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Findings at a Glance

The Rural Community Hospital Demonstration (RCHD) Report Covering 2005 - 2017

DEMONSTRATION OVERVIEW

The goal of the RCHD is to strengthen the financial condition of small rural community hospitals and help them to meet the needs of Medicare beneficiaries who reside in their market areas by providing higher Medicare payments for covered inpatient hospital services. This report builds on the findings in the 2018 RCHD Report to Congress and includes results for hospitals that first joined the RCHD under the Medicare Modernization Act (MMA) and the Affordable Care Act (ACA) authorizations.

Note: MMA refers to the Medicare Modernization Act, ACA refers to the Affordable Care Act, CCA refers to the 21st Century Cures Act.

Hospital Eligibility Criteria

- Rural
- <51 Acute Care Beds
- 24-hour ER
- Ineligible to be a Critical Access Hospital (CAH)

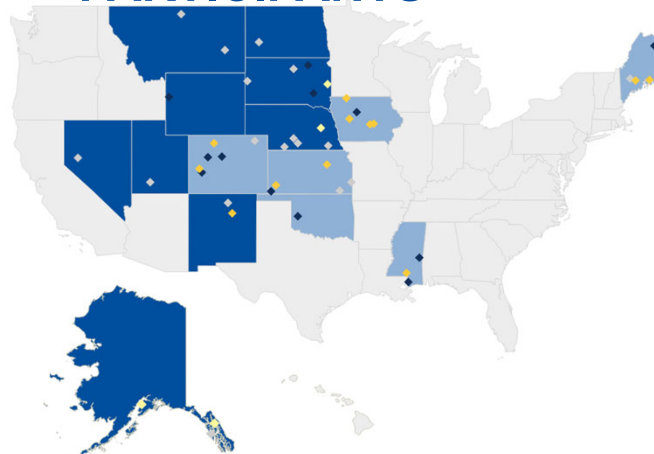
RCHD Payments for Medicare Inpatient Care

Base Year (Rebased for each new authorization)	**Reasonable and allowable costs for acute and SNF levels of care; used to compute target amount**
Post Base Year	**Lesser of:** • **Current year reasonable and allowable costs** • **Current year target amount**

PARTICIPANTS

First Participation Authorization
- Started under MMA
- Started under ACA
- Non-participating

Hospital Participation
- New CCA (n=12)
- Continuing ACA (n=13)
- Continuing MMA (n=4)
- Exited (n=16)



The MMA limited RCHD participation to hospitals located in the 10 least populated states.

The ACA then expanded priority to the 20 least populated states.

Characteristics of Participating Hospitals before the RCHD

Compared to eligible non-participating hospitals, RCHD hospitals:

- Had **higher inpatient volumes** and were **less likely to be in competitive markets** *(3+ hospitals within 35 miles)*
- Were **in overall stronger financial condition**, as evidenced by having less debt, higher total margins *(includes income from all sources, all payer revenue, investment gains)*, and more cash on hand
- Had room for financial improvement, as evidenced by lower Medicare margins (-18% RCHD vs. -1% of eligible non-participating hospitals) and older physical plants.

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FINDINGS FOR THE MMA AND ACA COHORTS

Impact of RCHD on Hospital Finances

- **Higher Payments:** Between 2005 and 2017, the MMA and ACA RCHD cohort hospitals received annual payments for inpatient and swing bed SNF services that were on average **$1.8 million (41%)** higher per hospital than what they would have received under the existing payment systems, ranging from 30%-55% greater. Hospitals with more discharges received higher RCHD payments.

> ***"Every inch of improvement we got from the demonstration project allowed us to invest in the things we invested in. . . that we believe have been beneficial to the health of our service area."***
>
> ***"And so the rural demonstration project gave us some sort of continuity to what our reimbursement was going to look like, so we could actually put plans together to take the organization out into the future."***
> ***– Hospital Leadership***

- **Medicare Inpatient Margins improved while Total Margins remained relatively the same.** RCHD hospitals improved their Medicare inpatient margins by 13.7 percentage points from a baseline mean of -15.5%, relative to a comparison group of hospitals with similar characteristics.

- **Financial condition remained strong.** Debt levels, total margins, and other financial measures continued to be better than eligible non-participant hospitals

Disposition of Hospitals Exiting the Program

Between FY 2005 and FY 2017, 16 of the 33 hospitals left the RCHD: 8 became Sole Community Hospitals (SCH), 6 became CAHs, and 2 closed because of declining population and competition.

KEY TAKEAWAYS

- From 2005 to 2017, the RCHD achieved its goal of providing higher Medicare payments for covered inpatient hospital services.
- RCHD payments ranged from 30%-55% greater than what they would have received under the existing payment systems.
- RCHD hospitals continued to be in better financial condition, as evidenced by having lower debt levels, more cash on hand, and higher Total Margins (including income from all sources, all payer revenue, investment gains).

This document summarizes the interim report prepared by an independent contractor. For more information about the RCHD project and to download the interim report, visit https://innovation.cms.gov/innovation-models/rural-community-hospital/