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Findings Brief
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Trends in Risk of Financial Distress among Rural Hospitals

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OVERVIEW

From January 2005 to July 2016, 118 rural hospitals have closed permanently, not including seven others that closed and subsequently reopened.[1] The number of closures has increased each year since 2010, and in the first half of 2016, the closure rate surpassed two closures per month.[1] Hospital closures impact millions of rural residents in communities that are typically older, more dependent on public insurance programs, and in worse health than residents in urban communities.[2,3,4] Identifying hospitals at high risk of closure and assessing the trends over time may inform strategies to prevent or mitigate the effects of closures.

KEY FINDINGS

- Consistent with previous research, the South census region has the largest percentage of rural hospitals at high risk of financial distress over the period 2013 to 2016.
- Alabama, Georgia, Kentucky, Mississippi, Oklahoma, Tennessee, and Texas have the largest number of rural hospitals at high risk of financial distress (more than 10 rural hospitals in each state).
- Alabama, Georgia, Kentucky, Hawaii, South Carolina, and Tennessee have the largest percentage of rural hospitals at high risk of financial distress (greater than 20% of rural hospitals in each state).
- The proportion of rural hospitals at high risk of financial distress has increased from 7.0% in 2015 to 8.1% in 2016, with the largest increases in the South and Northeast census regions (2.2 and 1.3 percentage points respectively).
- The proportion of rural hospitals at high risk of financial distress has increased from 13% to 19% among Medicare Dependent Hospitals (MDH) and from 1% to 4% among Rural Referral Centers (RRC) over the period 2013 to 2016.

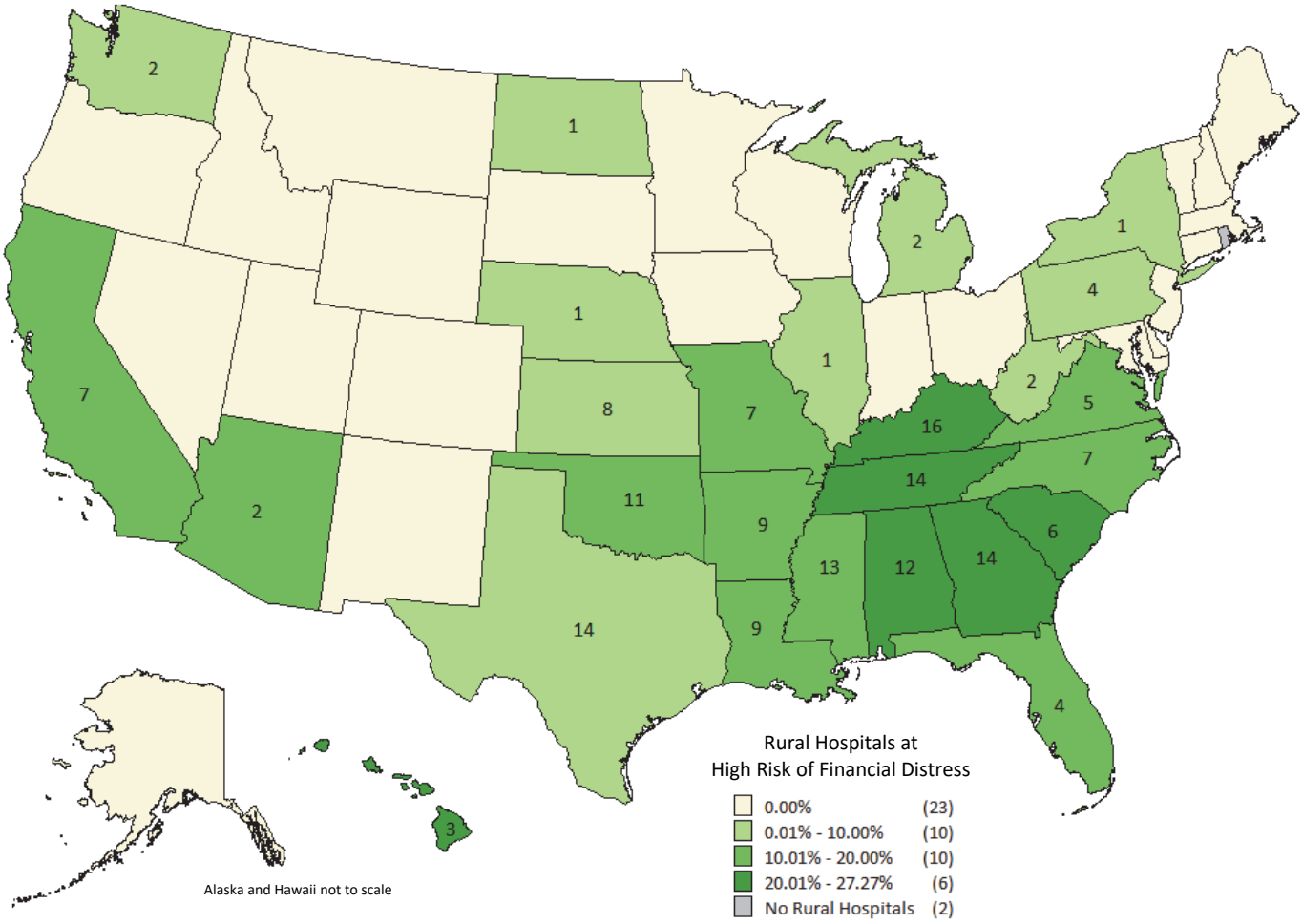
In a previous Findings Brief, we described the Financial Distress Index (FDI) model, which assigns hospitals to high, mid-high, mid-low or low risk levels for 2016 using 2014 Medicare cost report and Neilsen-Claritas data summed to market areas.[5] We also showed the probability of closure and reduction of services is significantly greater for rural hospitals at high risk of financial distress.[6] Using data from 2011-2014, this brief updates and describes the distribution and trends in the risk of financial distress among rural hospitals for the 2013-2016 period by state and census region.[7]

RESULTS

Figure 1 shows that the states with the largest number of rural hospitals at high risk of financial distress are Kentucky (16), Georgia (14), Tennessee (14), Texas (14), Mississippi (13), Alabama (12), and Oklahoma (11). The states with the greatest increase in the number of hospitals at high risk of distress from 2015 were Mississippi (5) and Kentucky (6). The states with the largest percentage of rural hospitals at high risk are Alabama (27%), Hawaii (25%), Tennessee (25%), South Carolina (24%), Kentucky (23%), and Georgia (22%). About half of states (including Washington, DC) have no rural hospitals at high risk of financial distress (23) or no rural hospitals (2).

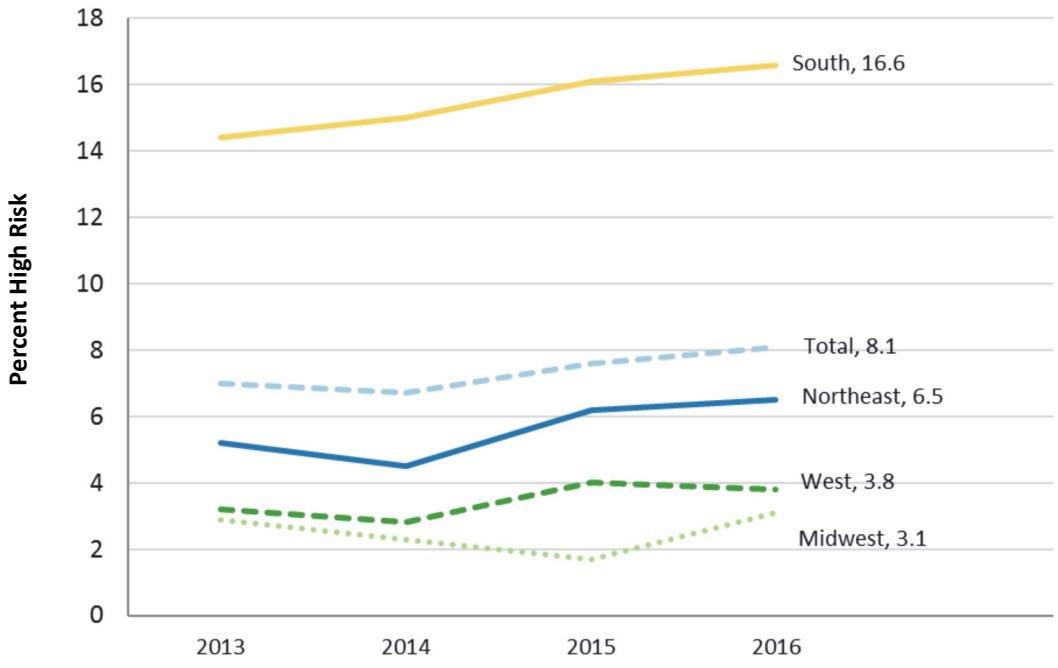
Figure 2 shows the trends in the proportion of hospitals at high risk of financial distress by census region. The percentage of rural hospitals at high risk of financial distress increased from 7.0% in 2015 to 8.1% in 2016, with increases in each of the four census regions ranging from 0.3 percentage points in the Midwest to 2.2 percentage points in the South. After dropping below 4.5% in 2014, the rate of high risk hospitals in the Northeast census region climbed 2.1 percentage points to 6.5 (a 40% increase).

Figure 1: Number and Percentage of Rural Hospitals at High Risk of Financial Distress in 2016



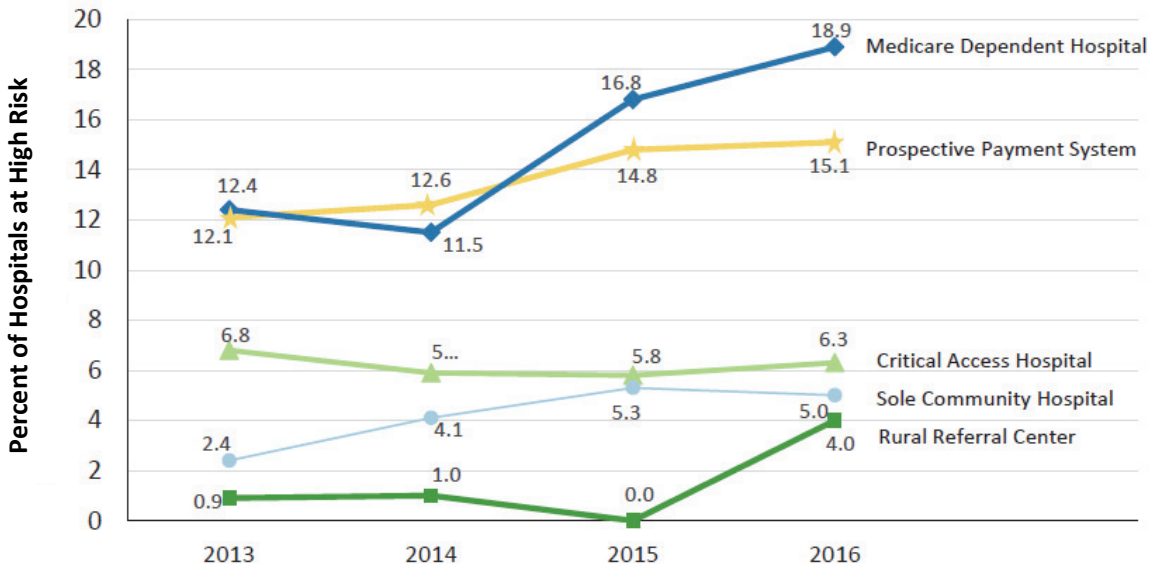
Source: North Carolina Rural Health Research and Policy Analysis Center, Cecil G. Sheps Center for Health Services Research, University of North Carolina at Chapel Hill, November 2015
http://www.shepscenter.unc.edu/programs-projects/rural-health/

Figure 2: Proportion of Rural Hospitals at High Risk of Financial Distress by Census Region, 2013-2016



The proportion of hospitals at high risk of financial distress also varies by the Centers for Medicare & Medicaid Services (CMS) payment type (Figure 3). Though the rate remained stable among Critical Access Hospitals (CAH) at around 6%, it has increased from 13% to 19% among Medicare Dependent Hospitals (MDH) and from 1% to 4% among Rural Referral Centers (RRC) over the period 2013 to 2016.

Figure 3: Proportion of Rural Hospitals at High Risk of Financial Distress by CMS Payment Type, 2013-2016



DISCUSSION

The proportion of hospitals at high risk of financial distress varies greatly by state, with the highest rates observed in Alabama, Hawaii, and Tennessee where one in four hospitals is at increased risk of closure. The risk distribution also varies by census region and CMS payment type, with the South and Northeast census regions having the greatest proportion of hospitals at high risk. Nationally, the proportion of hospitals at high risk of financial distress has been increasing over the last two years, which suggests that the current trend of increasing rural hospital closures is likely to continue. The proportion of MDH hospitals at high risk of financial distress has increased by more than 50% since 2013. Because MDH hospitals are more reliant on Medicare revenue, recent Medicare reimbursement policies may have had a larger impact on these hospitals than other payment types. Strategies to address the financial challenges faced by hospitals serving rural markets should be considered in order to preserve access to care in these communities.

REFERENCES AND NOTES

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7. Hospitals missing the required cost report or market data were excluded from this analysis.

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