Give Rural Hospitals a Chance: Changes in Payment Policy

Keith J. Mueller, Ph.D.
Director
RUPRI Center for Rural Health Policy Analysis
University of Nebraska Medical Center

Presentation at the Annual Meeting of
The National Rural Health Association

May 16, 2002
Kansas City, Missouri
Lingering Issues Post Budget Legislation

Continued negative Medicare margins among hospitals under 50 beds

- 2002 estimate for “all payments”: -1.8%
- 2002 estimate without DSH and IME: -4.4%

MedPAC March, 2002 Report to Congress

Continued disparity in inpatient base payment

- MedPAC March report recommends phasing out

“As of 1999, rural hospital costs were 3 percent lower than large urban costs, but [aggregate] payments remained 45 percent lower.” MedPAC Report to Congress, March, 2002
Lingering Issues Post Budget Legislation (continued)

Outpatient PPS is still coming

January 1, 2004

Considerable analysis needed and data systems need to be developed

September, 2001 RUPRI Panel recommendation to postpone PPS until analysis complete
Specific Refinements Still Needed

Wage Index

- occupational mix adjustment being phased in
- MedPAC recommended full implementation in fiscal 2002

reassessment of proportion of providers’ costs that are tied to national markets, lowering the labor related share to which an area wage index applies (current proposed rule raises the labor related share from 71.1% to 72.5%, but CMS is asking for comments on alternative methods)

MedPAC recommends examining

Disproportionate Share Hospital payments

- Still not achieve equity with urban

MedPAC recommendation to eliminate completely the inequity in payment; pay all the same
General Issues Need to Be Addressed

Mismatch: Small rural hospitals and PPS for all services

- MedPAC recommended low-volume adjustment in June, 2001

A down payment: 57.7% of low volume (up to 200 discharges per year) would still have negative inpatient Medicare margins

Only sure way to address is cost-based reimbursement

- Allowable and reasonable costs provides controls
- Well-managed hospitals will maintain bottom line
General Issues Need to Be Addressed (continued)

Hospitals anchoring other services in rural communities

- Home Health
- Ambulance services
- Hospice
- Post-acute
Give Them a Chance

- Adopt recent MedPAC recommendations

- Reasonable, allowable cost-based reimbursement as a baseline for small rural hospitals

- Consideration for participation in other essential services
RUPRI Center for Rural Health Policy Analysis

www.rupri.org/healthpolicy