'Pay for performance' incentives are hurting hospital finances in Mississippi delta

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Two Medicare "pay for performance" programs have contributed to declining financial performance by hospitals in the Mississippi Delta region, suggests a study in the November issue of *Medical Care*.

The Hospital Readmissions Reduction Program (HRRP) and the Hospital Value-based Purchasing Program (HVBP) are having a disproportionate financial impact on Delta hospitals, according to the report by Hsueh-Fen Chen, PhD, and colleagues of University of Arkansas for Medical Sciences, Little Rock. They write, "The weak financial performance of Delta hospitals and widening disparity in financial performance between Delta and non-Delta hospitals under HRRP and HVBP indicate that altering these two programs is necessary and urgent in order to ensure that we do not remove the resources from the communities that need them most."

Programs Linked to Widening Financial Gap between Delta and non-Delta Hospitals

Implemented under the Affordable Care Act, the two programs provide financial incentives for hospitals to deliver higher-quality, higher-value care. The HRRP reduces Medicare reimbursements to hospitals with higher than average readmission rates for selected conditions. The HVBP adjusts payments based on a set of quality indicators.

The researchers analyzed data on financial performance before and after hospitals started to be penalized and rewarded under these programs in 2013. The study focused on the Mississippi Delta region, including 252 counties in eight states: Alabama, Arkansas, Illinois, Kentucky, Louisiana, Mississippi, Missouri, and Tennessee. The Delta Region is among the most socioeconomically disadvantaged areas in the United States. It is a largely rural area with a large proportion of minority and underserved residents, high poverty rates, and high rates of health risk factors and poor health outcomes.

Data from 2008 to 2014 showed a widening gap in financial performance between Delta hospitals and non-Delta hospitals (other hospitals in the nation). Operating margin (profit or loss resulting from delivery of patient care) was lower at Delta hospitals throughout the study period—but dropped sharply to ?6.9 percent starting in 2012, falling to ?10.4 percent in 2014.

By comparison, operating margin was relatively steady at non-Delta hospitals, with figures of ?0.8 percent in 2012 and ?1.5 percent in 2014. In other words, in 2014, Delta hospitals were losing about ten percent of margin on patient care, while non-Delta hospitals were losing just 1.5 percent.

Analysis of total margin (profit or loss resulting from both patient care and non-patient care activities) showed a similar pattern. From a high of 3.6 percent in 2012, total margin at Delta hospitals decreased to 0.2 percent in 2014. In contrast, for the same time period, total margin at non-Delta hospitals remained stable at an average of 5.3 percent. Thus in 2014 Delta hospitals were making little to no profit overall, while non-Delta hospitals had about a 5.3 percent profit margin.

After taking hospital and community characteristics into consideration, non-Delta hospitals had an average 1.0 percent increase in operating margin and 2.3 percent increase in total margin after the implementation of the HRRP and HVBP programs, compared to their operating and total margin before the implementation of the two Medicare programs. However, Delta hospitals had a decrease of 4.24 percent in operating margin and 0.30 percent in total margin after the implementation of the HRRP and HVBP programs. The pattern of both operating and total margin was similar when including all hospitals (excluding hospitals in Maryland) in the nation and all hospitals in the states without early

Medicaid expansion.

As their financial performance weakens, Delta hospitals will have fewer resources to improve their quality of care—placing them at risk for falling even further behind national averages. Dr. Chen and colleagues note that Delta hospitals serve a high percentage of Medicaid patients, making them an essential part of the healthcare safety net. With near-zero profit margins, some Delta hospitals may be at risk of closing, or of dropping unprofitable services.

While Dr. Chen and coauthors believe paying providers based on the quality and value of care is "a step in the right direction," they add that the HRRP and HBVP programs "use a one-size-fits-all approach without considering the uniqueness of the communities that hospitals serve." The researchers conclude: "Given the growing disparity in operating and total margin between Delta and non-Delta hospitals...a revision of HRRP is urgent and a reevaluation of HVBP is necessary."

More information: Hsueh-Fen Chen et al. Financial Performance of Hospitals in the Mississippi Delta Region Under the Hospital Readmissions Reduction Program and Hospital Value-based Purchasing Program, *Medical Care* (2017). DOI: 10.1097/MLR.0000000000000808

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