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Evaluating a new model for funding rural health care in Pennsylvania

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Community hospitals are a vital source of health care for rural populations, yet many rural hospitals across the United States are in financial distress. Over the last decade, more than 130 rural hospitals

have closed nationwide. Rural communities also have fewer social networks and limited options for health and long-term care, frequently resulting in poorer health outcomes.

According to Dennis Scanlon, distinguished professor of health policy and administration and director of the Center for Health Care and Policy Research, rural health is particularly relevant to Pennsylvania, which is home to over three million rural residents. Prior research has shown that the 27% of Pennsylvanians who live in rural areas experience higher rates of chronic disease, substance use and poverty than their urban counterparts.

In response to the challenges faced by health care providers in rural Pennsylvania, the Center for Medicare and Medicaid Innovation is funding the Pennsylvania Rural Health Model. This $25 million, six-year project represents a new model for funding health care that aims to improve health for patients, increase financial stability for rural hospitals , and decrease health care costs.

A team of researchers from Penn State's Department of Health Policy and Administration, Center for Health Care and Policy Research, and Pennsylvania Office of Rural Health studied the launch of this new model in 2019, and a recent article in the *Journal of Healthcare Management* summarized the lessons the researchers learned about implementing a new model for funding health care.

Health care in the United States

Forty percent of rural hospitals are in danger of closing for financial reasons, according to a 2020 study from the Center for health care Quality and Payment Reform. Additionally, the researchers said prior studies have shown that Americans pay more for health care but have poorer health outcomes than people in other wealthy nations.

These circumstances, Scanlon said, have convinced many policymakers, health care providers, and members of the public that a new funding model for health care is needed.

Currently, most health care providers in the United States use a fee-for-service model. In this model, health care providers charge for each service they provide, ranging from a doctor's examination to an X-ray to different lab tests during a single visit.

Scanlon said the fee-for-service model potentially incentivizes providing extensive and sometimes unnecessary care rather than focusing on patient outcomes. This model also can be confusing for patients when they receive bills from multiple providers for a single medical visit. Furthermore, the amount of the bill often changes based on whether or not patients have insurance and can also vary depending on what insurance provider they have.

"The fee-for-service model is costly, inefficient, and still does not lead to great outcomes for patients," said Scanlon, who also led the research project. "A global budget model allows hospitals to know what their revenue will be, which may provide different incentives to the providers."

Aiming for better care at lower costs

In the Pennsylvania Rural Health Model, participating hospitals worked with the state's Rural Health Redesign Center to develop a fixed budget for all six years of the project. This is a "global budget" process where, instead of billing and paying for every individual service rendered, the hospital receives the amount specified in its budget and uses those funds to provide care to each person the hospital serves.

The hospitals' revenues come from the same insurance companies and

governmental sources, but in lieu of varying payments based on services rendered, the hospitals receive a consistent payment each month. All major payers of medical bills, including Medicaid, Medicare, and private insurers, are participating in the Pennsylvania Rural Health Model. Without buy-in from hospitals and all major payers, the project would not be possible, the researchers explained. If the budgets are well-constructed, the hospitals will be able to provide for their communities' medical needs while generating profits through efficiency.

Hospitals also collaborate with the Rural Health Redesign Center to develop a quality assurance plan alongside their budgets. These plans help ensure that hospitals are evaluated based on their patients' outcomes. This protects against the possibility of a hospital saving money by cutting services that their patients need.

"Ideally, this new model will incentivize different behavior by the hospitals," said Scanlon. "Interventions that prevent or delay diabetes, substance use, or heart disease might improve people's overall health while reducing health care costs. Under the global budget model, there is incentive to provide these services that may not always exist in a fee-for-service system, where insurance companies may—or may not—pay for preventive care."

Increasing stability

According to the researchers, in addition to potentially providing higher quality care at lower costs, there is hope that the global budget model will stabilize the financial situation of rural hospitals. Stable health care facilities improve both public health and local economic health. If hospitals successfully operate within the budgets they developed with the state's Rural Health Redesign Center, they will be better prepared for the unexpected.

"When participating hospitals joined the project in 2019, no one knew that the COVID-19 pandemic would sweep across the nation the following year," Scanlon said. "Due to shutdowns around the country in 2020, many health care services like elective surgeries were canceled, which drastically reduced income for hospitals operating under the fee-for-service model."

He said hospitals in the Pennsylvania Rural Health Model program were insulated from that drop in revenue, and the financial stability embedded in a global budget model may help hospitals stabilize employment and health care services in local communities over the long term.

Understanding the impact

By reviewing primary documentation and interviewing 20 participating stakeholders, the researchers examined the challenges and lessons learned during the development and launch of the Pennsylvania Rural Health Model. They said they believe this work can be useful in understanding how to address the pressing health care needs of rural communities.

According to the researchers, one of the lessons learned was that change is slow and gradual, so timelines for transitions must be realistic. One person they interviewed compared the adoption of a new funding model to a marathon, not a sprint. They said that everyone from doctors and nurses to administrators and the public had to be educated before anyone could be asked to change.

The researchers also concluded that participating hospitals need a "champion" in the system who embraces the vision of the new model and educates others about its value. Another interview respondent said, "[W]hat made the pitch compelling was not only that it was visionary, but that it was being offered by someone that had been in the [hospital]

trenches and understood the reality."

More data collection and study will be required before the full impact and potential of this new model is truly understood, said the researchers.

"This funding model has never been tried before in Pennsylvania at this scale," said Scanlon. "So there really is no way to be sure how it will work for participating rural hospitals and the Pennsylvanians that they serve. But finding new solutions requires trying new things, and we will study this project for years to come to understand its implications for health care and health care funding."

More information: Dennis Scanlon et al, The Pennsylvania Rural Health Model: Hospitals' Early Experiences With Global Payment for Rural Communities, *Journal of Healthcare Management* (2022). DOI: 10.1097/JHM-D-20-00347

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