National Rural Health Association Policy Brief

Preserving rural health care: the impact of site-neutral payments

Introduction

Rural hospitals and their off-campus hospital outpatient departments (HOPDs) provide essential services required for health care access in rural communities. Current and proposed site-neutral policies have significantly reduced payments to rural facilities and have the potential to exacerbate financial pressures on rural safety net hospitals.

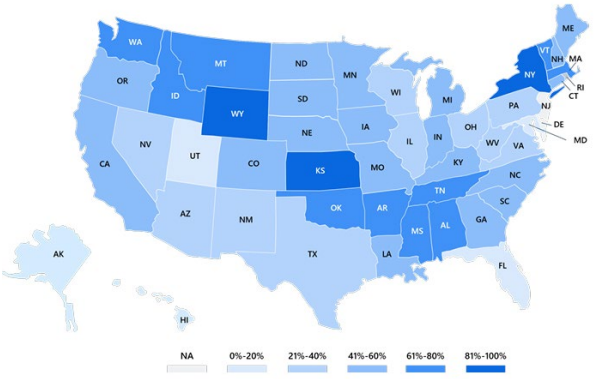
Medicare reimburses for services at HOPDs at higher rates than physicians' offices paid under the Medicare Physician Fee Schedule (MPFS). To address the growing volume of services provided in HOPDs and the associated rising costs, the Bipartisan Budget Act of 2015 introduced site-neutral payment rates for off-campus HOPDs established after the bill's enactment, setting reimbursements at 40 percent of the Medicare Outpatient Prospective Payment System (OPPS) rate. In 2018, the Centers for Medicare & Medicaid Services (CMS) further restricted payments for evaluation and management services at off-campus HOPDs to the MPFS rate.

Although intended to control expenses, these policies threaten rural hospitals, potentially undermining their financial stability and jeopardizing access to essential health care services in underserved communities. In 2022, CMS provided some relief to rural hospitals by exempting off-campus HOPDs of rural Sole Community Hospitals (SCH) from site-neutral payments, acknowledging their essential role in rural health care access.[i] However, this exemption does not extend to other types of rural hospitals, such as Medicare-Dependent Hospitals (MDH) and Low-Volume Hospitals (LVH), leaving many vulnerable to the financial impacts of reduced payments.[ii]

Analysis

[iii]Rural hospitals heavily rely on off-campus HOPDs to provide essential care in remote areas. The more rural the county where a Medicare beneficiary resides, the more likely it is that they seek care in an HOPD rather than a physician's office.[iv] In fact, rural hospitals' average share of revenue from outpatient services has increased from 66 percent in 2011 to almost 75 percent in 2021.[v,vi] Additionally, Medicare accounts for a higher percentage of outpatient revenue in rural hospitals, making Medicare OPPS payments more important in rural hospitals than urban hospitals.[vii] The financial burden imposed by site-neutral payments may force rural hospitals to make difficult operational decisions, such as reducing services, delaying equipment purchases, or closing departments or entire facilities. Rural hospitals face unique challenges meeting requirements to provide 24/7 emergency care, comply with EMTALA, and meet stringent conditions of participation, which are not fully addressed by site-neutral payment rates. These challenges often result in higher costs per service compared to larger urban hospitals due to lower patient volumes, minimum staffing requirements, standby capacity needs, and more.

Figure 1 State-Level Percentage of Rural Hospitals with Negative Operating Margin



50% of America's Rural Hospitals Operate in the Red.
Source: Chartis Center for Rural Health, 2024

Site-neutral payments also threaten access to care for the most vulnerable rural patients. Dually eligible beneficiaries use HOPDs for outpatient care more than their non-dually eligible counterparts. Of this

population utilizing HOPDs, 72 percent have a complication or comorbidity compared to 64 percent of patients that mostly visit physicians' offices.[viii] The ramifications extend beyond financial impacts, affecting health care access in rural areas where reduced reimbursement can lead to service reductions or closures, worsening existing disparities such as longer travel distances to health care facilities and limited access to specialized services.[ix]

Rural communities also see a higher volume of patients at off-campus HOPDs because of the growing challenges that rural physicians face. As it becomes increasingly difficult for independent rural physician practices to remain open, hospitals acquire these practices in an effort to retain access points for rural patients. Hospitals are two and a half times more likely to acquire rural physician practices than other entities.[x] This trend leads to more reliance upon off-campus HOPDs to ensure access to care in rural areas. Further, research shows that physician practices acquired by hospitals have improvements in their care management process compared to those that remained independently physician owned.[xi]

Site-neutral payment policies have resulted in reductions in Medicare payments for services provided at off-campus HOPDs, with some proposals suggesting cuts of up to 30 percent for off-campus emergency departments. These reductions disproportionately impact rural hospitals, which generally face lower patient volumes and higher per-patient costs, compounding their financial challenges.[xii] Notably, affected rural hospitals represent 18 percent of all rural OPPS hospitals but account for nearly 40 percent of OPPS spending among rural hospitals and provide care for 33 percent of Medicare beneficiaries seen in rural settings.[xiii] This arbitrary application of payment cuts threatens the operational viability of rural facilities, leading to reduced access to care for rural populations who already face significant health disparities. An exemption from these payment reductions such as the one granted to SCHs would enable rural hospitals to maintain operations and continue serving their communities.

In recent years, conversations around expanding site-neutral payments have increased and caught the attention of lawmakers. As a result, stakeholders in favor of site-neutral payment have framed these policies as protecting patients, disincentivizing health care consolidation, and lowering Medicare spending. However, what is missing from this discussion is the disproportionate impact on rural hospital sustainability due to the unique characteristics of these facilities.

Policy recommendations

To address the negative impacts of site-neutral payments on rural hospitals, NRHA recommends the following actions:

1. **Reject all future site-neutral payments.** NRHA opposes the expansion of site-neutral payment reforms, such as those proposed in the *Lowering Health Costs for Senior Framework*[xiv]; *Lower Costs, More Transparency Act (HR.5378)*[xv]; or the *SITE Act (S.1869)*[xvi].

2. **Exempt all rural hospitals from future site-neutral policies.** If Congress moves forward with expanded site-neutral payment policies, all rural hospitals should be exempt. Payment rate alignment must consider the specific needs of rural hospitals, which often serve as critical access points for complex procedures and emergency care.[xvii] For services predominantly provided in HOPDs, Medicare should maintain current payment rates to ensure these rural facilities can continue offering essential services without financial strain.[xviii]

3. **Extend current exemptions**: Current site-neutral payment applies to off-campus HOPDs established after the date of enactment of the Bipartisan Budget Act of 2015, with the exception of rural SCHs. CMS should broaden the current exemption to include all rural hospitals paid under the OPPS, including MDH, LVH, and rural PPS hospitals with fewer than 100 beds. These hospitals

should receive full OPPS rates for services furnished in off-campus PBDs. The same considerations that justified the SCH exemption apply to these smaller rural hospitals, which face similar challenges in maintaining service volumes and meeting local health care needs. These hospitals often represent the only access points for critical care in rural areas, and extending the SCH exemption to them would help mitigate financial pressures and preserve essential services.

Conclusion

Site-neutral payment policies pose a threat to rural hospitals by reducing reimbursement rates and potentially leading to service reductions or facility closures. Exempting rural providers from these policies is crucial to maintaining access to essential health care services in rural communities.

NRHA urges policymakers to consider the unique circumstances of rural health care providers when implementing site-neutral payment policies. Extending exemptions to a broader range of rural hospitals and adjusting payment methodologies will help protect the financial viability of these critical access points. Addressing disparities in site-neutral payments is key for supporting rural health infrastructure and ensuring equitable access to care across all regions. Maintaining a robust rural health care infrastructure is crucial to ensure rural populations receive the care they need. Supporting rural hospitals through policy reforms will help preserve health care access and improve health outcomes in underserved areas.

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