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Rural Hospitals Fear Losses From Medicare Payment Change

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- Change will cost 31 rural hospitals about $66 million in 2019
- Hospitals with thin profit margins fear reduced payments will "throw us into a financial loss"

The Trump administration is changing how it reimburses for some Medicare outpatient visits, and that has hospitals in rural areas fearing for their future.

The reimbursement policy, which went into effect Jan. 1, stopped paying more for the same outpatient service performed at an off-campus hospital-owned department than in a doctor's office. The policy is aimed at saving Medicare money by eliminating the premium it pays on services performed in hospital-controlled facilities.

However, industry executives and lawmakers say the reduced payments will further strain the finances of rural hospitals—many of which have razor-thin profit margins—and could lead to consolidation or closures of these facilities and reduced access to health care for patients in small communities.

Thirty-one rural hospitals stand to lose about $66 million this year, according to an analysis of Centers for Medicare & Medicaid Services data by Olympic Medical Center in Port Angeles, Wash. Twenty-two hospitals would lose at least $1 million, with one losing an estimated $5.8 million.

The payment reduction comes as rural hospitals are struggling with cuts to the federal 340B program that up to now permitted safety-net hospitals to profit from discounted physician administered drugs. That belt-tightener took effect Jan. 1 as well. And a Trump administration plan to base physician-administered drug prices on what other countries pay, if implemented, would reduce pay to hospital-owned clinics even further.

This "site neutral" payment policy is making "deeper cuts to an already shrinking reimbursement model," Melanie Wilson, vice president of revenue services at Essentia Health, said in an interview. The hospital system has locations in four states west of the Mississippi River. Its 80-bed St. Joseph's facility in Brainerd, Minn., would receive the second-deepest cuts—about $5 million, according to the Olympic analysis.

This payment change is more sensitive for rural hospitals because "there often aren't other provider groups available to absorb the access problem if they can't provide the service," Lawrence Vernaglia, a Boston-based health-care attorney with Foley & Lardner LLP, said in an interview.

Fearing Financial Losses

The policy will cut reimbursements to these off-campus outpatient departments by a total of 60 percent, phased in over the next two years, according to the CMS.

Eric Lewis, CEO of Olympic Medical Center, said his hospital has only a 2 percent profit margin, and the changes will "throw us into a financial loss."

Olympic would lose $3.4 million in Medicare reimbursements in 2020—2 percent of its budget—and $47 million over the next 10 years, he said.

That narrow profit margin isn't unusual. Rural hospitals, excluding high-volume rural hospitals, had an average 2 percent profit margin in 2014, according to a University of North Carolina Sheps Center for Health Services Research study.

Ninety-four rural hospitals have closed since 2010, according to the North Carolina Rural Health Research Program.

The policy doesn't apply to about 1,300 critical access hospitals, which are located more than 35 miles from another hospital and have 25 or fewer beds.

Making Cuts, Improving Efficiency

Olympic Medical Center, which has 67 beds, had planned to expand in areas like hospice care, mental health services, and geriatric services, Lewis said. Now, the reimbursement cuts make those plans likely "impossible," and require the hospital to look at cutting or moving services, Lewis said.

Wilson said Essentia Health isn't looking at closing or reducing facilities, but it probably won't be able to send new equipment or fly in specialty providers to its rural facilities as frequently as it had been.

Rural hospitals will look at improving the efficiency of operations in these facilities, but there isn't a lot of "fat waiting to be trimmed," Fred Bentley, vice president of health-care consulting firm Avalere Health, said in an interview.

Some hospitals are looking at offsetting these cuts by increasing reimbursement rates for commercial insurers to shift the cost burden, Bentley said. They can also look at changing the types of services they provide in these off-campus facilities and put in more expensive services, he added.

Another View

Not all health-care organizations see the site neutral payments as a bad thing.

Aledade, a health-care technology startup that is aiming to lower the cost of health care and improve patient care, has been one of the few voices in support of the policy, and still supports this policy for rural hospitals, Sean Cavanaugh, the organization's chief administrative officer told Bloomberg Law. Cavanaugh is a former deputy CMS administrator and director of CMS's Center for Medicare.

In the long run, if hospitals cling to these subsidies, Medicare Advantage plans and accountable care organizations will not want to use them, so they will price themselves out of the market, Cavanaugh said. Accountable care organizations are groups of doctors, hospitals, and other health-care providers that coordinate care for patients and share in financial risk for their patients' health-care spending to receive savings.

Overpaying for physician services isn't the best way to keep access to those services, he said.

"Rural communities have always struggled with access to care...but there are ways many of the hospital payment systems in Medicare are geared toward trying to support rural hospitals," Cavanaugh added.

The CMS estimates payments to rural hospitals will increase by 0.5 percent in 2019 as a result of this change, a CMS spokesperson told Bloomberg Law.

'A Basic Reality'

Rural hospital executives and their supporters are taking steps on a number of fronts to stop the reduced payments they say would disproportionately harm their communities.

Hospitals, including Olympic Medical Center, are suing the Department of Health and Human Services to stop this policy. The lawsuit, filed Dec. 4 in U.S. District Court for the District of Columbia, argues that the CMS policy exceeds the agency's authority.

Rep. Derek Kilmer (D-Wash.) has been pushing the CMS to examine the impact of this regulation on rural hospitals and consider changing it, on one occasion pointedly reminding the agency of his position on the Appropriations Committee and the role he will play in determining its funding for 2020.

Kilmer said he spoke with Demetrios Kouzoukas, director of CMS Center for Medicare, who could not answer most of his questions due to the hospitals' lawsuit. The lawmaker also raised concerns in a December 2018 letter he sent to CMS Administrator Seema Verma.

Kilmer, who represents the district where Olympic Medical Center is located and was born in the hospital, said in an interview he is reaching out to other members of Congress, hospitals, and House Democratic leaders.

"We're looking under every rock we can for solutions that can help," Kilmer said. "This problem can be addressed if CMS addresses a basic reality: These changes affect the reality of rural health care."

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