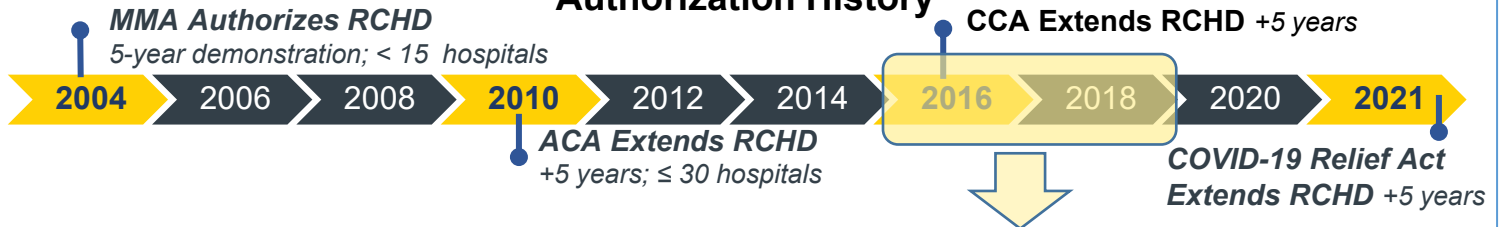


## DEMONSTRATION OVERVIEW

The RCHD, a budget neutral demonstration, tests whether cost-based reimbursement for Medicare inpatient services can increase the financial viability of small rural hospitals.

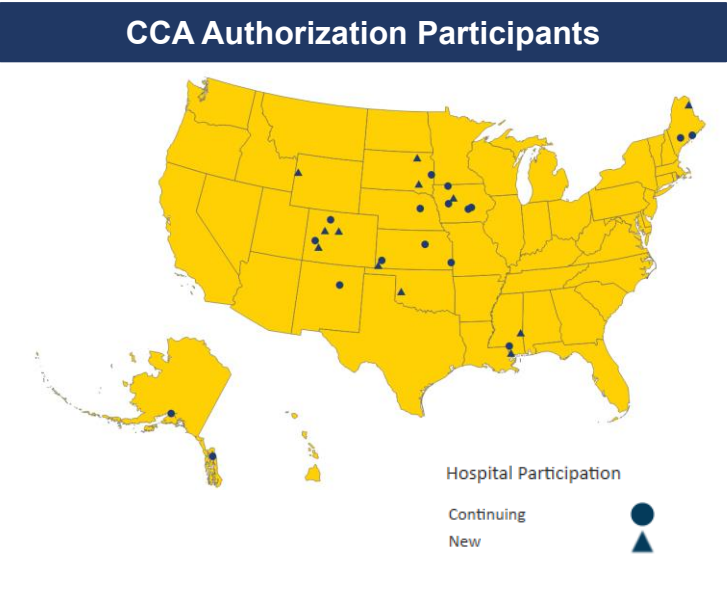
### Authorization History



Interim Report 2 provides results for the 29 hospitals participating during the CCA authorization - reporting separately for 12 new hospitals joining the RCHD after 2016 and 17 continuing participation (out of 26 that participated in the ACA).

*Note: MMA refers to the Medicare Modernization Act, ACA refers to the Affordable Care Act, CCA refers to the 21<sup>st</sup> Century Cures Act.*

Hospital Eligibility Criteria	How RCHD Payments for Inpatient Care are Structured
<ul style="list-style-type: none"> <li>Rural</li> <li>&lt;51 Acute Care Beds</li> <li>24-hour Emergency Care</li> <li>Ineligible for CAH Designation</li> </ul>	<p><b>With Each New Authorization</b></p> <p>In the first year (or base year), payments are equal to “reasonable and allowable costs” for acute and skilled nursing facility (SNF) levels of care. These base year payments are also used to compute payment target amounts for future years</p>
	<p><b>Subsequent Years</b></p> <p><b>Lesser of:</b></p> <ul style="list-style-type: none"> <li>Current year reasonable and allowable costs; or</li> <li>Current year target amount</li> </ul>



### Useful Definitions

<b>Continuing RCHD Hospitals</b>	17 hospitals that first joined the RCHD under the MMA authorization or ACA extension
<b>New RCHD Hospitals</b>	12 hospitals that first joined the RCHD under the CCA extension
<b>Reasonable Costs</b>	Costs that do not exceed what a prudent and cost-conscious buyer pays for a given item or service.
<b>Allowable Cost</b>	Costs directly related to patient care
<b>Target Amount</b>	Base year costs updated by inpatient prospective payment system [IPPS] market basket, case-mix changes, and Medicare inpatient discharges

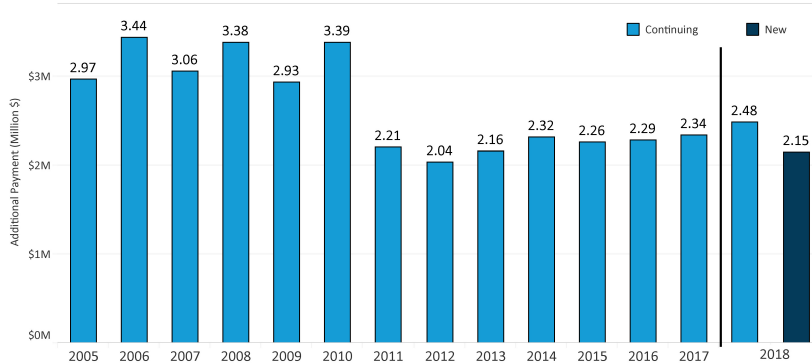
### Characteristics of the 29 CCA Participating Hospitals before the RCHD

- Compared to eligible non-participating hospitals, RCHD hospitals had:
- Lower Medicare inpatient margins (-20% RCHD vs. -2% for eligible non-participating hospitals)
  - Higher inpatient volumes across payers, lower share of Medicare inpatient discharges, and higher number of Medicaid discharges

## KEY EVALUATION FINDINGS

Annual payments for inpatient services under RCHD were, on average, \$2.15 million (*New*) and \$2.66 million (*Continuing*) more per hospital per year and have remained roughly constant since 2011

Average Additional RCHD Payment (Million \$) Over IPPS by Fiscal Year, FY 2005–2018



*The marked change in additional payments starting in 2011 is on account of additional hospitals joining the demonstration in this year*

There was a positive impact of the RCHD on some financial outcomes for *New* RCHD hospitals. Impact for *Continuing* RCHD hospitals remained the same as in previous authorizations

### New RCHD hospitals

- Medicare inpatient margins increased by 16 percentage points from a baseline mean of -19 percent, taking participant hospitals closer to the break-even point
- Total operating margins increased by 13 percentage points, from a baseline mean of -8 percent
- Medicare swing-bed revenue share increased by 10 percentage points, from a baseline mean of 9 percent
- No impact on total profit margins

### Continuing RCHD hospitals

- Ongoing participation in the RCHD did not significantly change hospitals' Medicare inpatient margins relative to previous gains made by these hospitals when they first joined the Demonstration

## KEY TAKEAWAYS

- As designed, RCHD hospitals received, on average, higher Medicare payments for covered inpatient services than under the IPPS. The increase remained relatively constant during 2016-2018. Higher payments resulted in improved Medicare inpatient margins and improved total operating margins.
  - New RCHD hospitals' Medicare financial viability improved, with large improvements in Medicare margins, but the gains were not large enough to impact their total profit margins.
  - For continuing RCHD hospitals, the financial improvements experienced during earlier demonstration participation were maintained but there was no evidence of any additional gains.
- The demonstration has entered a stable period for the continuing RCHD hospitals who have now been part of the demonstration for nearly two decades.