

# Pressures Facing Kentucky's Rural Hospitals

Kentucky Medicaid Oversight and  
Advisory Committee

November 18, 2019



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# 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

Source: Federal Reserve Economic Data, Economic Research, [fred.stlouisfed.org](http://fred.stlouisfed.org), Federal Reserve Bank of St. Louis; "Economic News Release: Employment Projections: 2016-2026 Summary," Bureau of Labor Statistics, Oct. 24, 2017.



Advancing Health in America

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# Importance of Kentucky's Rural Hospitals

- Kentucky is one of the most rural states in the country (10<sup>th</sup> 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:

	Rural	Urban
Independent	<b>21</b>	<b>3</b>
System	47	50



# Convergence of Multiple Pressure Points

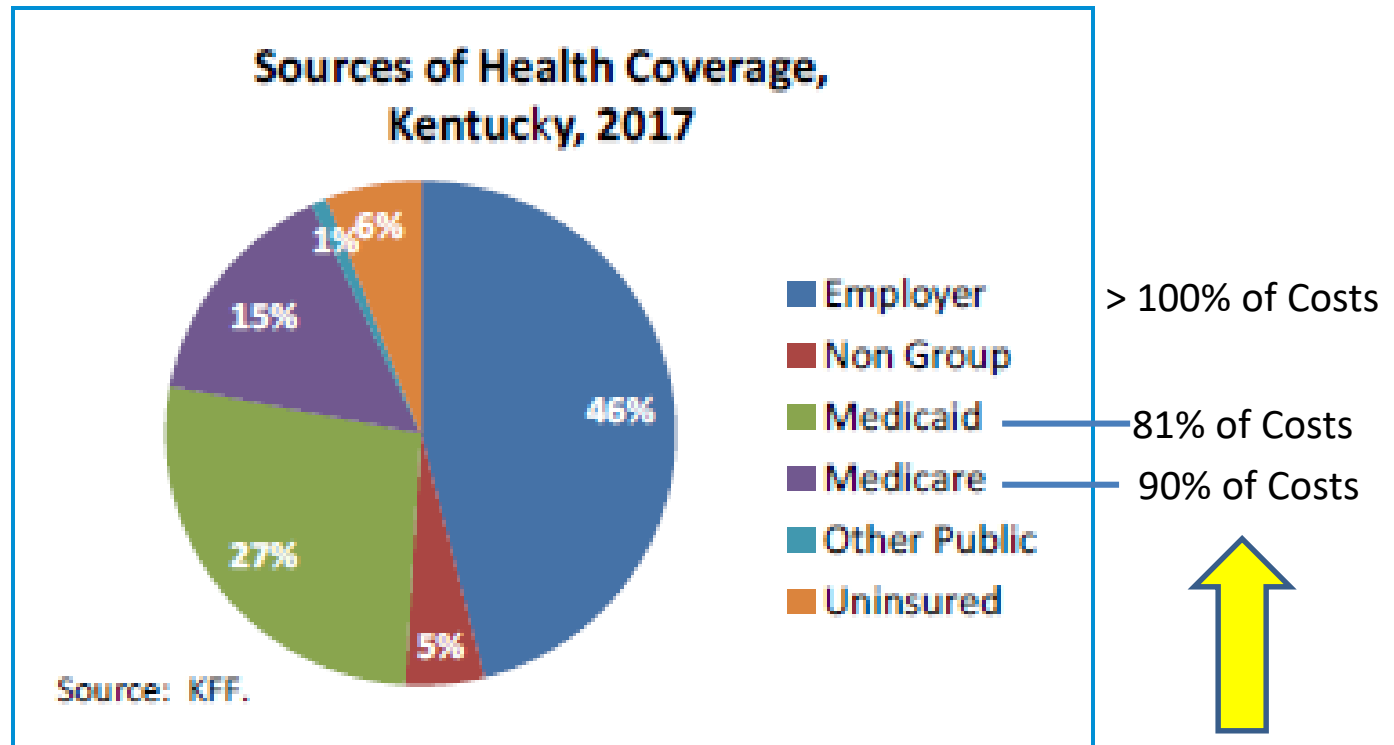
Local and national pressure points creating downward pressure on rural providers.



Source: The Chartis Center for Rural Health, 2019.

# Health Insurance Coverage

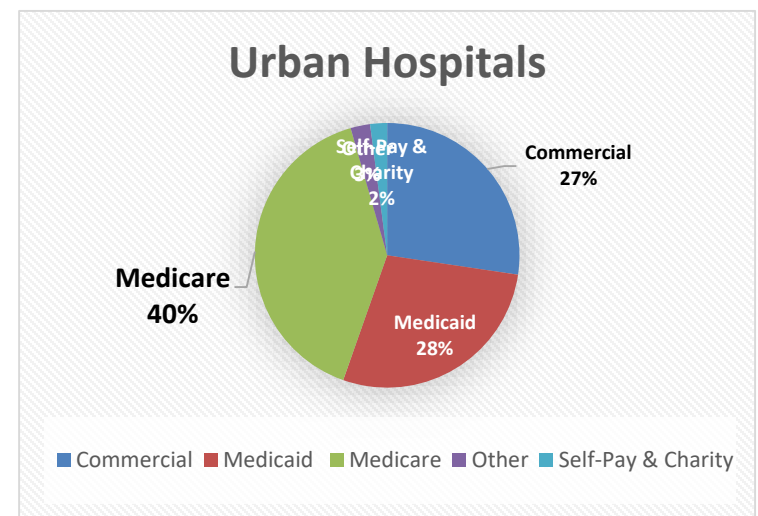
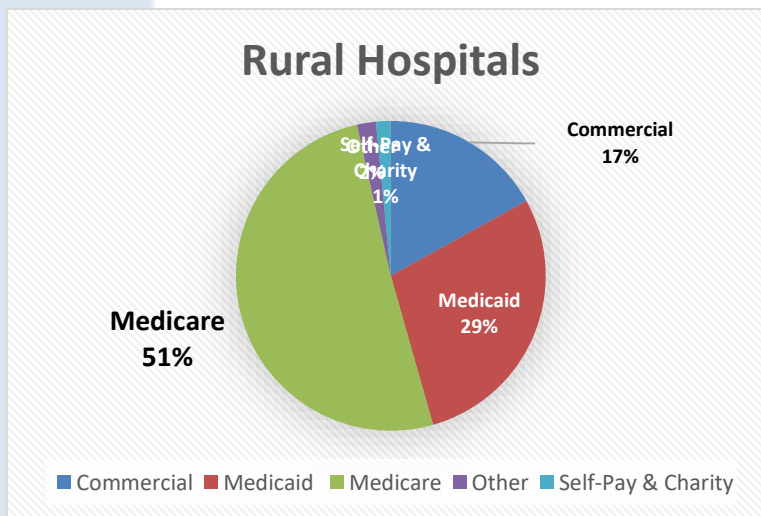
Today, approximately 90% of U.S. residents and 94% of Kentucky residents have health insurance coverage through commercial insurance or governmental programs



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# Rural Hospitals Serve More Government Patients

- Rural hospitals have fewer commercial patients and more Medicare patients that pay below cost



# Kentucky Hospitals Treat More Vulnerable Patients Yet are Cost Efficient

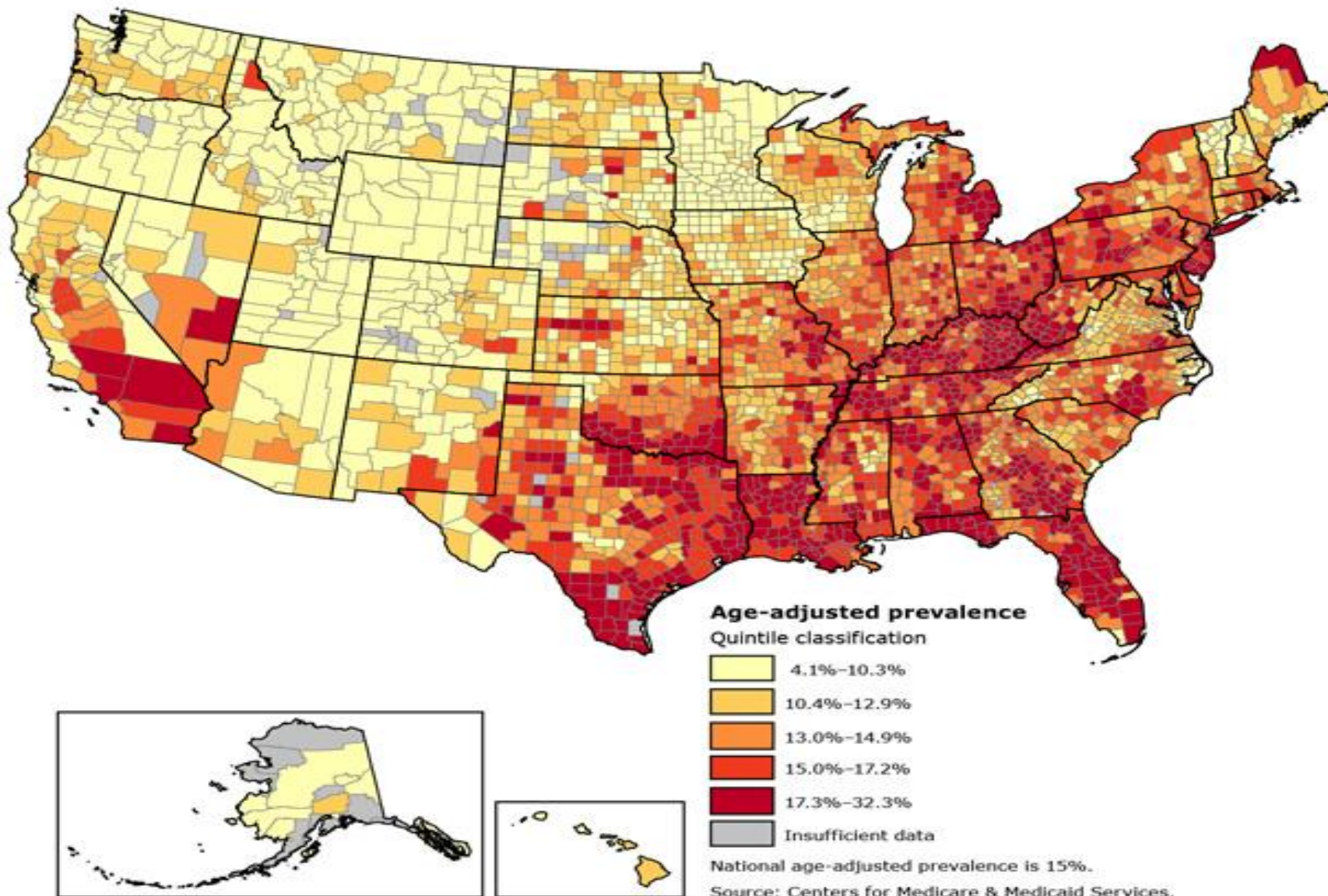
	Kentucky	U.S. Average
% Population Below Poverty	18.3% (4 <sup>th</sup> highest)	14.1%
Median Household Income	\$45,369 (4 <sup>th</sup> lowest)	\$ 59,179
Life Expectancy	76.3 (7 <sup>th</sup> worst)	78.7
State Health Score	-0.6 (7 <sup>th</sup> worst)	N/A
% Inpatient Discharges Medicaid	20.9% (10 <sup>th</sup> highest)	17.8%
% Inpatient Discharges Medicare/Medicaid	74.1% (6 <sup>th</sup> highest)	69.9%
Net Price/Inpatient Discharge (CMI/AWI adjusted)	\$ 6,153 (6 <sup>th</sup> lowest)	\$ 6,974



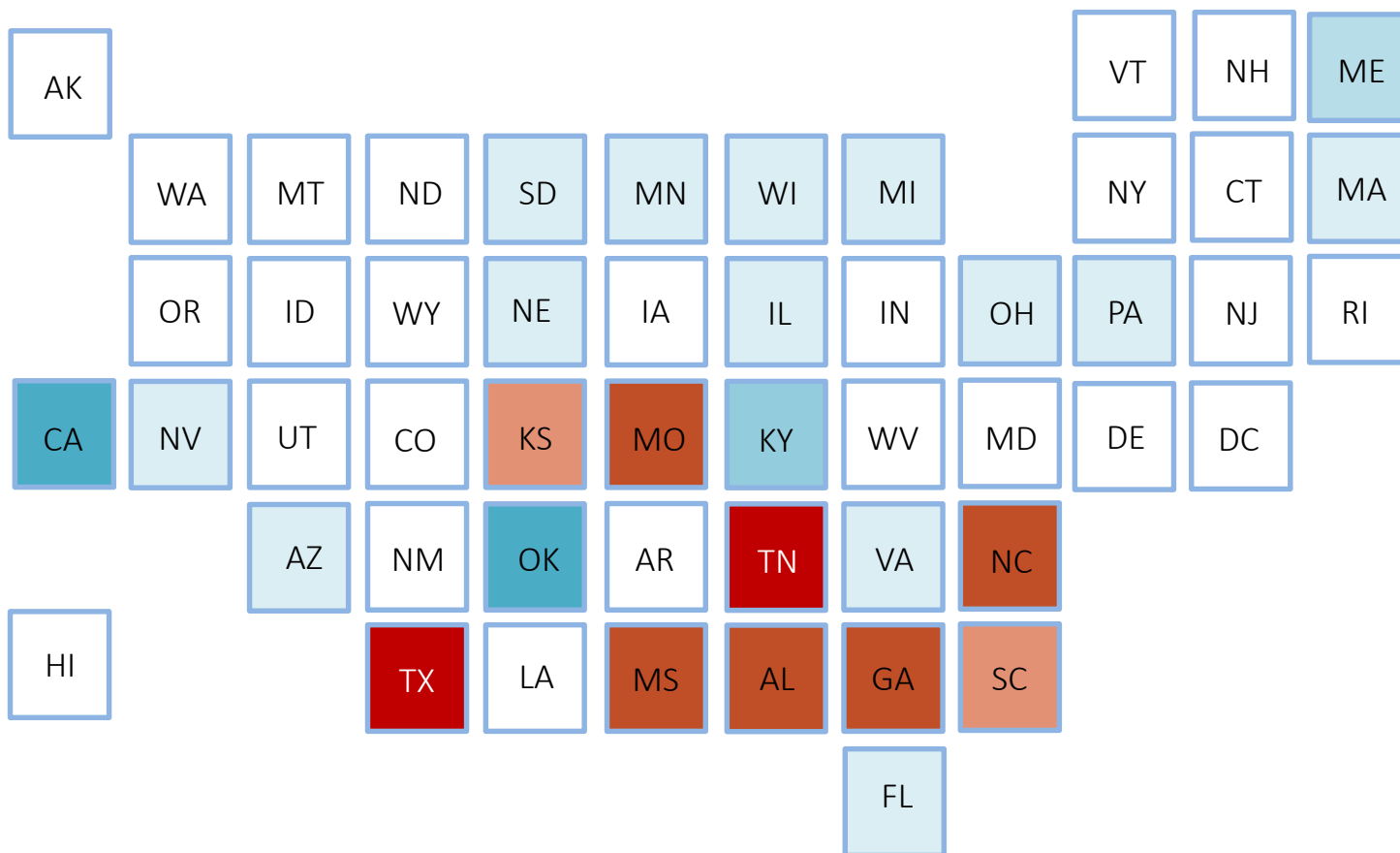


# Prevalence of Medicare Patients with 6 or more Chronic Conditions

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



# Hospital Closures – 104 and counting



Number of rural hospitals closed since 2010.



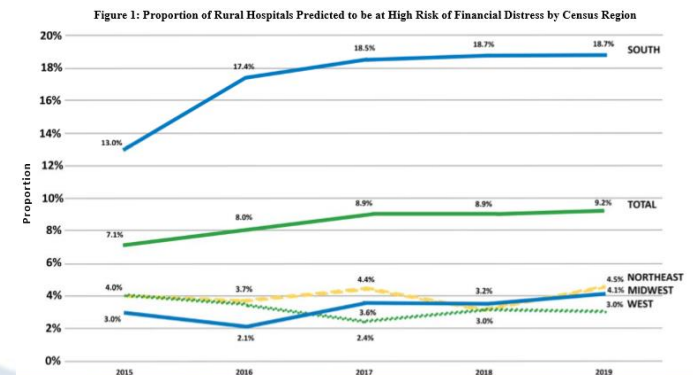
# Rural Hospital Risk of Closure

- 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



# SHEPS Center Analysis

- 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**



# Financial Stability of Rural Health

March 30, 2015

## SPECIAL REPORT ON THE FINANCIAL STRENGTH OF KENTUCKY'S RURAL HOSPITALS

ADAM H. EDELEN

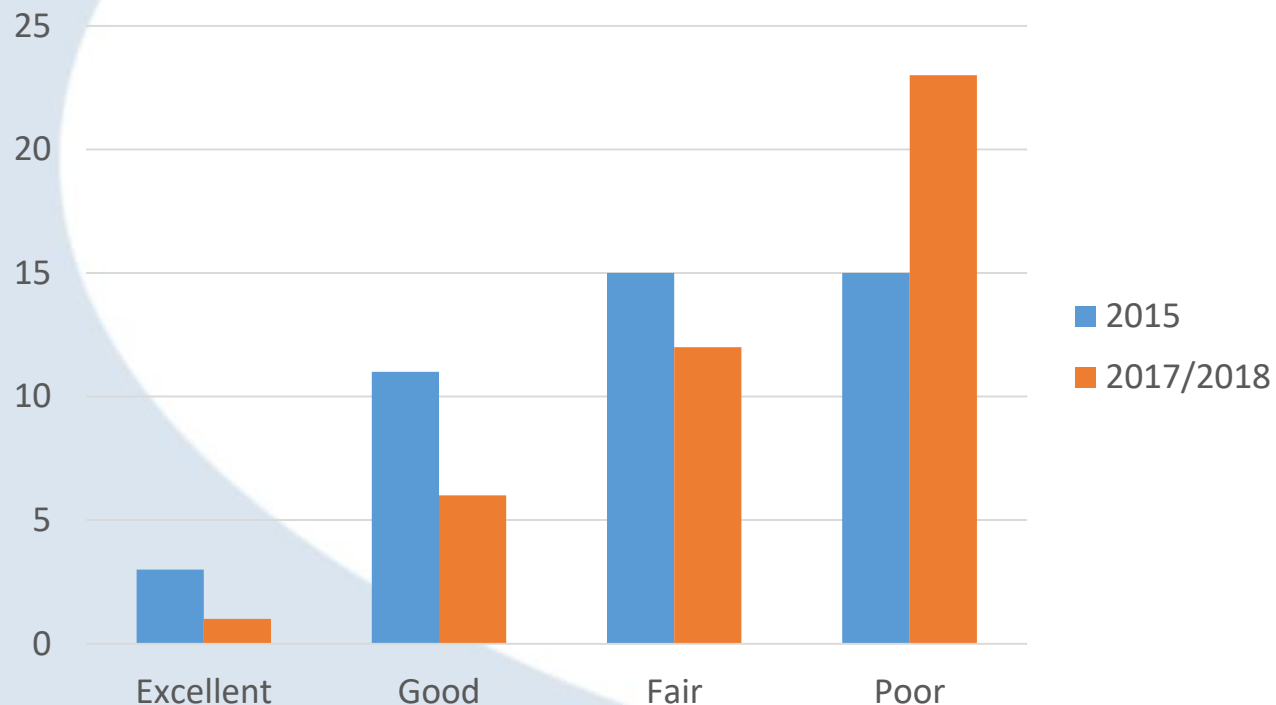
AUDITOR OF PUBLIC ACCOUNTS

- 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
- 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**



# Financial Strength Index - 2018

Number of the 44 Hospitals  
in Each Category Today



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34% of the hospitals in the study dropped a Category

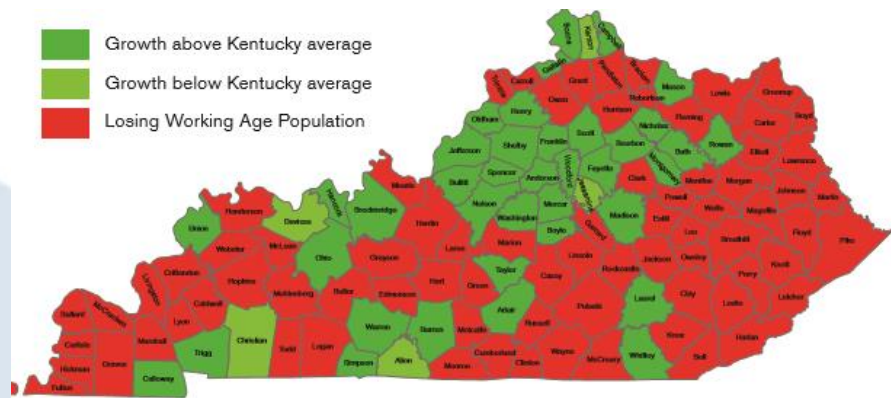


# Closures Linked to Depressed Economy

- 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



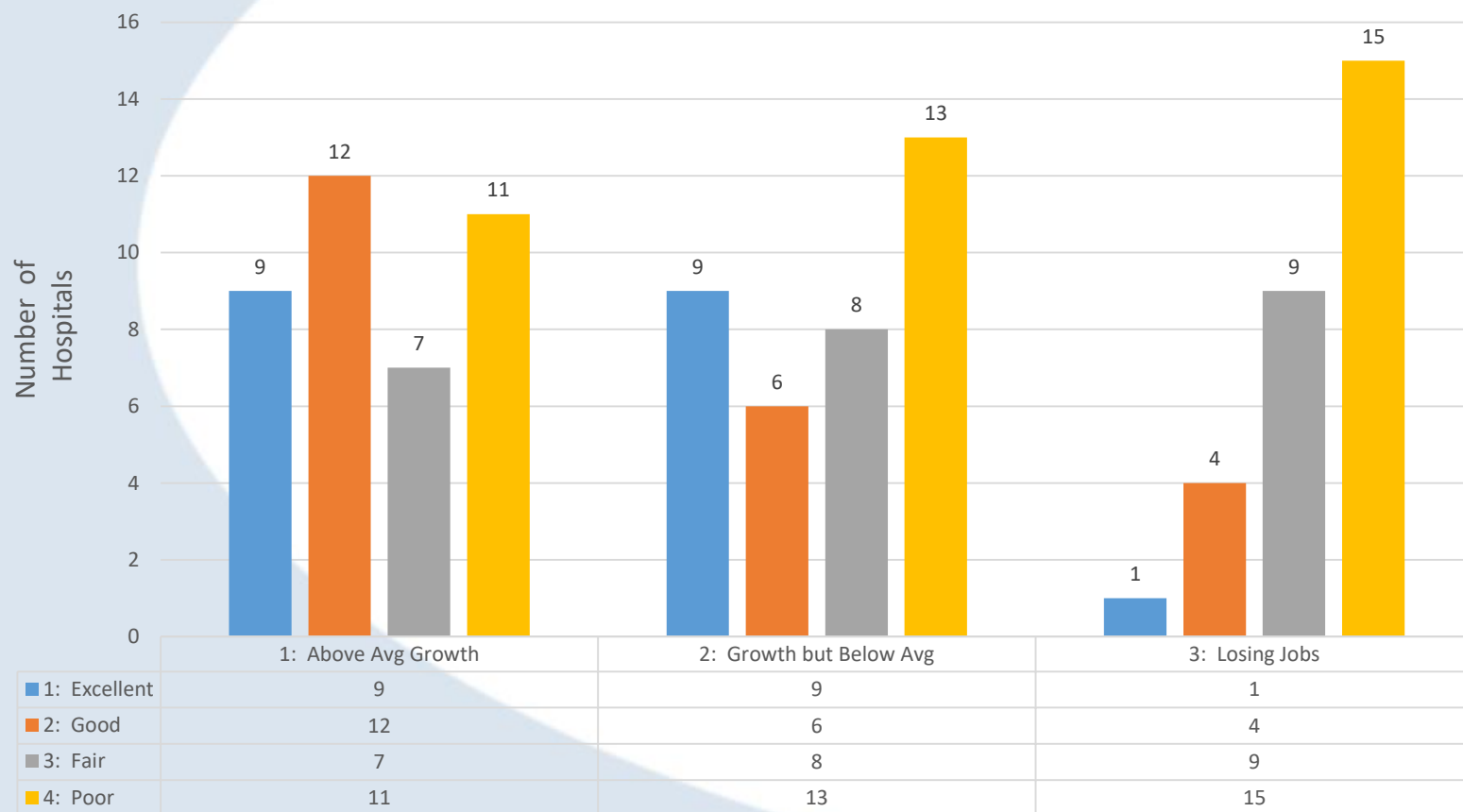
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Source: EMSI — U.S. Census Data

# FSI Tied to Job Growth

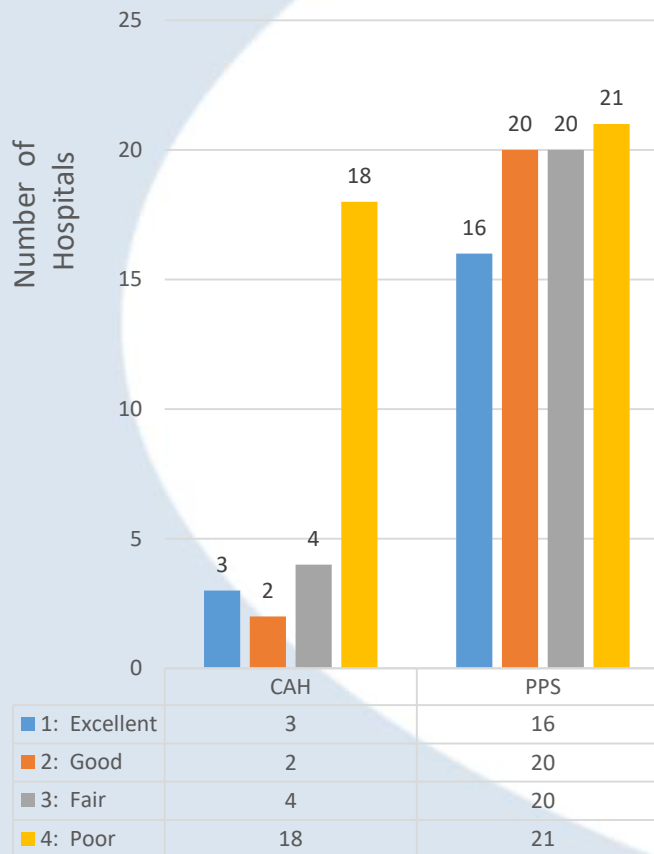
Financial Condition of KY Hospitals  
Based Upon Job Growth



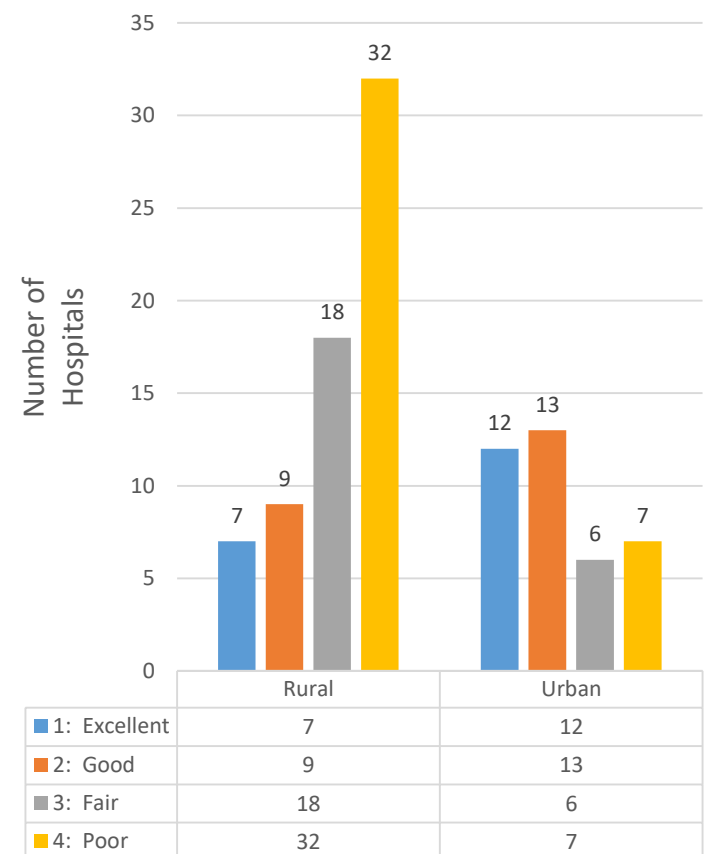


# FSI By Hospital Type

Critiac Access vs PPS Hospitals



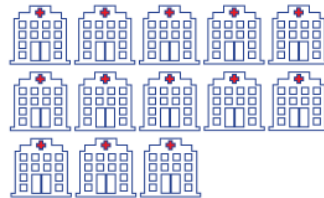
Urban vs Rural



# KHA Identified Vulnerable Hospitals

## TIER ONE HOSPITALS: "MOST VULNERABLE"

### 13 Hospitals



### Communities at Risk



Population  
210,588



Other Economic  
Benefit  
\$102 million



Employees  
2,517



Inpatients/Day  
972



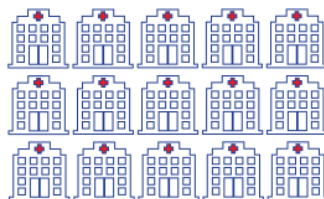
Salaries  
\$138 million



ED Visits  
97,723

## TIER TWO HOSPITALS: "VULNERABLE"

### 15 Hospitals



### Communities at Risk



Population  
274,792



Other Economic  
Benefit  
\$115 million



Employees  
2,423



Inpatients/Day  
1,101



Salaries  
\$138 million



ED Visits  
146,702

## COMBINED IMPACT



Population  
485,380



Salaries  
\$276 million



Inpatients/Day  
2,074



Employees  
4,940



Other Economic  
Benefit  
\$217 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**)



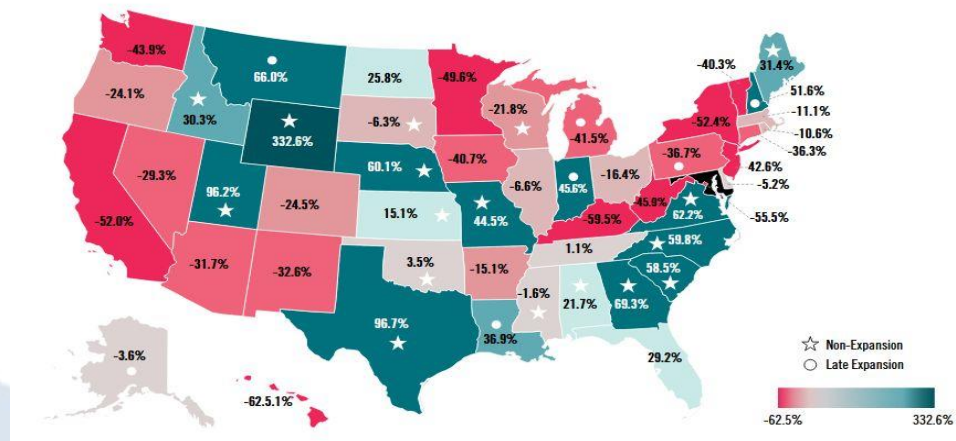
# ACA Medicare Cuts

- **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*

**FIGURE 2** DSH UCC ESTIMATE: ESTIMATED DAYS PROXY VS. A FULL TRANSITION TO S-10 DATA



# 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**



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# 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

SFY	US Cut
2018	\$ 0
2019	\$ 0
2020	\$ 4 B
2021	\$ 8 B
2022	\$ 8 B
2023	\$ 8 B
2024	\$ 8 B
2025	\$ 8 B

- Total Spending (with State Match)**

Pool	2018 Baseline Without Cut	2021 With 75% Cut
Acute (44%)	\$ 100 Million	\$ 26 Million
Psychiatric (19%)	\$ 43 Million	\$ 11 Million
University (37%)	\$ 84 Million	\$ 22 Million
Total	<b>\$ 227 Million</b>	<b>\$ 60 Million</b>

*KY likely to have larger share of cuts due to Medicaid expansion and lower rate of “uninsurance” despite payment shortfalls*



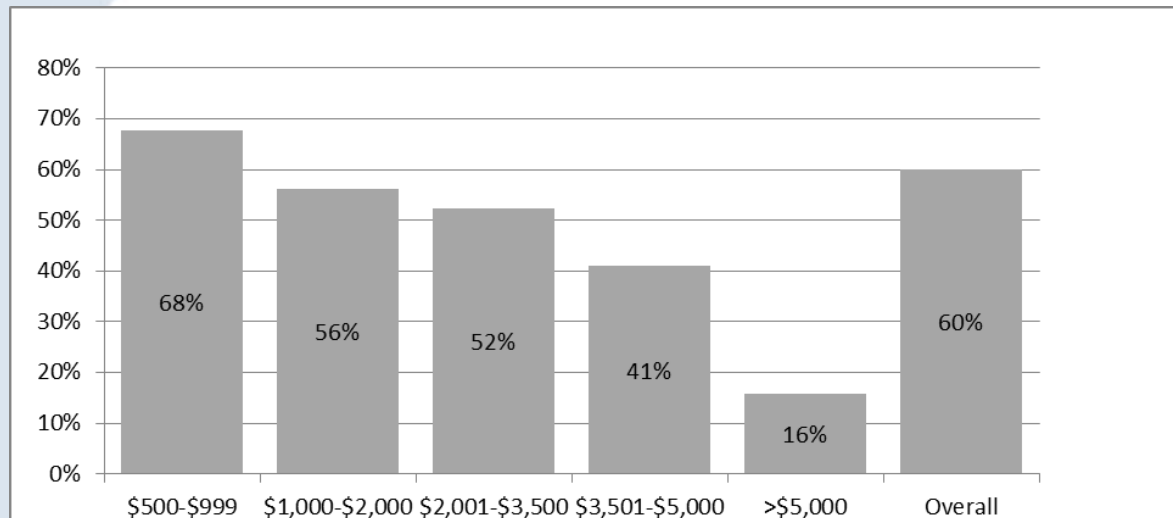
# Managed Care Pressures

- 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



Deductible

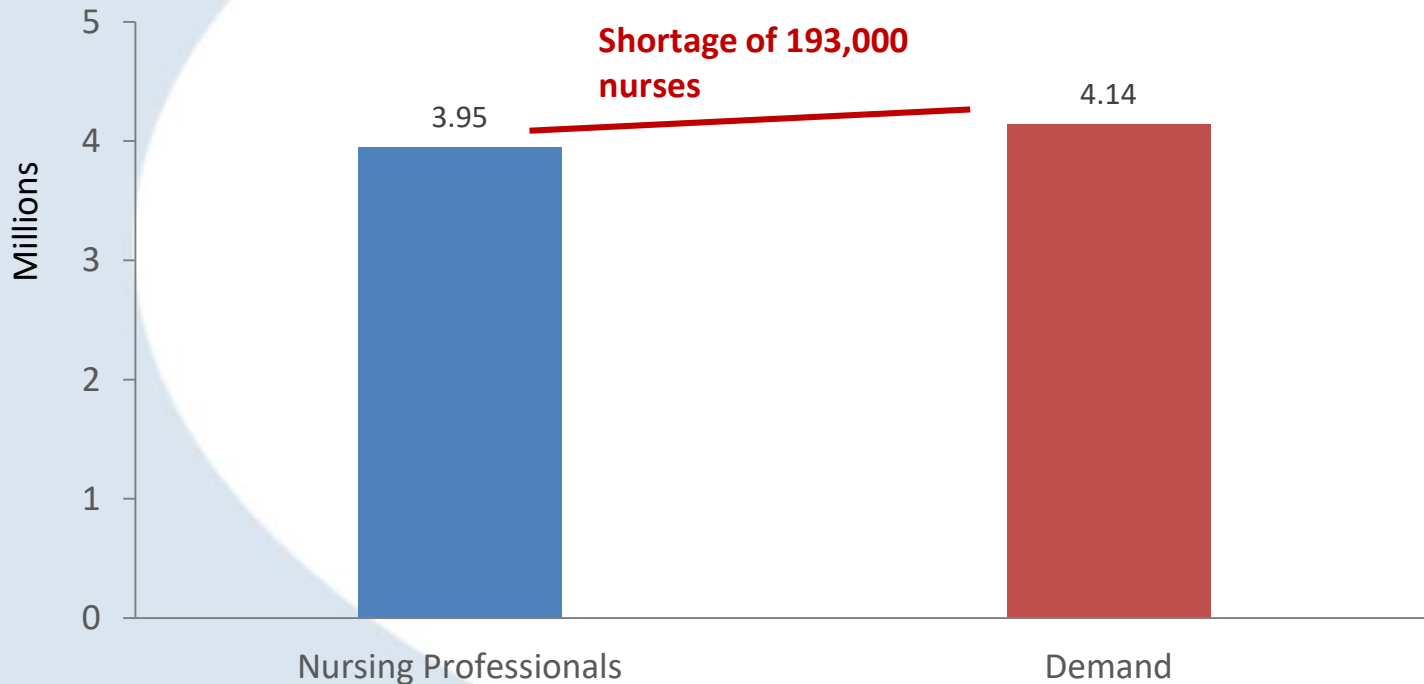
Percentage of patients paying any portion of bill.



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# Workforce Challenges

Chart 5.13: Projections of National Supply and Demand for Nursing Professionals, 2020



Source: Georgetown University Center on Education and the Workforce. *Nursing: Supply and Demand through 2020*. February 2015. 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!

