Pressures Facing Kentucky’s Rural Hospitals

Kentucky Medicaid Oversight and Advisory Committee

November 18, 2019
LANDSCAPE OF HOSPITALS AND HEALTH SYSTEMS: ECONOMIC IMPACT

Hospitals and health systems are important economic engines of communities across the United States.

Affordability

At the end of 2017, health care surpassed manufacturing and retail to become the largest source of jobs in the U.S.

Five of the 10 fastest growing jobs (by percentage) are in health care and elderly assistance.

The entire health care sector is projected to account for one-third of all new employment.

**Importance of Kentucky’s Rural Hospitals**

- Kentucky is one of the most rural states in the country (10th most rural population)
- Rural hospitals are essential to the health of their population and the area economy
- Rural hospitals are often the largest employers
  - 74,000 jobs in Kentucky hospitals, > 24,000 in rural hospitals
  - Hospitals pay $4.7 billion in wages of which $1.5 billion are to rural hospital employees
Overview of Rural Hospitals

• 68 Rural hospitals make up 56% of all Kentucky hospitals

• Rural Hospital Type:
  - 37 Acute
  - 28 CAH (25 beds)
  - 3 Long Term Acute

• Hospital Ownership:

<table>
<thead>
<tr>
<th></th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent</td>
<td>21</td>
<td>3</td>
</tr>
<tr>
<td>System</td>
<td>47</td>
<td>50</td>
</tr>
</tbody>
</table>
Convergence of Multiple Pressure Points

Local and national pressure points creating downward pressure on rural providers.

Today, approximately 90% of U.S. residents and 94% of Kentucky residents have health insurance coverage through commercial insurance or governmental programs.

Sources of Health Coverage, Kentucky, 2017

- 46% Employer
- 27% Non Group
- 15% Medicaid
- 10% Medicare
- 6% Other Public
- 5% Uninsured

https://www.kff.org/other/state-indicator/total-population/?currentTimeframe=0&selectedRows=%7B%22states%22:%7B%22kentucky%22:%7B%7D%7D%7D%26sortModel%3D%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D
• Rural hospitals have fewer commercial patients and more Medicare patients that pay below cost
# Kentucky Hospitals Treat More Vulnerable Patients Yet are Cost Efficient

<table>
<thead>
<tr>
<th></th>
<th>Kentucky</th>
<th>U.S. Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Population Below Poverty</td>
<td>18.3% (4&lt;sup&gt;th&lt;/sup&gt; highest)</td>
<td>14.1%</td>
</tr>
<tr>
<td>Median Household Income</td>
<td>$45,369 (4&lt;sup&gt;th&lt;/sup&gt; lowest)</td>
<td>$ 59,179</td>
</tr>
<tr>
<td>Life Expectancy</td>
<td>76.3 (7&lt;sup&gt;th&lt;/sup&gt; worst)</td>
<td>78.7</td>
</tr>
<tr>
<td>State Health Score</td>
<td>-0.6 (7&lt;sup&gt;th&lt;/sup&gt; worst)</td>
<td>N/A</td>
</tr>
<tr>
<td>% Inpatient Discharges Medicaid</td>
<td>20.9% (10&lt;sup&gt;th&lt;/sup&gt; highest)</td>
<td>17.8%</td>
</tr>
<tr>
<td>% Inpatient Discharges Medicare/Medicaid</td>
<td>74.1% (6&lt;sup&gt;th&lt;/sup&gt; highest)</td>
<td>69.9%</td>
</tr>
<tr>
<td>Net Price/Inpatient Discharge (CMI/AWI adjusted)</td>
<td>$ 6,153 (6&lt;sup&gt;th&lt;/sup&gt; lowest)</td>
<td>$ 6,974</td>
</tr>
</tbody>
</table>
Prevalence of Medicare Patients with 6 or more Chronic Conditions

The Prevalence of Medicare Fee-for-Service Beneficiaries 65 Years or Older With 6 or More Chronic Conditions, by County, 2012

Age-adjusted prevalence
Quintile classification
- 4.1%–10.3%
- 10.4%–12.9%
- 13.0%–14.9%
- 15.0%–17.2%
- 17.3%–32.3%
- Insufficient data

National age-adjusted prevalence is 15%.
Source: Centers for Medicare & Medicaid Services.
Hospital Closures – 104 and counting

Number of rural hospitals closed since 2010.

1-2  3  4  5-8  10-15

Source: Sheps Center, UNC 3/6/19.
A Navigant analysis of the financial viability of rural hospitals nationwide shows 21% are at high risk of closing unless their financial situations improve.

Navigant found 24.6%, or 16 Kentucky rural hospitals, at high financial risk

- 10 considered “essential” based on trauma status, Medicaid days, geographic isolation, and economic impact on community
• Financial Distress Index (FDI) – model to identify hospitals at high risk of financial distress and closure
  – Proportion of rural hospitals at **high risk** of distress has increased over time
    7.1% in 2015 to 9.2% in 2019
  – Kentucky:
    • **8 high risk**
    • **12 mid-high risk**
This report provides an overview of the economic challenges facing rural hospitals in the Commonwealth of Kentucky. There were 44 hospitals included in the study. The Financial Strength Index (FSI) categorizes hospitals as excellent, good, fair, poor.

Findings:
- 68% of Kentucky’s rural hospitals scored below the national FSI® average.
- 34% of Kentucky’s rural hospitals scored sufficiently low as to be considered in poor financial health.
Number of the 44 Hospitals in Each Category Today

34% of the hospitals in the study dropped a Category
Closures Linked to Depressed Economy

- Closures are occurring in rural areas where the economy is poor, population is shrinking, and the area is losing jobs.
- People remaining are older, sicker and more reliant on government programs.
- FSI tracks change in working age (25-44) population.

Source: EMSI — U.S. Census Data.
FSI Tied to Job Growth

Financial Condition of KY Hospitals
Based Upon Job Growth

<table>
<thead>
<tr>
<th>Number of Hospitals</th>
<th>1: Above Avg Growth</th>
<th>2: Growth but Below Avg</th>
<th>3: Losing Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Excellent</td>
<td>9</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>2: Good</td>
<td>12</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>3: Fair</td>
<td>7</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>4: Poor</td>
<td>11</td>
<td>13</td>
<td>15</td>
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FSI By Hospital Type

Critical Access vs PPS Hospitals

<table>
<thead>
<tr>
<th>Type</th>
<th>CAH</th>
<th>PPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Excellent</td>
<td>3</td>
<td>16</td>
</tr>
<tr>
<td>2: Good</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>3: Fair</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>4: Poor</td>
<td>18</td>
<td>21</td>
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Urban vs Rural

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<tr>
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<tr>
<td>3: Fair</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>4: Poor</td>
<td>32</td>
<td>7</td>
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KHA Identified Vulnerable Hospitals

**Tier One Hospitals: “Most Vulnerable”**
- 13 Hospitals
- Communities at Risk
  - Population: 210,588
  - Employees: 2,107
  - Other Economic Benefit: $102 million
  - Inpatients/Day: 972
  - Salaries: $138 million
  - ED Visits: 97,723

**Tier Two Hospitals: “Vulnerable”**
- 15 Hospitals
- Communities at Risk
  - Population: 274,792
  - Employees: 2,423
  - Other Economic Benefit: $115 million
  - Inpatients/Day: 1,101
  - Salaries: $138 million
  - ED Visits: 146,702

**Combined Impact**
- Population: 485,380
- Employees: 4,940
- Other Economic Benefit: $217 million
- Inpatients/Day: 2,074
- Salaries: $276 million
- ED Visits: 244,425
Implication of Hospital Closure

• Impact on Mortality
  – Closures are leading to a 6% increase in mortality rates due to increased travel times, outmigration of health professionals; thereby reducing access and exacerbating social disparities (National Bureau of Economic Research)

• Impact on Access
  – KHA Study – in 50% of closures, nothing replaced the closed hospital, requiring people to travel further for hospital and emergency care
  – This puts an added strain on EMS at an additional cost
Medicare Continuing to Cut Hospitals

- Medicare pays only 90% of actual cost
  - “Medicare for All” would be disastrous
  - Even a “Medicare Buy-In” would cut payments by $6.4 billion over 10 years
- ACA requires rate updates below actual inflation
- KY hospitals paid less than national and regional counterparts for the same care
- Medicare Proposals:
  - Pay hospital outpatient departments the same as a doctor’s office ( - $563 Million)
  - Reduce payment for outpatient drugs purchased under 340B ( - $51 million/year)
ACA Medicare Cuts

- Medicare Disproportionate Share Hospital Payments
  - Payments intended to help offset “uncompensated care”
    - Hospital DSH Payments:
      - 25% hospital specific; 75% national “Uncompensated care pool”
    - Medicaid shortfalls excluded from uncompensated costs
    - Kentucky losses have moved from charity to Medicaid
  - **Impact:**
    - KY Loss - $77M by 2020
    - Massive redistribution of DSH from expansion to non-expansion states
What’s Being Done?

• **KHA and CHFS Collaborating:**
  - Medicaid DSH (HB 289, 2018)
    • Essential and CAH hospitals get greater share of limited DSH pool
  - Medicaid Rate Improvement Payments (HB 320)
    • Weekly meetings:
      • Cabinet, Myers and Stauffer, Wakely (actuary), KHA, HMA
      • Awaiting final CMS Approval (requested July 1, 2019 start date)
    • Myers and Stauffer calculation
      - $130 million in distribution
      - $33 million in assessments

• **KHA working with Congressional Delegation to improve federal payments**
What Else Could Be Done?

- Continue support for implementation of HB 320
- Reduce administrative costs from 5 MCOs
- More standardization by insurers and MCOs
- Preserve CON
- Protect 340B
- Preserve Medicaid expansion
- Tort Reform
- Continue to reduce regulatory burden
FINANCIAL PRESSURES ARE CONTINUING
ACA Medicaid DSH Cuts

• **Federal Medicaid DSH Cuts**
  - Federal DSH cuts start in SYF 2020
  - By 2021, KY DSH will be cut by 75%
    $159M – 2018 Baseline allotment without Cuts
    $ 42M – 2021 Federal Allotment after cuts
    $ 117M – Federal DSH Loss

• **Total Spending (with State Match)**

<table>
<thead>
<tr>
<th>Pool</th>
<th>2018 Baseline Without Cut</th>
<th>2021 With 75% Cut</th>
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<tbody>
<tr>
<td>Acute (44%)</td>
<td>$ 100 Million</td>
<td>$ 26 Million</td>
</tr>
<tr>
<td>Psychiatric (19%)</td>
<td>$ 43 Million</td>
<td>$ 11 Million</td>
</tr>
<tr>
<td>University (37%)</td>
<td>$ 84 Million</td>
<td>$ 22 Million</td>
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<tr>
<td>Total</td>
<td>$ 227 Million</td>
<td>$ 60 Million</td>
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KY likely to have larger share of cuts due to Medicaid expansion and lower rate of “uninsurance” despite payment shortfalls
Managed Care Pressures

• Medicaid MCOs
  – Administrative burden from 5 plans with different policies
  – Lack of standardization

• Medicare Advantage – seeing increasing denials

• Small hospitals lack staff to track and appeal – loss by attrition
Impact of High Deductible Plans

Likelihood of Payment from Patient Drops as Deductibles Rise

Percentage of patients paying any portion of bill.
Chart 5.13: Projections of National Supply and Demand for Nursing Professionals, 2020


Chart previously titled as National Supply and Demand Projections for FTE RNs. Source: Project HOPE/Health Affairs as Buerhaus PI, Auerbach DI, Staiger DO. *The Recent Surge In Nurse Employment: Causes and Implications*. Health Affairs, 2009; 28(4):w657-68.

Chart 5.12 in 2014 and earlier years’ Chartbooks.
Questions?

Thank You and may God bless America!