Policy Brief

April 15, 2022

No Margin for Error:
A Review of Hospital Financial Health

The COVID-19 pandemic has been a catalyst for change in how Americans access health care. This rapid alteration is having a direct impact on hospital's financial viability. A rise in telehealth, fewer emergency room visits and the growth of at-home acute care models have accelerated the shift towards outpatient care, where services are reimbursed at a lower rate. Additionally, ongoing staffing shortages continue to eat into hospital's bottom line, adding higher staffing costs. Keep reading to learn more about the financial road bumps impacting hospitals and what pivots the industry could take to stay in the black.

Staffing and Inflation Woes

Labor shortages and inflation are the most pressing factors contributing to increased hospital costs. The average labor expense per adjusted discharge has risen by 32% since January 2020. Meanwhile, the number of Full-Time Equivalent (FTE) staff continues to drop by an average of 3% month-over-month. Hospital operating margins are struggling as costs to recruit, train and retain staff continue to increase. Labor shortages disrupt patient care as some hospitals are forced to postpone elective surgeries due to inadequate staffing levels. Furthermore, inflation continues to add extra pressure as the consumer index is nearly 8% higher than last year. The total expense per adjusted discharge, considering labor and other costs, has increased 10% from last February and nearly 31% since 2020.

Out with the IN and in with the OUT

The shift toward outpatient and in-home care has been underway for several years, with very low or generally flat hospital admission rates pre-COVID-19. The pandemic has spurred an increase in this shift to the outpatient setting, further degrading hospital's revenue margins. Virtual care, smart devices and personalized services to manage chronic diseases have all decreased the reliance on inpatient care or care inside the walls of a hospital. Additionally, Medicare telehealth visits increased 63% during 2020 and gained wide acceptance. Telehealth usage has decreased from its peak, but it will likely remain high. Despite the recent lower COVID-19 transmission rates, telehealth still constituted 5.4% of medical claims in January 2022. For reference, telehealth constituted only 0.24% of medical claims in January 2020.

In recent years, CMS has also altered its reimbursement structure and risk-sharing models, contributing to that shift to outpatient care as well. For example, every year CMS removes more procedures from Medicare’s inpatient-only list, allowing them to be performed in both the inpatient and outpatient settings. Despite the Biden Administration reversing a policy that would have eliminated the inpatient-only list, we expect CMS to continue to incentivize the shift to the outpatient setting.

COVID-19 also spurred hesitancy among consumers to seek care inside a hospital. This, coupled with the desire to receive care closer to the home, will also continue to deplete hospitals’ inpatient volumes. Hospitals in the “sunbelt” will likely see more robust volume trends, including inpatient care, as these markets have higher population growth.

A Change in Tactics

- The hospitals that will be best positioned in the future to sustain sufficient demand for inpatient services will be those that focus on quaternary and tertiary care. More complex cases will require greater levels of specialty care, which will drive the demand for facilities that can manage complicated health care needs.
- Hospitals will need to embrace investment in outpatient services, partnering with new entrants to the market, like Walmart and CVS, that bring care closer to patients' homes.
- Hospitals will need to be prepared to meet the changing demands of an older population. If labor shortages remain, this will require hospitals to innovate and further adopt technologies, like telehealth, that expand the reach of the current workforce.

A Fix for a Glitch:
Family Coverage Subsidies on the Health Insurance Exchanges

The White House recently released an Executive Order to fix a regulatory "family glitch" that makes family members of employees ineligible from receiving a premium tax credit for insurance on the Affordable Care Act's (ACA) Health Insurance Exchanges. This move continues the trend of the Biden Administration efforts to strengthen the ACA exchanges. While subsidized enrollment on the Exchanges decreased under the Trump Administration, it has begun to rise again due to COVID-19 special enrollment allowances. The regulatory fix would take effect beginning January 1, 2023, in time for the next ACA open enrollment period. Read more about the anticipated effects of addressing this issue. A more detailed breakdown of the fix can be found here.

What is the "Family Glitch"?

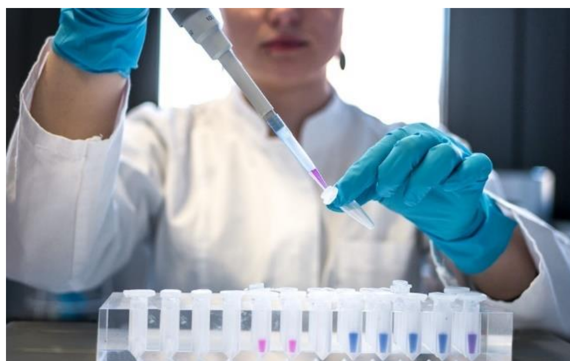
For several years, proponents of the ACA have advocated to fix the family glitch, a gap in coverage caused by the ACA's definition of "affordable" insurance. This glitch is a barrier for employees seeking to purchase family insurance on the Exchanges, impacting about five million people nationwide. If employer-offered self-coverage insurance is deemed affordable, an employee and their family are ineligible for premium tax credits—even if family coverage is too expensive. The Biden Administration is proposing to remedy this by allowing eligible family members to receive subsidies if a person's employer does not offer affordable family coverage.

How will the Executive Order Fix the Glitch?

In order to change family eligibility, the "required contribution" calculation for determining affordability will be modified to include related individuals. This will ensure that eligible employer-sponsored plans will only be deemed affordable if the annual premium for family coverage does not exceed 9.5% of household income. Other family plan regulations will be maintained, such as exclusion of children under the age of 26 that do not qualify as dependents.

Impact of Fixing the "Family Glitch"

Family insurance is much more expensive than individual insurance, with premiums for family insurance growing at a much faster rate. In 2020, the average premiums for employee-only coverage were $7,470; for family coverage, this average was $21,342. This policy change would have the biggest impact on children of low-income workers, who were most likely to fall through the family glitch gap.



Biomedical Research Agency Launched to Target Breakthrough Treatments

In this year's omnibus spending package, Congress approved the creation of a new federal agency tasked with funding cutting-edge biomedical research and other scientific advancements. The new Advanced Research Projects Agency for Health (ARPA-H) has already been given preliminary tasks, a $5 billion startup investment and a new home within the Department of Health and Human Services. HHS Secretary Xavier Becerra hopes to imbue the new agency with enough autonomy to quickly innovate without being "anchored or tethered to doing things an older way."

ARPA-H will tackle big problems impacting public health by quickly funding "high risk, high reward" health science projects. Instead of following the slower-paced research model of the National Institutes of Health, which often awards multi-year projects, ARPA-H is patterned after the military's Defense Advanced Research Projects Agency (DARPA). DARPA is known for its "blue-sky" thinking and innovative projects. Its ability to quickly fund riskier research projects is perhaps most famous for its contributions to creating the internet as we know it today. Sec. Becerra hopes that ARPA-H's long-term legacy will be similarly impactful.

One of the Agency's most immediate goals is to fund innovative research that improves health care's ability to prevent, detect and treat cancer. ARPA-H is looking for "transformative solutions" to modern health care problems. It hopes to do this outside of the traditional research and venture capital approaches, speeding up the time it takes to connect biomedical projects with the funding they need. The Agency will also focus on defining metrics, promoting accountabilities and creating incentives for future health care transformation.

After some debate, it has been decided that ARPA-H will report to HHS, but officially be housed within the NIH. The choice is a compromise; while some experts saw merit in the new Agency being connected to the brain-trust the NIH provides, others worried that a connection to the NIH might slow down the Agency's ability to quickly innovate. In a letter to Congress, Sec. Becerra assured lawmakers that ARPA-H will be a "new member of the HHS family" with the independence to stay lean and nimble.

Public Health Emergency Renewed

HHS has extended the COVID-19 public health emergency for another 90 days, preserving its related flexibilities and services through July. Secretary Becerra reaffirmed his commitment to providing at least 60-days notice before allowing the emergency declaration to expire. Both private insurers and Medicare will continue to cover the cost of at-home COVID-19 testing for as long as the PHE is effective. Alongside testing, the PHE also allows for flexibilities in telehealth, expanded Medicaid offerings and increased Medicare payment rates for inpatient care.

New Actions to Ease Medical Debt from Oval Office

On Monday, the Biden Administration announced its four-point plan to protect consumers from medical debt. The plan directs HHS to carefully scrutinize providers' billing practices. The Administration will request data from a sampling of 2,000 providers on collection policies, financial assistance offerings and lawsuits against patients for unpaid medical bills. HHS will use the findings from this data to:

- Guide future grant awards;
- Publish reports and policy recommendations;
- Engage enforcement agencies where appropriate.

It is too early to know precisely how this plan will be implemented but we foresee a closer look by HHS at hospitals' compliance with the ACA's financial assistance policies.

FEMA Announces Deadlines for Pandemic Claims

The Federal Emergency Management Agency (FEMA) released new information on the deadline for COVID-19 claims in its Public Assistance program. The Agency will accept claims related to costs incurred from the COVID-19 pandemic through July 1, 2022. FEMA has already awarded

more than $42 billion to states, territories and non-profits to help offset losses from emergency medical care, personal protective equipment purchases, testing, vaccinations and other pandemic-related costs. Those wishing to submit a claim should visit FEMA's Grants Portal to file for reimbursement.

New Cybersecurity Guidance from the FDA

The Food and Drug Administration (FDA) has released draft guidance on cybersecurity for medical devices. The guidance is meant to provide recommendations to industry regarding cybersecurity device design, labeling and the documentation that the FDA recommends be included in premarket submissions. The need for effective cybersecurity to ensure medical device safety has become more important with the increasing use of wireless, Internet- and network-connected devices. In addition, cybersecurity threats to the health care sector have become more frequent, more severe and more clinically impactful.

Radiation Oncology Delayed Until Further Notice

CMS recently released a proposed rule that will delay the Radiation Oncology model indefinitely. This delay was a provision in the Protecting Medicare and American Farmers from Sequester Cuts Act passed in December 2021. The model has been delayed several times already, and CMS has not yet specified when the new start date will be. AHPA will continue to monitor the program for more updates.

Legislative and Regulatory Dates to Know:
A Look Ahead

Date	Event
April 16th	Expiration of the COVID-19 Public Health Emergency
April and May	Release of Inpatient (IPPS), Long Term Care Hospital (LTCH), Skilled Nursing Facilities (SNFs), Inpatient Rehabilitation Facility (IRF), Inpatient Psychiatric Facility (IPF) and Hospice proposed rules
July 1st	Return of full 2% Medicare payment sequestration
Early July	Physician, Outpatient (OPPS), Medicare Shared Saving Program (MSSP) Home Health rules
August	Release of final IPPS and post-acute care rules.
September 30th	Major Medicare programs expire, including: - Low-Volume Hospital Program - FDA user fees for prescription drugs and medical products

	- Behavioral health and other programs under the 21st Century Cures Act
November 8th	Midterm Congressional election
Early to Mid-November	Release of OPPS and PFS final rules
November 29th	Lame Duck session of Congress
January 1, 2023	Medicare Access CHIP Reauthorization Act (MACRA) bonus expires; Enhanced Health Insurance Exchange subsidies expire

COVID-19 Policy Updates

HHS Announces Provider Relief Fund Late Reporting Pathway

Providers that failed to satisfy Provider Relief Fund (PRF) Period 1 or Period 2 reporting deadlines may apply to submit a late report. The announcement came after the Health Resources and Services Administration (HRSA) notified thousands of recipients in March that they had to return non-compliant funds.

Medicare to Cover Over-the-Counter COVID-19 Tests

Medicare has a new initiative that will cover up to eight over-the -counter COVID-19 tests each calendar month for Medicare Part B enrollees. The initiative will continue until the end of the COVID-19 public health emergency.

A Look at the Federal Register

Proposed Rule: Fiscal Year 2023 Skilled Nursing Facility

CMS has issued the FY23 Skilled Nursing Facilities (SNF) proposed rule which asks for feedback on how staffing in nursing homes and health equity can be improved. Specifically, this SNF builds upon the Biden Administration's commitment to advance health equity, drive high-quality person-centered care and promote sustainability of its programs. Comments for the proposed rule are due by June 10th.

AHPA Resources

To read AHPA's summaries over current legislation and requests for information, click below:

Cures 2.0 Act | Medicaid and CHIP RFI | Dr. Lorna Breen Provider Protection Act

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WHAT WE'RE READING...

CMS Office of the Actuary Releases 2021-2030 Projections of National Health Expenditures – CMS

The Prescription for Healthy Communities: Investing in Housing – MinnPost

STI Rates Remain High During First-Year of Pandemic – Washington Post

CDC Orders Title 42 to Wind Down – CBS News