SCHs, MDHs Should Be Equitably Reimbursed for Uncompensated Care

The Issue

Hospitals in rural communities face numerous challenges, including financial pressures, more chronic disease, greater reliance on Medicare and Medicaid, and nurse and physician shortages, among others. In addition, higher uninsured rates in rural areas also results in high uncompensated care exposure for these hospitals. The COVID-19 pandemic has increased the severity of these challenges, and in 2020, rural hospitals provided $4.6 billion in uncompensated care.[1]

Sole Community Hospitals (SCHs) and Medicare-dependent Hospitals (MDHs) both play vital roles in the rural healthcare safety net. Congress has repeatedly recognized the critical role that these hospitals play by providing special Medicare payment protections to ensure their viability. Under Medicare's Inpatient Prospective Payment System (IPPS), SCHs and MDHs are paid the greater of the federal rate (i.e., the payment that the hospital would otherwise receive under the IPPS) or a cost-based payment, which is determined by adding together the federal payment rate applicable to the hospital and the amount that the federal payment rate is exceeded by a hospital-specific rate (in the case of MDHs, the hospital receives 75% of that difference).

In 1986, Congress created the disproportionate share hospital (DSH) program to support hospitals with unusually high shares of low-income patients. Congress believed Medicare could sustain these hospitals and encourage them to care for these populations by providing a special payment that increases based on the hospital's exposure to these patient populations. Hospitals paid under the federal rate that are eligible for DSH adjustments receive enhanced payments; hospitals paid under the hospital-specific rate, like SCHs and MDHs, and that are eligible for DSH payments, do not receive hospital-specific payment adjustments to compensate them for uncompensated care. This highlights one of several inequities that exist between the two payment mechanisms that continues to undermine the viability of critical rural safety net hospitals.

Rural hospitals have been closing at increasing and alarming rates in recent years, leaving rural communities without access to necessary healthcare.[2] Moreover, hospitals – particularly rural hospitals – are critical economic engines for their communities. Rural hospitals often are the largest employers in their community, and also serve as magnets for other businesses.[3] Just as businesses may be reluctant to locate in communities without schools, they likewise are reluctant to locate in communities without healthcare. SCHs and MDHs also face immense financial burdens and often exist on the edge of viability. Further, when an SCH or MDH closes, the impact to the community is more profound: SCHs are the *sole source* of hospital services in the community; MDHs are critically vital to the Medicare program because more than 60 percent of their patients are Medicare beneficiaries.

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[1] American Hospital Association, "Rural Hospital Closures Threaten Access," (September 2022) p. 6.
[2] Center for Healthcare Quality and Payment Reform, "The Crisis in Rural Health Care," (January 2023).
[3] Carroll, C., Planey, A., & Kozhimannil, K. B. (2022). Reimagining and reinvesting in rural hospital markets. *Health services research*, *57*(5), 1001–1005. https://doi.org/10.1111/1475-6773.14047

The Solution

If a hospital paid on the basis of the federal rate serves a significantly disproportionate number of low-income patients, it receives an increased payment under the Medicare DSH payment adjustment, along with an uncompensated care pool allocation. SCHs and MDHs that are paid under the hospital-specific rate should receive the same financial protections if they have high rates of uncompensated care.

Providing these hospitals with equitable and appropriate compensation not only ensures that providers are more adequately reimbursed for their costs, but also provides greater financial stability for these important safety net hospitals, so they can continue sustaining their communities.

SCHs and MDHs paid on the basis of their hospital-specific rate should also receive a DSH payment adjustment and an uncompensated care pool allocation.

Legislative Specifications

To accomplish this objective, amend section 1886(b)(3) by adding at the end a paragraph that provides for a to-be-determined future fiscal year for both SCHs and MDHs to be eligible for a DSH payment adjustment and an uncompensated care pool allocation in the same manner as other subsection (d) hospitals as described in paragraph (5)(F) and in subsection (r).