RURAL HOSPITALS AT RISK OF CLOSING

Many communities did not have a local hospital available when the coronavirus pandemic began because over 150 rural hospitals across the country closed between 2005 and 2019. An additional 19 rural hospitals closed their doors in 2020, more than any year in the previous decade. These closures were not caused by the pandemic, but by losses on patient services in previous years. Six more rural hospitals closed in 2021 and 2022; the number was smaller than in previous years because of the special financial assistance hospitals received during the pandemic. The expiration of that aid will increase the risk of closures.

Hundreds of Rural Hospitals Are at Risk of Closing

More than 600 rural hospitals – nearly 30% of all rural hospitals in the country – are at risk of closing in the near future. These hospitals have:

- **Persistent Financial Losses on Patient Services:** The hospitals have lost money on patient services over a multi-year period (not including the first year of the pandemic). These 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 offset their losses on patient services, but there is usually no guarantee that these funds will continue to be available in the future or sufficient to cover higher losses.
- **Low Financial Reserves:** The hospitals do not have sufficient net assets (including pandemic-related funding, but excluding buildings & equipment) to offset the losses on patient services for more than six years.

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

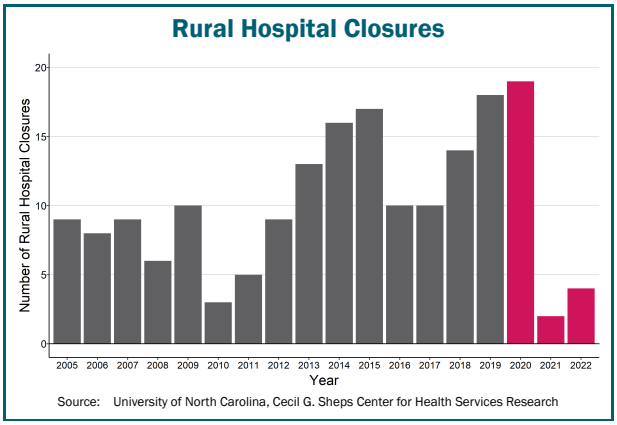
Many Rural Hospitals Are at Immediate Risk

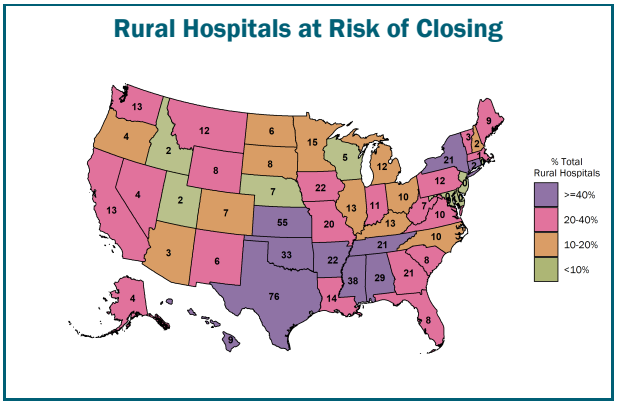
Over 200 of these rural hospitals are at immediate risk of closing. These hospitals have:

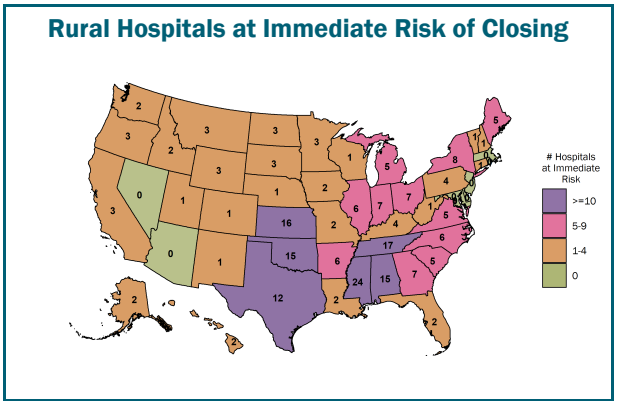
- **Inadequate Revenues to Cover Expenses:** The hospitals were losing money on patient services prior to the pandemic and they did not have sufficient sources of other funds to cover those losses. Their losses will likely increase in the future due to higher costs.
- **Very Low Financial Reserves:** The hospitals have more debts than assets, or the hospitals' net assets (including pandemic-related funding, but excluding buildings & equipment) could offset their losses for at most 2-3 years. (Fewer rural hospitals are at immediate risk than prior to the pandemic because of the federal pandemic aid they received.)

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 community residents 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, loss of the hospital would mean loss of access to many essential healthcare services.







RURAL HOSPITALS AT RISK OF CLOSING

State	Closures Since 2005	Current Rural Hospitals	Number at Risk of Closing	Percent at Risk of Closing	Number at Immediate Risk of Closing
Alabama	7	48	29	60%	15
Alaska	1	13	4	31%	2
Arizona	4	17	3	18%	0
Arkansas	3	48	22	46%	6
California	9	55	13	24%	3
Colorado	0	41	7	17%	1
Connecticut	0	3	2	67%	1
Delaware	0	2	0	0%	0
Florida	8	21	8	38%	2
Georgia	9	66	21	32%	7
Hawaii	0	12	9	75%	2
Idaho	0	30	2	7%	2
Illinois	3	72	13	18%	6
Indiana	2	53	11	21%	7
Iowa	1	93	22	24%	2
Kansas	9	104	55	53%	16
Kentucky	4	71	13	18%	4
Louisiana	2	51	14	27%	2
Maine	3	25	9	36%	5
Maryland	1	4	0	0%	0
Massachusetts	1	5	1	20%	0
Michigan	2	62	12	19%	5
Minnesota	6	92	15	16%	3
Mississippi	5	70	38	54%	24
Missouri	10	57	20	35%	2
Montana	0	52	12	23%	3
Nebraska	2	71	7	10%	1
Nevada	2	13	4	31%	0
New Hampshire	0	17	2	12%	1
New Jersey	1	1	0	0%	0
New Mexico	0	23	6	26%	1
New York	6	51	21	41%	8
North Carolina	11	53	10	19%	6
North Dakota	1	37	6	16%	3
Ohio	2	70	10	14%	7
Oklahoma	7	72	33	46%	15
Oregon	0	32	4	12%	3
Pennsylvania	5	40	12	30%	4
Rhode Island	0	0	0	0%	0
South Carolina	4	26	8	31%	5
South Dakota	2	45	8	18%	3
Tennessee	16	48	21	44%	17
Texas	24	152	76	50%	12
Utah	0	21	2	10%	1
Vermont	0	13	3	23%	1
Virginia	2	29	10	34%	5
Washington	1	39	13	33%	2
West Virginia	5	26	7	27%	1
Wisconsin	1	72	5	7%	1
Wyoming	0	24	8	33%	3

Data current as of October 2022

The Causes of Rural Hospital Closures

Rural hospitals are being forced to close because they are not paid enough to cover the cost of delivering services in rural areas. Most of the hospitals that have closed had losses on patients with private health insurance as well as on Medicare, Medicaid, and uninsured charity care patients, and they did not have other sources of income sufficient to offset these losses.

It costs more to deliver essential services in rural communities because of the smaller number of patients served, not because rural hospitals are inefficient. 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. A payment that is sufficient to cover the cost of ED visits at a large hospital may fall far short of the cost of visits at a small rural hospital.

A common myth about rural hospitals is that most of their patients are on Medicare and Medicaid. In fact, more than half of the services at the average rural hospital are delivered to patients with private insurance (including both employer-sponsored insurance and Medicare Advantage plans). Low margins or losses on patients with private insurance, combined with losses on Medicaid and uninsured patients, can force small rural hospitals to close.

Commonly Proposed "Solutions" Won't Prevent Most Closures

Several policies that have been developed or proposed to help rural hospitals would not solve their financial problems, and some would make them worse:

- **Creating "Rural Emergency Hospitals."** Requiring rural hospitals to eliminate inpatient services would increase their financial losses while reducing access to inpatient care for local residents. Residents of rural communities would have had even more difficulty finding a hospital bed during the pandemic if their hospital had been converted to a Rural Emergency Hospital.
- **Expanding Medicaid Eligibility.** Making more patients eligible for Medicaid would help low-income patients afford better care and it would reduce a portion of hospitals' losses on uninsured patients and bad debt. However, uninsured patients are not the primary cause of losses at most rural hospitals; most losses are caused by low payments for patients who have insurance.
- **Increasing Medicare payments.** An increase in Medicare payments, such as eliminating the 2% sequestration reduction, would be beneficial for rural hospitals, but this would only increase the margin at a typical rural hospital by a small amount. The biggest cause of losses at most small rural hospitals is low payments from private health plans, not Medicare.
- **Creating Global Budgets.** Giving a hospital a fixed budget could protect a hospital from losses in revenues due to lower service volume, but it does nothing to address the increases in costs that most hospitals are currently facing, and it would prevent hospitals from delivering new services their communities need.

How to Prevent Rural Hospital Closures

The only way to prevent rural hospital closures is for health insurance plans to pay rural hospitals adequately to cover the cost of delivering essential services in their communities. Although most payers are underpaying small rural hospitals, the biggest cause of negative margins in most small rural hospitals in most states is low payments from private insurance plans and Medicare Advantage plans.

It would only cost about $3 billion per year to prevent closures of the at-risk hospitals and preserve access to rural healthcare services. This would represent an increase of only 1/10 of 1% in total national healthcare spending. Most of the increase in spending would support primary care and emergency care, not inpatient services, 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 rural communities to be sicker and need more services in the future.

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 not paid at all 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 Service-Based Fees would cover the variable costs of those services. More details on this approach are available at RuralHospitals.org.