Program
March 2022

Rural Hospital Profitability during the Global COVID-19 Pandemic Requires Careful Interpretation

George Pink, PhD; Susie Gurzenda, MS; Mark Holmes, PhD

Profitability in Financial Models

Composite measures that rely on these financial values are also likely to show a potentially misleading improvement in profitability. These measures include indices like our Financial Distress Index (FDI)[14] as well as measures used by other researchers and consultants. Thus, it is our responsibility as researchers to recognize these limitations to financial data during this period; balancing the transparency and timeliness of data analysis against the likelihood of misinterpretation is a key consideration of our work analyzing finances during this period. Just as early returns on election night may give a false impression of trends, it is important to not prematurely celebrate the financial recovery of rural hospitals until the effects of short-run injections of federal support during the COVID-19 pandemic have passed.

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RURAL HEALTH

Billions in federal funds may make rural hospitals look more stable than they really are

While federal funding helped keep rural hospitals afloat throughout the pandemic, researchers worry about a wave of closures once the money goes away.

by Clarissa Donnelly-DeRoven
May 17, 2022

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Current issues affecting rural hospitals

- Current hospital finances
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- Decline in inpatient business makes outpatient more relevant for the typical rural hospital
- Rural hospitals continue to merge, with high variability across state – what are the implications?
- What new models are on the horizon?

Rural residents are increasingly receiving inpatient care from urban hospitals

- Current hospital finances
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- Acute ADC at rural hospitals fell 13 percent from 2011 to 2017; not much change in urban hospitals
- This was driven largely by an increasing tendency of rural residents to be admitted to urban hospitals (+2.0% per year) but fell if the closest rural was part of a system
  - ➔ *Rural hospitals that are part of a system are more likely to keep their patients local – "halo effect"*

THE JOURNAL OF RURAL HEALTH

BRIEF REPORT

Decline in Inpatient Volume at Rural Hospitals

Tyler L. Malone MS, George H. Pink PhD, George M. Holmes PhD

First published: 31 December 2020 | https://doi.org/10.1111/jrh.12553 |

HSR Health Services Research

RESEARCH BRIEF

Rural Medicare beneficiaries are increasingly likely to be admitted to urban hospitals

Hannah R. Friedman BA, George Mark Holmes PhD

First published: 30 June 2022 | https://doi.org/10.1111/1475-6773.14017 | Citations: 1

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Sorry graph

- Current hospital finances
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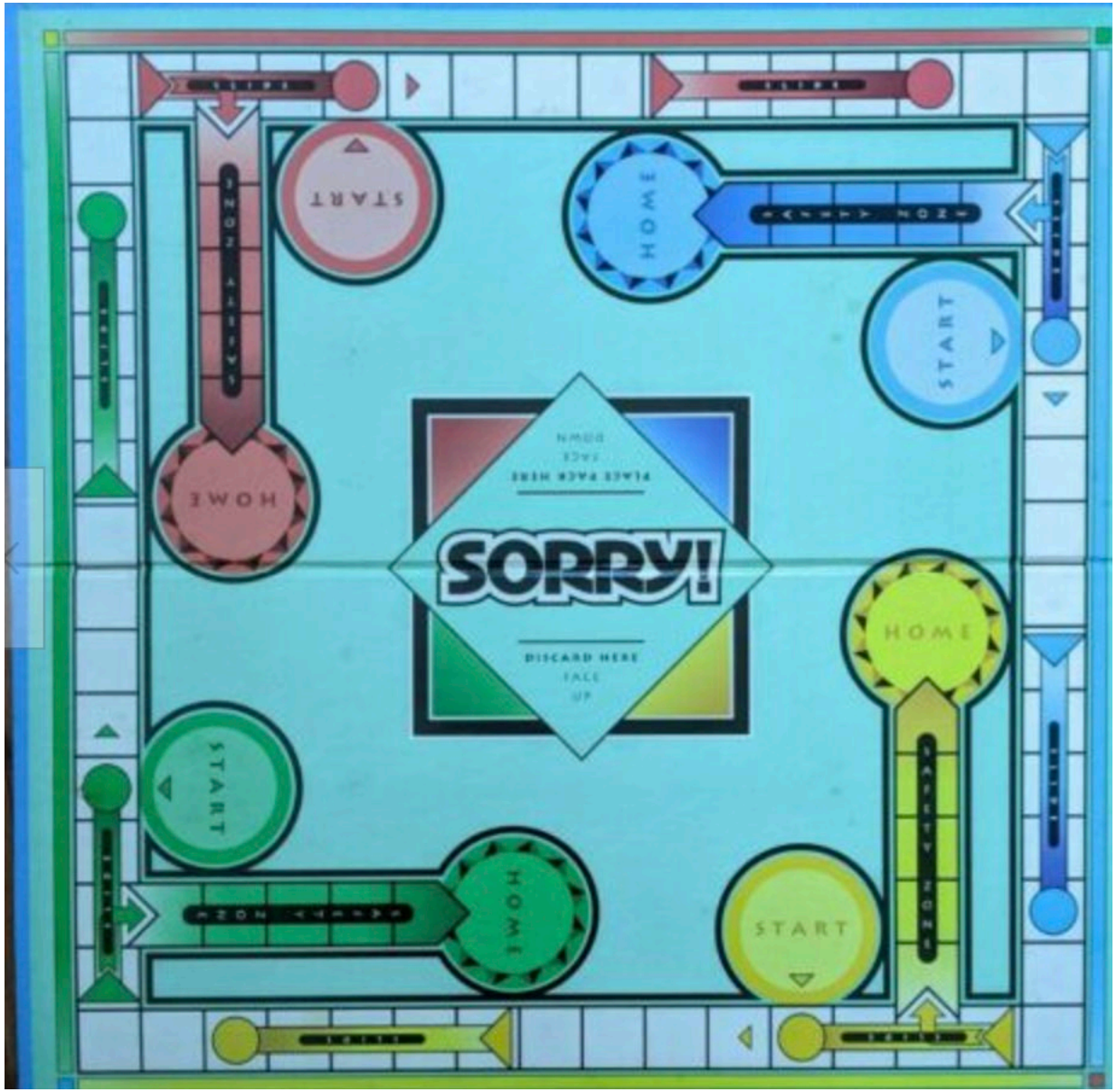

Start here

End here

Implication: outpatient an increasing part of the hospital book of business

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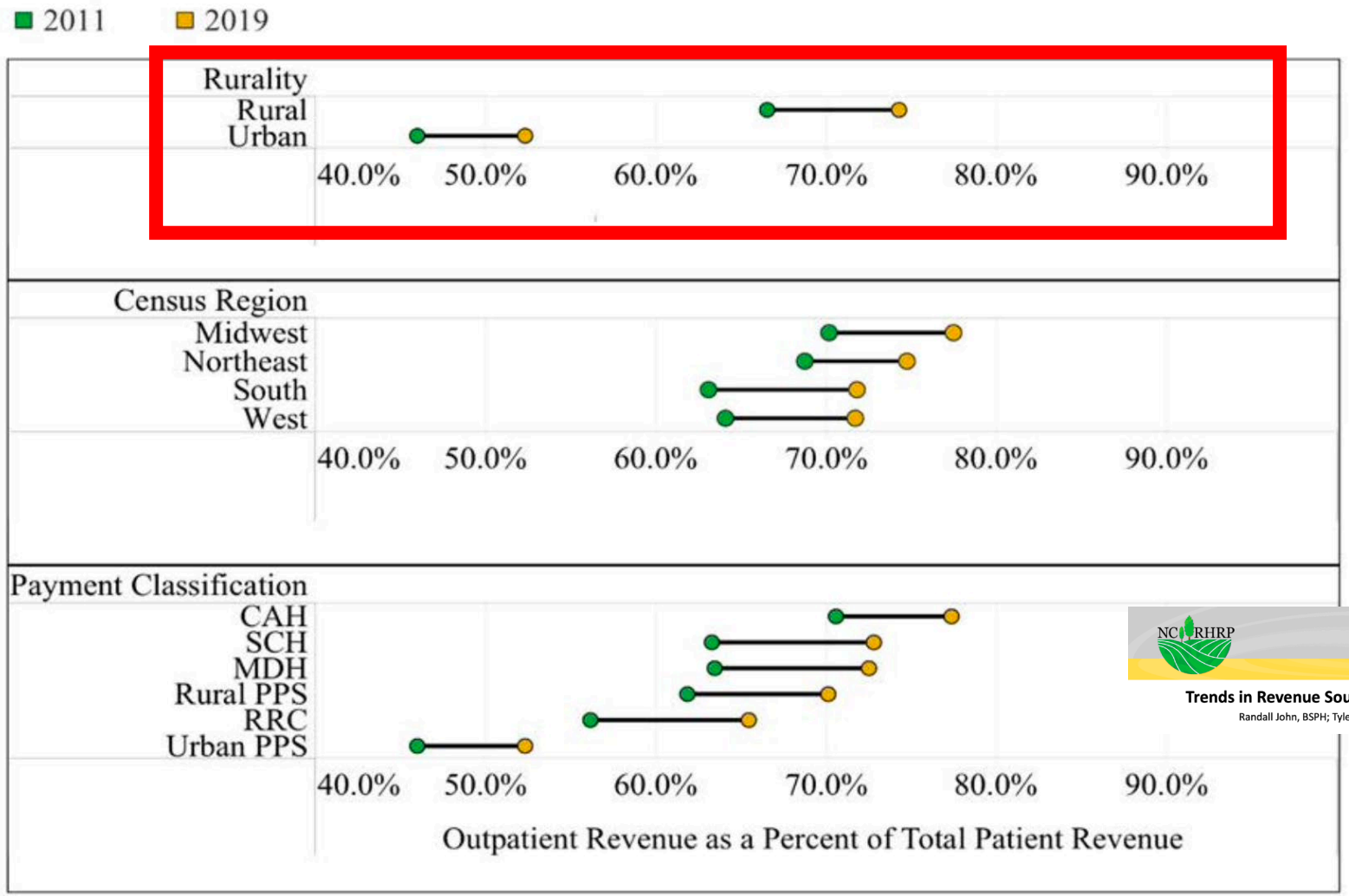
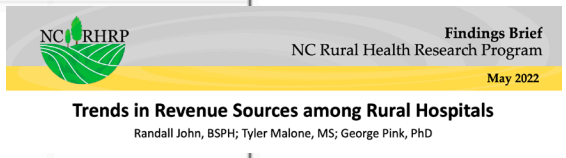
Figure 1. Trends in Hospital Outpatient Revenue as a Share of Total Patient Revenue for the Average Rural Hospital, Stratified by Additional Hospital Characteristics, 2011-2019





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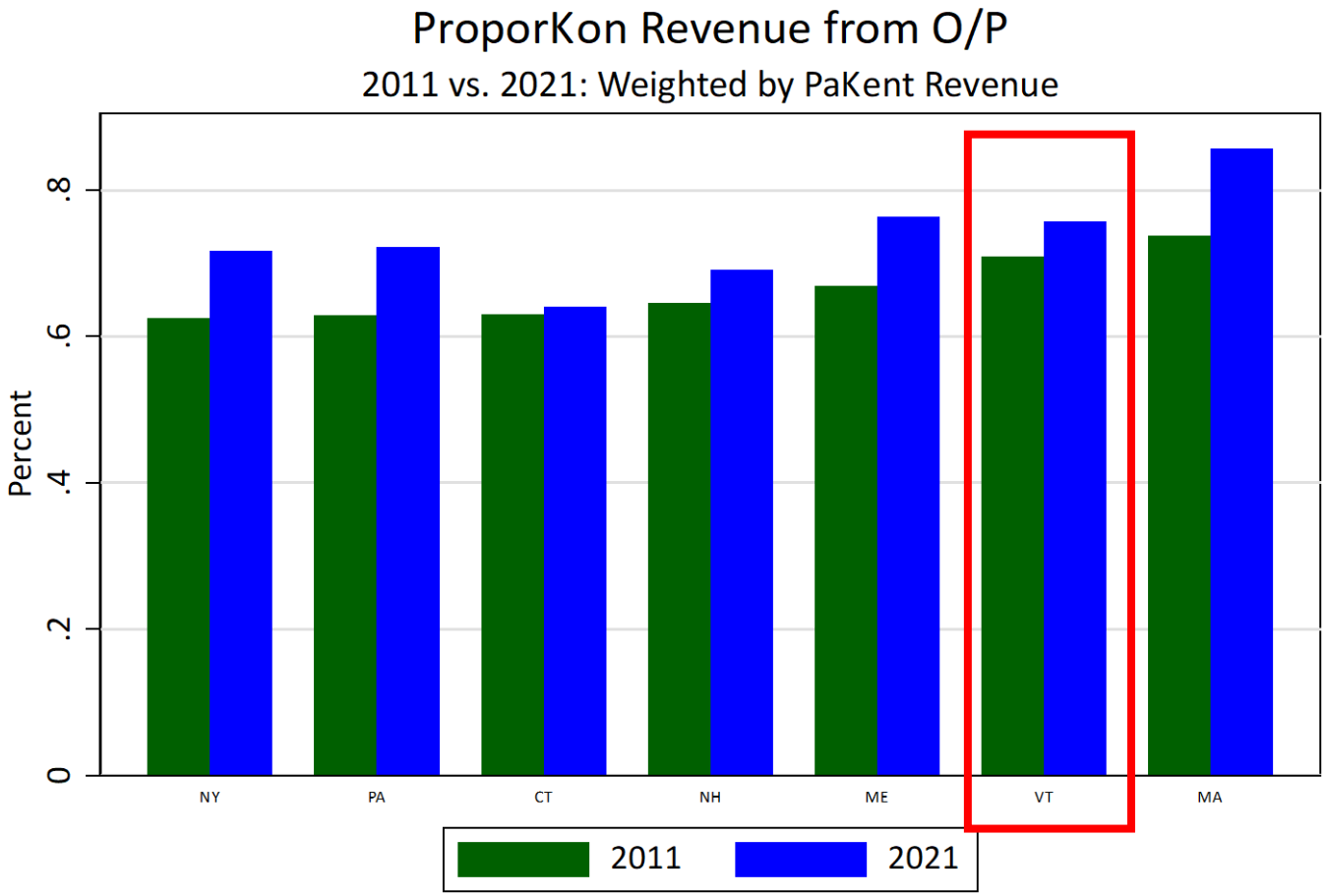
Compared to other NE states, rural hospitals in VT are more outpatient-oriented



Rural hospitals in Northeast only; NJ excluded

Hospitals are more likely to be part of a system– especially rural hospitals

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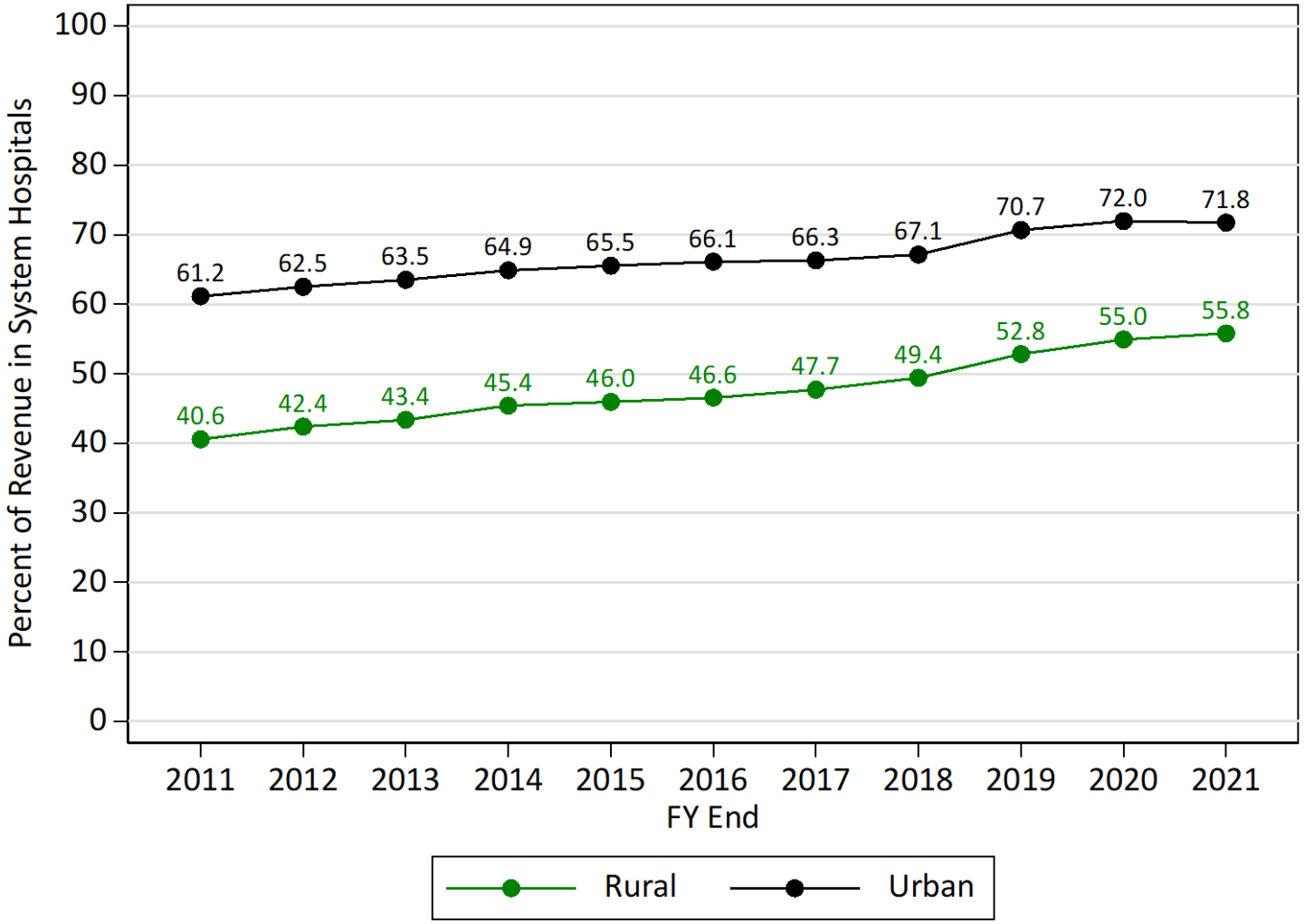

Vermont Rural Hospitals Are Increasingly Part of a System – But Less Than Rest of Region

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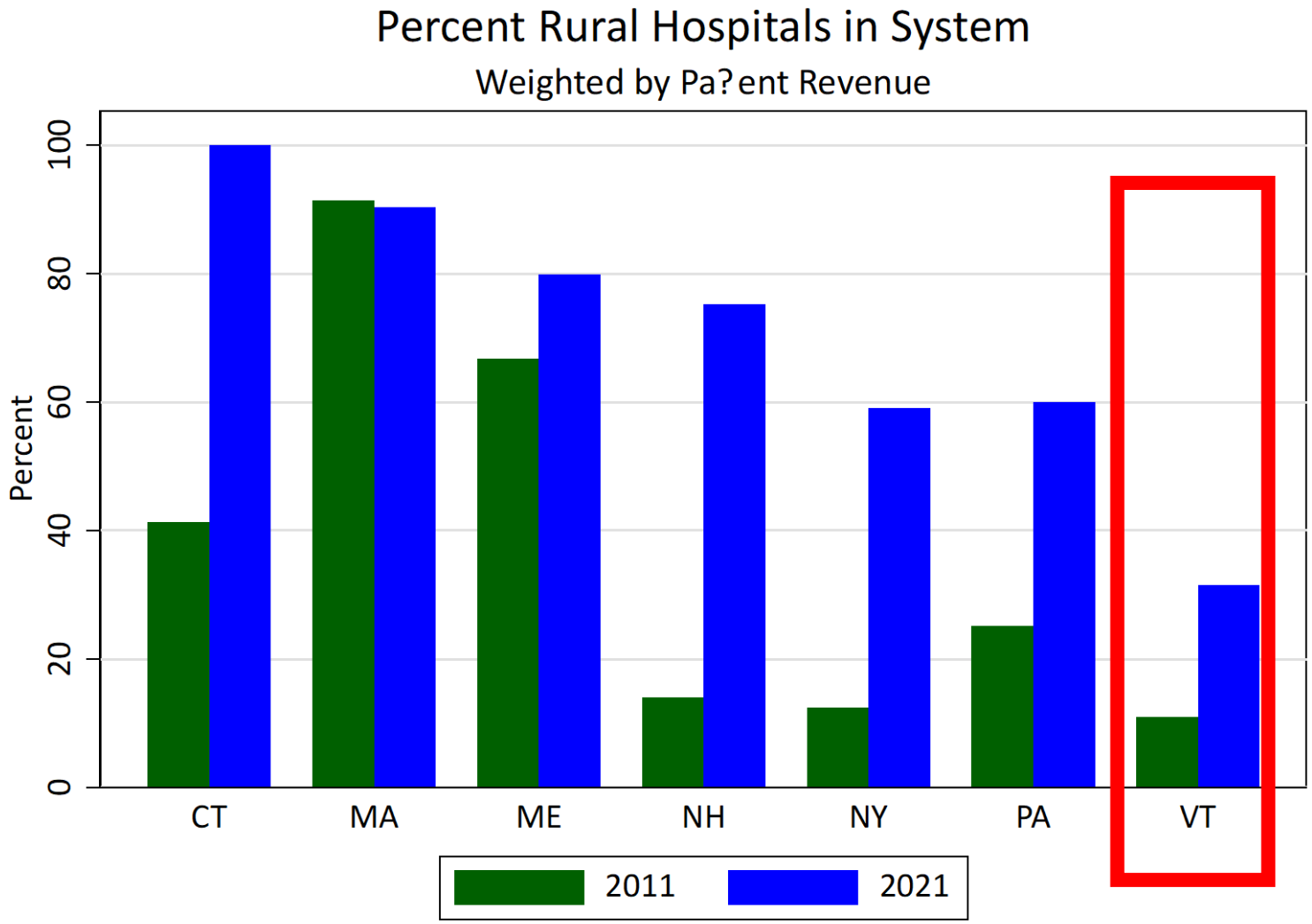

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Effects of mergers on rural hospitals – better quality, cut services, help high risk?

- Current hospital finances
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- Quality of care (AMI Mortality) improved post-merger
  - 5 year improvements in mortality for HF, stroke, pneumonia
- Merged hospitals more likely to cut maternal/surgical services and less likely to grow SUD
  - But maybe more likely to provide mental health
- Merging *decreased* closure rates for high risk but *increased* for low risk
  - This is tricky – made the bad stable but the great more unstable?
  - Probably a consequence of who merges

JAMA Network | Open

Original Investigation | Health Policy

Quality of Care Before and After Mergers and Acquisitions of Rural Hospitals

H. Joanna Jiang, PhD; Kathryn R. Fingar, PhD, MPH; Lan Liang, PhD; Rachel M. Henke, PhD; Teresa P. Gibson, PhD

HEALTH AFFAIRS > VOL. 40, NO. 10: PERINATAL MENTAL HEALTH & MORE

Access To Obstetric, Behavioral Health, And Surgical Inpatient Services After Hospital Mergers In Rural Areas

Rachel Mosher Henke, Kathryn R. Fingar, H. Joanna Jiang, Lan Liang, and Teresa B. Gibson

NC RHRP

Findings Brief
NC Rural Health Research Program
July 2020

Changes in Care-Seeking after Rural Hospitals Merge

Tyler Malone, MS; Denise Kirk, MS; Randy Randolph, MRP; George Pink, PhD; Mark Holmes, PhD

Risk of Closure Among Independent and Multihospital-Affiliated Rural Hospitals

H. Joanna Jiang, PhD[1]; Kathryn R. Fingar, PhD, MPH[2]; Lan Liang, PhD[1]; et al

Author Affiliations | Article Information

JAMA Health Forum. 2022;3(7):e221835. doi:10.1001/jamahealthforum.2022.1835

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Rural Emergency Hospital

- Current hospital finances
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- With the above trends in hand, role for new provider type – the Rural Emergency Hospital
- Authorized in CAA (December 2020)

Table 1: Payment Provisions in the CAA of 2021 for an REH

Type of Payment	Method Used to Calculate Funding
Monthly Additional Facility Payments	Calculated as 1/12th of the excess of (if there is any): Total amount that was paid for Medicare beneficiaries to all CAHs in 2019; minus the estimated total amount that would have been paid for Medicare beneficiaries to all CAHs in 2019 if payment had been made for inpatient hospital, outpatient hospital, and SNF services under the applicable Prospective Payment System (PPS); divided by the total number of CAHs in 2019
Outpatient	Current Outpatient Prospective Payment System (OPPS) X 1.05
Outpatient copayment	Based on current OPPS
SNF DPU	Current SNF PPS
Ambulance	Current ambulance fee schedule
Rural Health Clinic (RHC)	Same rate as <50 bed hospital (payment limit exception for grandfathered RHCs)

NC RHRP
Findings Brief
NC Rural Health Research Program
July 2021
How Many Hospitals Might Convert to a Rural Emergency Hospital (REH)?
George H. Pink, PhD; Kristie W. Thompson, MA; H. Ann Howard, BS; G. Mark Holmes, PhD

Big idea of the REH

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- Existing rural hospital – fewer than 50 beds
- No inpatient services (observation OK)
- Fully staffed ED 24/7
- Other services possible
- Largely paid on Medicare FFS+
- Additional Facility Payment (AFP): $2,962,962
  - Initial estimates were lower – $1.5- $2m

How important is this new model?

- Current hospital finances
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- Not enough AFP
- Needs big capital upfit
- Would leave big service gaps
- Would the community view it as a “real” ED?
- Would this allow closures of otherwise healthy providers?

- Recognizes that some communities cannot support inpatient services
- Closer to a frontier model – stabilize and transfer
- Better than complete closure
- Nearly $3m in AFP double some estimates
- Is this just the opening gambit?

Tell me more!

- Current hospital finances
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Recent Publications

- **Characteristics of Rural Hospitals Eligible for Conversion to Rural Emergency Hospitals and Three Rural Hospitals Considering Conversion** George H. Pink, PhD, Susie Gurzenda, MS, Kristie Thompson, MA, H. Ann Howard, BS. December, 2022.
- **Factors Predicting Swing Bed Versus Skilled Nursing Facility Use** Tyler Malone, MS, Mark Holmes, PhD. October, 2022.
- **Key Considerations for a Rural Hospital Assessing Conversion to Rural Emergency Hospital** Kristin L. Reiter, PhD, TJ Grant, MHA, Susie Gurzenda, MS, Angelina Budko, MBA, Margaret Greenwood-Ericksen, MD, MSc, George Pink, PhD. October, 2022.
- **Small Rural Hospitals with Low-Volume Emergency Departments that May Convert to a Rural Emergency Hospital (REH)** Margaret Greenwood-Ericksen, MD, MSc, TJ Grant, MHA, Susie Gurzenda, MS, Tyler Malone, MS, Angelina Budko, MBA, Kristin L. Reiter, PhD, George H. Pink, PhD. October, 2022.

RURAL EMERGENCY HOSPITAL

POLICY BRIEF AND RECOMMENDATIONS TO THE SECRETARY

OCTOBER 2021

NACRHHS

National Advisory Committee on Rural Health and Human Services

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The Rural Health Research Gateway ensures this research lands in the hands of our rural leaders.

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Funded by the Federal Office of Rural Health Policy, Health Resources & Services Administration

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