Adapting policy to the new normal of service consolidations in health care

What’s driving it: A shift in payment philosophy

**Fee-for-service**
Providers paid based on the number of services provided or the number of procedures ordered. Incentivizes a higher-cost heads-in-beds model.

**Value- or outcomes-based**
Providers are reimbursed based on the quality and efficiency of the care they provide. Incentivizes lower costs and better outcomes.

Rural health care providers can’t meet the demands of this new payment philosophy

**Low patient volume:** small rural health care providers have low patient volume. This means that they can’t:

- **share risk** across thousands of patients to meet the efficiency and quality goals incentivized by the new payment philosophy
- **negotiate** higher reimbursements from the insurance market
- **provide purchasing power** for lower-cost supplies and other efficiencies
- **afford technology upgrades** needed to conduct analytics that increase efficiency and quality of care
- **qualify for incentives** provided by new payment philosophy due to their lack of specialty care available in house

To read the full report, visit our website at ruralmn.org.
Adapting policy to the new normal of service consolidations in health care

A future with more mergers, acquisitions, and service eliminations in rural areas

Smaller health care providers are challenged with thin margins. The new payment philosophy and COVID-19 pandemic will worsen the financial outlook for these providers. This situation will likely lead to:
1. An increase in mergers and acquisitions within the healthcare provider market; and
2. An increase in the number of service consolidations across rural areas.

Recommendations

Require a review of consolidations of services: Develop a policy that would require health care systems planning to remove services from a rural facility to explain their reasoning and calculate the impact on the community in terms of access.

Treat rural and urban hospitals differently: Consider basing new policies on the patient volume of individual facilities rather than the volume of the overall health care system.

Assess significant new government cost-saving policies for their impact on rural providers: Cost-control policies could work well in large cities but have major unintended consequences for small rural health care facilities and their slim to negative profit margins.

Examine what revenue streams hospitals rely on and explore alternatives: For example, rather than requiring hospitals to go through a vetting process only to be turned down for more inpatient services, can a rural hospital receive help to expand its outpatient services?

Explore policy that gives communities more input into the decisions made about their health care: Examples would be to require regional or community representation on boards of directors or requiring sign-off from local or county governments for decisions that change access significantly in their region.

To read the full report, visit our website at ruralmn.org.