THE GOVERNANCE INSTITUTE
A SERVICE OF nrc HEALTH

DECEMBER 2022
Rural Focus

Financial Resiliency: Key Takeaways for Rural Hospitals

By **Kathryn C. Peisert**, Editor in Chief & Senior Director,
and **Kayla Wagner**, Senior Editor, *The Governance Institute*

Industry-wide challenges in healthcare tend to hit rural hospitals harder than the rest, and now is no different. This group of hospitals has been hit with extreme financial pressure and losses, while the magnitude and causes are widely varied. Although it may be easy to assume that a higher proportion of Medicaid payments are the biggest contributor to the problem, according to the Center for Healthcare Quality and Payment Reform (CHQPR), private health insurance plans paid a *smaller* percentage of rural hospitals' charges and cost during the first year of the pandemic, while Medicare payments increased. "At the majority of rural hospitals with less than $20 million in annual expenses, losses on patients with private health insurance plans and self-pay patients were greater than losses on Medicare, Medicaid, and uninsured charity care patients combined…. Private health plans pay small rural hospitals less than they pay larger hospitals for the same services, and Medicare Advantage plans appear to be among the worst payers at small rural hospitals."[1]

Patient volumes were still lower in 2021 than in 2019 for most rural hospitals, and while volume still has room to recover, the costs of operating in 2022–2023 and beyond will remain significantly higher. Persistent losses deplete a hospital's financial reserves over time, making it more likely for smaller rural hospitals to have unpaid bills and difficulties in making payroll, thus more susceptible to closure. Even if a financially strained hospital does not close, it would have to reduce the services it provides to the community. Failure to address these significant problems facing rural hospitals could lead to impactful reductions in access to healthcare services for many communities across the U.S.[2]

2022 was a year that began with optimism about putting COVID-19 behind us and getting back to work on care transformation, and yet it is ending with even more complex crises with lasting impacts (e.g., workforce, inflation, supply chain challenges). For this last *Rural Focus* issue of the year, we wanted to take the

1 Center for Healthcare Quality and Payment Reform, "The Causes of Rural Hospital Problems."
2 *Ibid.*

© The Governance Institute | 877.712.8778 | GovernanceInstitute.com

opportunity to put together a list of takeaways specifically for rural hospital boards to consider as they look to strengthen their balance sheets and margins in 2023. At the end of this article there are links to the publications we pulled from for a deeper dive.

Build Resiliency into Strategy and Processes

A revenue strategy based on volume growth is a risky strategy for all healthcare providers, but especially for rural providers. Traditional integrated planning and capital allocation frameworks are still relevant in today's healthcare market, but the drivers that impact those plans and the evaluative criteria need to change. How can the organization pursue opportunities that can come from rapid and significant change? Board members with experience from other industries can help their rural organizations learn how to translate what is happening around them into the strategic plan:

- **Scenario planning:** To build resiliency, plan now for all foreseeable scenarios. Understand the range of potential outcomes, much of which are uncontrollable. Do your strategic goals still make sense in light of these scenarios, and do you have mitigation plans and flexibility built into your plans to be able to adapt?
- **Demand modeling:** Most organizations understand well how volume changes affect revenue stream and cost structure. What now must be included in your scenario analysis is considerations for longer-term lower utilization and how to gain a better understanding of the demand impacts in your community. Factors to consider include socioeconomic, consumer sentiment, new/different access points, patient movement based on travel and jobs, and how willing patients are to come back to the various care settings your organization offers.
- **Translate demand modeling into financial modeling:** The budget, rolling forecast, cost structure, and long-range financial plans should reflect the drivers identified in the scenario planning and demand modeling.

Transform Costs and Strengthen the Revenue Cycle

Revenue cycle management is more challenging for rural hospitals and health systems due to many factors including their patient mix, staffing challenges, and tighter operating budgets. Boards can work with their leadership teams to:

- Identify how many distinct revenue cycles currently operate within your organization and determine to what extent this complicates performance reporting and ability to execute strategic priorities.
- Assess where your organization has redundant or underutilized business and technology vendors or business partners across the revenue cycle settings.

© The Governance Institute | 877.712.8778 | GovernanceInstitute.com

- Evaluate where your organization could reduce cost to collect and free up staff for more value-added work through strategic automation and other operational efficiencies.
- Adopt a continuous process improvement business model and focus on reducing unit costs through improvements in efficiency, productivity, lower-cost resource utilization, and innovation in care and business processes.
- Ensure that you have in place an effective clinical variation reduction program to assess opportunities in parallel with operational process improvement efforts and that identifies all possible process, cost, and quality opportunities.

Revenue and Payment Model Diversification

Revenue diversification will be key to revenue resiliency, especially growth in outpatient services such as ambulatory surgery, urgent care centers, imaging centers, and other sites of care. Several factors should give urgency to this effort. Kaufman Hall data from 2021 indicates that patients are seeking outpatient services outside of the hospital's ecosystem or delaying outpatient care. Non-traditional competitors have been active in telehealth and other spaces.

Despite policies that have incented the industry to move to value-based payment, the industry remains largely fee-for-service. The pandemic exposed vulnerabilities of the fee-for-service system and we are seeing new interest in diversification of the "payment portfolio." Accelerated movement toward value-based payment models can lessen dependence on volumes as the primary revenue driver. However, this acceleration might not happen quickly or easily in rural markets. Building unique partnerships and expanded care networks, discussed in more detail in the next section, can help rural providers to better leverage payers in value-based care models that can lessen their financial dependence on volume.

Expand and Rethink Partnerships

Now and going forward, rural partnerships will be the primary way to maintain and expand services, access, and meet financial and strategic goals. Partnering allows rural hospitals to combine their strengths with organizations that possess dissimilar strengths, achieving additional scale and coordinating services without heavy investment of capital. Partnering can also allow simultaneous reduction of risk and costs, with an accelerated timeline to achieve goals. The following are some innovative partnerships to consider.

© The Governance Institute | 877.712.8778 | GovernanceInstitute.com

Set up a shared services operating model with other nearby or regional providers. This could include shared workforce arrangements and urban/rural partnerships. Potential benefits include:

- Streamlined and consistent patient financial experience
- Access to more reliable data
- Leveraged synergistic spread of technology-enabled workflows
- Expedited technology upgrades and implementations

Payer/provider partnerships are essential for rural providers to expand value-based care contracts and rely less on fee-for-service and volume-/utilization-based revenue. Building out a network of rural providers within a larger region, or a rural/urban provider network can encourage payers to be more willing to enter into risk-based contracts with smaller, rural organizations. These partnerships do not have to involve a change of ownership.

Digital health investments or partnerships can help to retain telehealth volume for rural providers that don't have access barriers such as lack of high-speed Internet.

Finally, although rural hospitals lose money on low payer reimbursements, they lose more through bad debt and charity care. It is important to recognize the financial benefits of insuring as many patients as possible in your service area. There are many opportunities to work with local organizations (public health, schools, churches, after school programs) to help get more patients in your community insured via ACA marketplaces, Medicare, and Medicaid. Make eligibility information and online links available on your Web site in as many languages as possible.

Resources

John Fink, "Preparing Your Public Hospital for Success During a Downturn," *Public Focus,* November 2022.

Lisa Goldstein, "The Importance of Revenue Resiliency," *BoardRoom Press,* April 2022.

Kevin Ormand, "The Revenue Cycle: an Overlooked Opportunity to Achieve Academic Health System Priorities," *Academic Health Focus,* November 2021.

Daniel Majka, "Recovering from the Financial Impacts of COVID-19" (15-minute video), October 2021.