

Rural Health in Pennsylvania

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Rural Health



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Key reasons for rural hospital challenges:

1. National trend of declining inpatient admissions
2. Increase in outpatient services at lower margins than inpatient services
3. Supplemental payments focus on inpatient services
4. Inpatient services require highly specialized care
5. Significant physician shortages in rural areas
6. Increasing operating expenses, i.e., physician salaries
7. Patients residing in rural areas are older, sicker, and have a higher prevalence of chronic diseases
8. Patients living in rural areas often out-migrate for health care to urban areas



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Rural hospitals across the country are increasingly at risk for closure, reducing access to care in their communities.

1,970 hospitals in the US are in rural areas (35% of all hospitals)

68 rural hospitals have closed in past 5 years, reducing patient access and jobs in communities

Today, there are **more than 670 rural hospitals (34% of total) at risk for closure** (a 2.5x increase from 2015)

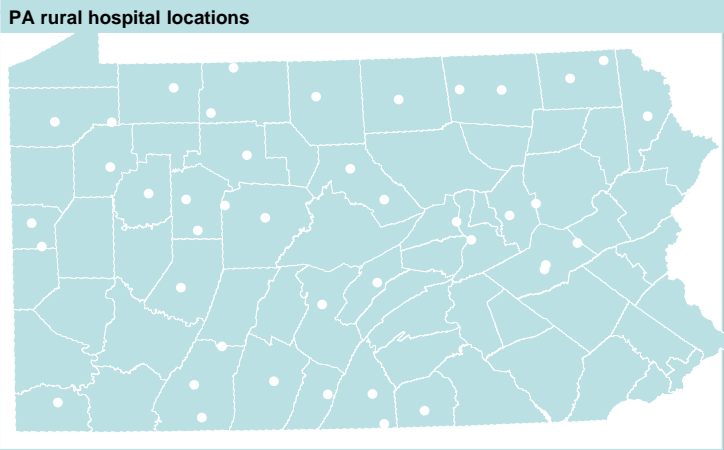
Rural hospitals **provide important care and deliver critical social programs** (e.g., substance abuse treatment) in the community



SOURCE: iVantage Health Analytics 2016

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In Pennsylvania, 42 rural hospitals respond to multiple challenges when providing care.

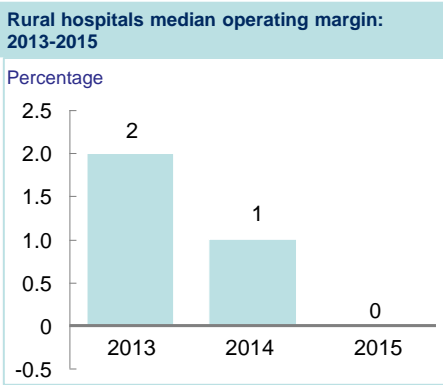
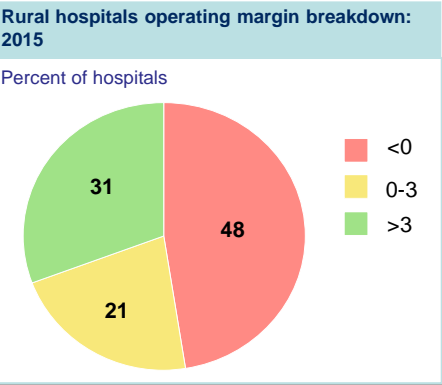


- ~1 of every 5 Pennsylvanians live in a rural area
- >27,000 jobs provided across all rural hospitals
- 55 of 67 counties are federally designated Health Profession Shortage Areas (HPSAs) or Medically Underserved Areas (MUAs)



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The majority of these rural Pennsylvania hospitals reports low and declining operating margins.



- Nearly half of rural hospitals reported negative operating margins in 2015, with 70 percent reporting operative margins of 3 percent or less.
- One in five hospitals reported negative operating margins for each of the last 3 years.

SOURCE: Pennsylvania Health Care Cost Containment Council



The Plan for Transformation



Our plan: The PA Rural Health Transformation model utilizes a global budget to promote transition to value-based care and greater hospital sustainability.

From	To
<ul style="list-style-type: none">• Primarily fee-for-service payments rewarding volume over value• Inpatient focused, with declining utilization• Little linkage between quality and payment• Significant operating margin pressure	<ul style="list-style-type: none">• One multi-payer global budget for all hospital services• Greater emphasis on outpatient services and fewer sub-scale inpatient services• Direct incentives to improve quality• Hospital sustainability through predictable revenue and opportunity to share in value creation

“A global budget for a hospital across all payers provides a guarantee of revenue in advance, no matter the volume of admissions and other hospital services. This financial model flips the traditional fee-for-service incentive structure and encourages hospitals to take steps to reduce preventable admissions by implementing strategies that improve health.”

- Dr. Joshua Sharfstein, Associate Dean, Johns Hopkins University



SOURCE: The Milbank Quarterly, 2016

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Our key objective: The PA Rural Health Transformation model will utilize a global budget to help hospitals address health outcomes in rural communities.

Objectives in Pennsylvania

A **Improve population health and quality of care** by implementing an **all-payer model** that fully supports the delivery of community-appropriate services

Enable hospitals to move towards **financial sustainability** through a global budget model by **stabilizing revenue** so hospitals can focus on improving care delivery

C Ensure each payer achieves **budget neutrality across the portfolio of participating hospitals**

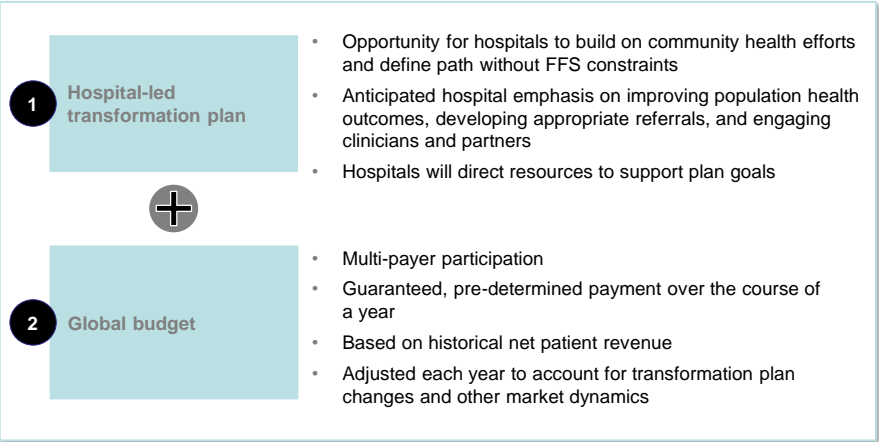
X The model is not...

- A subsidy for hospitals
- An extraordinary source of retained savings to payers and hospitals
- An approach which will substantially help hospitals unwilling or unable to transform



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Our approach: The PA Rural Health Transformation model is driven by a hospital-led transformation plan and enabled by a global budget.



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The global budget and the Rural Health Redesign Center are the two pillars of the model.

Fixed annual revenue (global budget)



The global budget is fixed annually and paid out to hospitals monthly, providing a stable stream of revenue



The objective of the global budget is to stabilize cash flow, allowing focus on investment and care quality



The global budget is calculated based on historic data adjusted for transformation-related annual service changes

Transformation support (RHRC)



Rural Health Redesign Center will provide tailored, end-to-end assistance at no cost to the hospital



The objective of the RHRC is to minimize the burden of the transformation, allowing focus on successful implementation



The RHRC will participate in all transformation phases: data collection, plan creation, implementation progress



In addition, pilot candidates can expect infrastructure support



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A public-private partnership, the Rural Health Redesign Center, will be established to support hospitals in meeting their transformation plan goals.

Support provided by the Rural Health Redesign Center

- Global budget administration, including calculation of budget amounts, adjustments, and payer contributions
- Model-specific data analytics and performance reporting
- Technical assistance for hospitals, including training, capacity building, and convening of communities of practice
- Engagement of community stakeholders through an advisory panel for input on overall program policy and outcomes
- Model oversight, including approval of global budgets and transformation plans

Responsibilities remaining with participating payers and hospitals

- Contracts that define legal relationship between payers and hospitals, amended to allow for model participation
- Existing quality goals and programs between payers and hospitals
- Claims submission and processing
- Billing and payment processes
- Compliance with existing federal and state mandates, unless waiver is granted
- Payer medical management and benefit design capabilities






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The Rural Health Model can help Rural Hospitals move to stable operating margins and while enhancing access to quality care in its community.

Hospital X's future vision...

- Hospital X has ambitious plans to meet the needs of its community, which includes:
 - Increase outpatient access to community through XX and XZ
 - Recruit new family practitioner
 - Discontinue low volume, high cost inpatient services
 - Develop an integrated care model that reduces avoidable emergency department admissions
- Hospital X aims to accomplish these goals in a way that allows it to obtain positive operating margins

... can be realized with the Rural Health Model

-  Stable stream of revenue with monthly payments
-  Additional services focus on health needs of rural communities
-  Tailored support for transformation planning
-  Data analytics to support model implementation
-  Infrastructure support to transform care



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The Rural Health Redesign Center support model begins in 2017





Questions?

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