center for rural policy and development
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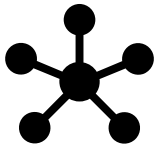
# Adapting policy to the new normal of service consolidations in health care

## What's driving it: A shift in payment philosophy

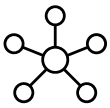
**Fee-for-service**
Providers paid based on the number of services provided or the number of procedures ordered. Incentivizes a higher-cost heads-in-beds model.



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

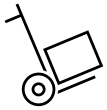
## Rural health care providers can't meet the demands of this new payment philosophy

**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

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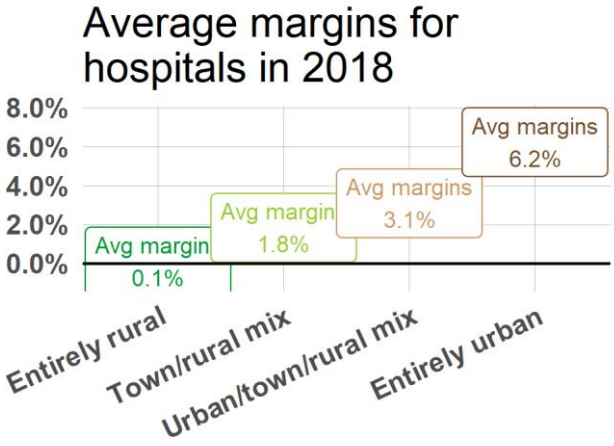
**A future with more mergers, acquisitions, and service eliminations in rural areas**

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.




Data: MN Health Economics Program Hospital Annual Report

## 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.

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