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40% of All Rural Hospitals in the U.S. Could Close in the Near Future Unless They Receive Adequate Payments from Private and Public Payers

New analysis finds closures and financial problems at small rural hospitals are primarily due to low payments from private insurance companies, not Medicare or Medicaid, and that global budgets and other federal proposals will not prevent closures.

Pittsburgh, PA (Sept. 25, 2020) – Over 800 rural hospitals – 40% of all rural hospitals in the country – are at risk of closing in the near future, based on a new analysis of hospital cost reports by the Center for Healthcare Quality and Payment Reform (CHQPR). The study – [Saving Rural Hospitals and Strengthening Rural Healthcare](#) – found that over 500 hospitals were at immediate risk of closure even before the coronavirus pandemic because of large financial losses over multiple years, and over 300 additional hospitals were at high risk of closing due to low financial reserves or high dependence on local taxes or state grants. Most of these are small rural hospitals that serve as the primary source of healthcare services for many of the nation’s agricultural and energy-producing communities. In 14 states, the majority of the rural hospitals are at risk of closing. (The number of at-risk rural hospitals by state can be downloaded [here](#).)

“Residents of rural communities need health insurance, but they also need a place to use their insurance,” said CHQPR CEO Harold D. Miller. “In addition to emergency care, most small rural hospitals are the principal or sole provider of urgent care, laboratory testing, maternity care, rehabilitation, and even primary care for their communities, and the nearest alternative sources of these services are a half-hour or more away. Over 20 million people could lose access to essential services if these hospitals are allowed to close.”

The study found that the primary reason rural hospitals have been closing is inadequate payments from private health insurance plans, not losses on patients insured by Medicaid or Original Medicare. Whereas most large and urban hospitals make significant profits on patients with private insurance that can be used to offset losses on uninsured patients and patients with public insurance, most small rural hospitals lose money on patients with private insurance. The study found that Medicare Advantage plans are among the worst payers for small rural hospitals, often paying less than Medicare rates.

“The fees for services paid by many private health plans are far below the cost of delivering essential healthcare services in small rural communities, and claims denials by insurance companies cause losses to be even larger,” said Miller. “One of the biggest problems is the low payments from private health plans for primary care services at the Rural Health Clinics operated by most small rural hospitals.”

The study estimated that it will cost about \$3.7 billion per year to prevent closures of the at-risk hospitals, which represents only 1/10 of 1% of the \$3 trillion in total national healthcare spending. “Investing this small amount of funds would save hundreds of rural hospitals, while failure to do so would likely result in

even higher spending when residents of rural communities can no longer receive adequate preventive care or timely treatment,” said Miller.

The study found that none of the current federal proposals to help rural hospitals would solve the problems facing the hospitals and some would make the problems worse:

- Requiring small rural hospitals to eliminate inpatient services would increase financial losses at most hospitals while reducing access to inpatient care for community residents.
- Small rural hospitals would be unlikely to benefit from “shared savings” programs, and most would be harmed by taking on downside risk for total healthcare spending.
- Global budget programs would increase losses for most hospitals and reduce access to services for patients.
- Most small rural hospitals would be worse off under the Community Health Access and Rural Transformation (CHART) model announced in August by the Centers for Medicare and Medicaid Services, because it requires reductions in Medicare payments to the hospitals.

The report explains in detail how current payment systems need to be changed to provide sustainable financing for small rural hospitals. Under the *Patient-Centered Payment System* described in the report, hospitals would receive Standby Capacity Payments to support the fixed costs of essential inpatient and outpatient services, and then they would be paid Service-Based Fees for individual services that are much lower than the high fees charged today. In addition, Rural Health Clinics at the hospitals would receive Comprehensive Primary Care Management Payments instead of fees for clinic visits; this would give them the flexibility to deliver telehealth services and proactive care management services, which are particularly important for patients living in sparsely populated areas.

Miller said that because low payments from private insurance companies are the biggest problem for many hospitals, solutions need to be focused there. “Most employers and citizens in rural communities likely have no idea that the insurance plans they are using are helping to force their local hospital out of business,” said Miller. “Businesses, local governments, and rural residents must choose insurance companies that will pay their hospital adequately and appropriately for the essential services they deliver.”

The [full report](#), an [Executive Summary](#) of the key findings and recommendations, and the [table showing state-by-state counts of the hospitals at risk of closing](#) are all available on the CHQPR website (www.CHQPR.org).

The Center for Healthcare Quality and Payment Reform is a national policy center that facilitates improvements in healthcare payment and delivery systems. Since its founding in 2008, CHQPR has been a nationally-recognized source of unbiased information and assistance on payment and delivery reform. CHQPR’s publications are among the most widely used and highly regarded resources available on alternative payment models and value-based payment systems. CHQPR has provided information and technical assistance to Congress, to federal agencies and national organizations, and to physicians, hospitals, employers, health plans, and government agencies in more than 40 states and several foreign countries to help in the design and implementation of successful payment and delivery system reforms.