CENTER FOR HEALTHCARE QUALITY & PAYMENT REFORM

RURAL HOSPITALS AT RISK OF CLOSING

Many people across the country could not receive hospital care in their community when the pandemic began because over 150 rural hospitals had closed between 2005 and 2019. An additional 18 rural hospitals closed in 2020, more than any year in the previous decade. These closures were not caused by the pandemic, but by financial losses in previous years. Ten more rural hospitals closed in 2021 and 2022; the number was smaller than in 2019 because of the special financial assistance hospitals received during the pandemic. The pandemic aid has now ended, so closures are likely to increase.

Hundreds of Rural Hospitals Are at Risk of Closing

More than 600 rural hospitals – over 30% of all rural hospitals in the country – are at risk of closing. These hospitals are at risk because of the serious financial problems they are experiencing:

- **Losses on Patient Services:** Health insurance plans do not pay these hospitals enough to cover the cost of delivering services to patients. Their losses will likely be greater in the future due to the higher costs that all hospitals, particularly small rural hospitals, are experiencing because of inflation and workforce shortages. In the past, many of these hospitals have received grants, local tax revenues, or profits from other activities that have offset their losses on patient services, but there is usually no guarantee that these funds will continue to be available in the future or that they will be sufficient to cover higher costs.
- **Low Financial Reserves:** The hospitals do not have adequate net assets (i.e., assets other than buildings & equipment, minus debt) to offset their losses on patient services for more than 6-7 years.

There are hospitals at risk of closing in almost every state. In over half the states, 25% or more of the rural hospitals are at risk of closing, and in 16 states, 40% or more are at risk.

Many Rural Hospitals Are at *Immediate* Risk of Closing

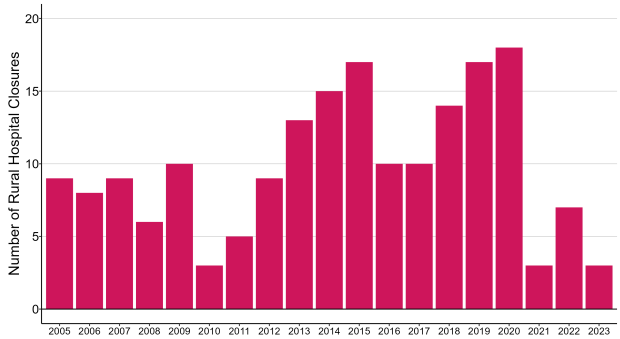
Over 300 of these rural hospitals are at *immediate* risk of closing because of the severity of their financial problems:

- **Inadequate Revenues to Cover Expenses:** These hospitals have lost money delivering patient services over a multi-year period (excluding the first year of the pandemic), and they are unlikely to receive sufficient funds from other sources to cover those losses now that federal pandemic assistance has ended.
- **Very Low Financial Reserves:** The hospitals either have more debts than assets, or the amount of net assets they have could offset their losses for at most 2-3 years.

Loss of Rural Hospitals Would Reduce Access and Increase Disparities in Care

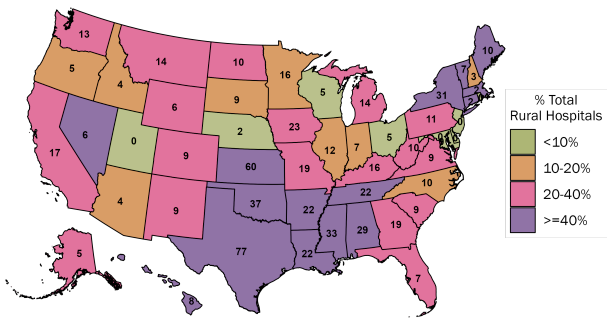
Most of the at-risk hospitals are located in isolated rural communities. Closure of the hospital would mean the residents of the community would have to travel a long distance for emergency or inpatient care. Moreover, in many small rural communities, the hospital is the only place where residents can get laboratory tests or imaging studies, and it may be the only or principal source of primary care in the community. As a result, closure of the hospital would cause a loss of access to many essential healthcare services.

Rural Hospital Closures

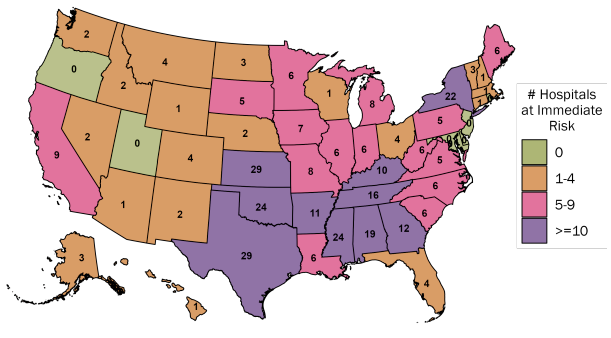


Source: Cecil G. Sheps Center for Health Services Research

Rural Hospitals at Risk of Closing



Rural Hospitals at *Immediate* Risk of Closing



RURAL HOSPITALS AT RISK OF CLOSING

State	Closures Since 2005	Current Rural Hospitals	Hospitals With Losses on Services[7]		Hospitals At Risk of Closing		Hospitals At Immediate Risk	
			Number	Percent	Number	Percent	Number	Percent
Kansas	9	104	86	83%	60	58%	29	28%
Texas	24	158	102	65%	77	49%	29	18%
Mississippi	5	74	48	65%	33	45%	24	32%
Oklahoma	9	78	58	74%	37	47%	24	31%
New York	6	51	41	80%	31	61%	22	43%
Alabama	7	52	34	65%	29	56%	19	37%
Tennessee	14	55	22	40%	22	40%	16	29%
Georgia	9	68	32	47%	19	28%	12	18%
Arkansas	2	50	37	74%	22	44%	11	22%
Kentucky	4	72	30	42%	16	22%	10	14%
California	9	56	33	59%	17	30%	9	16%
Michigan	2	64	24	38%	14	22%	8	12%
Missouri	10	57	30	53%	19	33%	8	14%
Iowa	1	93	66	71%	23	25%	7	8%
Illinois	5	71	19	27%	12	17%	6	8%
Indiana	3	53	14	26%	7	13%	6	11%
Louisiana	2	53	36	68%	22	42%	6	11%
Maine	3	25	14	56%	10	40%	6	24%
Minnesota	6	95	40	42%	16	17%	6	6%
North Carolina	11	53	19	36%	10	19%	6	11%
South Carolina	4	23	12	52%	9	39%	6	26%
West Virginia	5	28	14	50%	10	36%	6	21%
Pennsylvania	6	41	16	39%	11	27%	5	12%
South Dakota	2	48	14	29%	9	19%	5	10%
Virginia	2	29	10	34%	9	31%	5	17%
Colorado	0	42	16	38%	9	21%	4	10%
Florida	8	21	9	43%	7	33%	4	19%
Montana	0	55	35	64%	14	25%	4	7%
Ohio	2	70	17	24%	5	7%	4	6%
Alaska	1	17	10	59%	5	29%	3	18%
North Dakota	1	39	26	67%	10	26%	3	8%
Vermont	0	13	10	77%	7	54%	3	23%
Idaho	0	29	15	52%	4	14%	2	7%
Nebraska	2	71	28	39%	2	3%	2	3%
Nevada	2	13	11	85%	6	46%	2	15%
New Mexico	1	28	16	57%	9	32%	2	7%
Washington	1	40	26	65%	13	32%	2	5%
Arizona	4	27	15	56%	4	15%	1	4%
Connecticut	0	3	2	67%	2	67%	1	33%
Hawaii	0	12	10	83%	8	67%	1	8%
Massachusetts	1	5	3	60%	2	40%	1	20%
New Hampshire	0	17	7	41%	3	18%	1	6%
Wisconsin	1	75	22	29%	5	7%	1	1%
Wyoming	0	23	11	48%	6	26%	1	4%
Delaware	0	2	0	0%	0	0%	0	0%
Maryland	1	4	0	0%	0	0%	0	0%
New Jersey	1	0	0	0%	0	0%	0	0%
Oregon	0	32	14	44%	5	16%	0	0%
Rhode Island	0	0	0	0%	0	0%	0	0%
Utah	0	21	7	33%	0	0%	0	0%

[7] Rural hospitals that had a negative margin (loss) on patient services in the most recent year available.

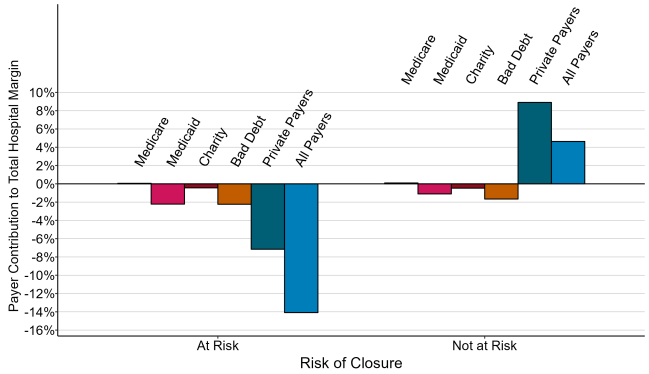
Data current as of July 2023

Closures Are Caused by Inadequate Payments from Private Payers

The primary reason hundreds of rural hospitals are at risk of closing is that private insurance plans are paying them less than what it costs to deliver services to patients. As shown below, although the at-risk hospitals are losing money on uninsured patients and Medicaid patients, losses on private insurance patients are the biggest cause of their overall losses.

Conversely, many other rural hospitals are *not* at risk of closing because they make profits on patient services. They receive payments from private health plans that not only cover the costs of delivering services to the patients with private insurance, but those payments also offset the hospitals' losses on services delivered to uninsured and Medicaid patients.

Payer-Specific Profits/Losses at Rural Hospitals



The bars show the median profit or loss on services delivered to patients with each type of insurance in each group of rural hospitals.

Source: CMS cost report data for 2021-2022.

How to Prevent Rural Hospital Closures

Significant changes must be made in both the amounts and method of payment for rural hospital services in order to prevent more rural hospitals from closing in the future. Rural hospital closures threaten the nation's food supply and energy production, because farms, ranches, mines, drilling sites, wind farms, and solar energy facilities are located primarily in rural areas, and they will not be able to attract and retain workers if the workers cannot get adequate healthcare services.

Require That Health Insurance Payments Cover the Cost of Services in Rural Communities

Payments that are sufficient to cover the cost of services at large hospitals will not be adequate at small rural hospitals because it costs more to deliver healthcare services in rural communities. This is not because rural hospitals are inefficient, but because of the smaller number of patients served relative to the fixed costs of the services. For example, a small rural community will have fewer Emergency Department (ED) visits than a larger community simply because there are fewer residents, but the minimum cost of staffing the ED on a 24/7 basis will be the same, so the average cost per visit will be higher.

The biggest problem facing small rural hospitals is inadequate payments from private health plans. Most "solutions" for rural hospitals have focused on increasing Medicare or Medicaid payments or expanding Medicaid eligibility due to a mistaken belief that most rural patients are insured by Medicare and Medicaid or are uninsured. In reality, about half of the services at the average rural hospital are delivered to patients with private insurance (both employer-sponsored insurance and Medicare Advantage plans). In most cases, the amounts these private plans pay, not Medicare or Medicaid payments, determine whether a rural hospital loses money.

Rural hospitals should not be forced to eliminate inpatient care in order to receive higher payments for other services, as is required under the federal "Rural Emergency Hospital" program. This would make it harder for rural residents, particularly the elderly, to receive prompt, high-quality care when they are ill.

Increasing payments to levels sufficient to prevent closures of the at-risk hospitals would only cost about $4 billion per year. This would represent an increase of only 1/10 of 1% in total national healthcare spending. Most of the higher spending would support primary care and emergency care, since the biggest causes of losses at most small rural hospitals are underpayments for primary care and emergency services. Spending would likely increase as much or more than this if hospitals close, because reduced access to preventive care and failure to receive prompt treatment will cause residents of the communities to be sicker and need more services in the future.

Create Standby Capacity Payments to Support the Fixed Costs of Essential Rural Services

The financial problems at small rural hospitals are caused not only by the inadequate *amounts* paid by private health insurance and Medicaid plans, but by the problematic *method* all payers use to pay for services. Small rural hospitals are paid nothing for what residents of a rural community would likely view as one of the most important services of all – the availability of physicians, nurses, and other staff to treat an injury or serious health problem quickly if the resident experiences an injury or problem. Having health insurance that pays fees for ED visits, laboratory tests, or treatments is of little value if there is no Emergency Department, laboratory, or treatment capability available in the community for the resident to use.

In order to preserve and strengthen essential hospital services in rural communities, small rural hospitals need to receive ***Standby Capacity Payments*** from both private and public payers in addition to being paid Service-Based Fees when individual services are delivered. The Standby Capacity Payment would support the fixed costs of essential services at the hospital, and the Service-Based Fees would cover the variable costs of those services. More details on this approach are available in *A Better Way to Pay Rural Hospitals*.

A Better Way to Pay Rural Hospitals