Hospital Finances on Precarious Footing as Medicare Loan Repayment Deadline Looms

As the country grapples with the ongoing impact of COVID-19 and related shutdowns, our nation's hospitals remain in dire financial straits. State and federal public health guidance led to widespread stay-at-home orders that resulted in government-mandated cancellations of scheduled, non-emergency procedures and deferrals of care, including emergent care. Even as states begin to reopen, individuals continue to forgo essential medical treatment. The continued loss of hospital revenues that may never be recovered, along with the high cost of preparing for and treating COVID-19 patients, is threatening our nation's hospitals' ability to serve communities in need.

In late March, the Trump Administration alleviated some of the short-term financial pressure caused by COVID-19 by advancing Medicare payments for a period of up to six months under the Medicare Accelerated and Advance Payment Programs (MAAPP). Under the MAAPP, however, hospitals must begin repaying the funds within 120 days by forgoing any further Medicare fee-for-service payment. For most hospitals, this deadline is fast approaching, well before experts expect a return to pre-pandemic patient volumes or revenues, and as many communities are experiencing spikes in COVID-19 cases.[1] This aggressive repayment timeline presents a doomsday scenario for struggling hospitals, many of which may be on the brink of financial collapse. Some have already closed their doors this year. Further, acute care hospitals have just one year to complete their repayment before any remaining funds become subject to a staggering, approximately 10 percent interest rate. Without swift action to delay MAAPP deadlines and revise the rules, hospitals will continue to succumb to the effects of COVID-19 amidst fears of a second wave of the pandemic.

Hospitals on Life Support

The disruption to major service lines and scheduled, non-emergency procedures wrought by COVID-19 led to an unprecedented drop in hospital revenue. This was compounded by an increase in costs to respond to the expected surge in COVID-19 cases and growth in uncompensated care as Americans experienced record job losses.

- Between March 1 and April 15 of this year, hospital revenue dropped by an average of $1.4 billion per day as a result of fewer inpatient hospitalizations.[2]
- The American Hospital Association (AHA) estimated hospitals' COVID-19-related revenue loss and expenses at a total of $202.6 billion between March 1 and June 30, an average of more than $50.7 billion each month.[3]
- A recent increase of 8.4 percent in the share of hospital patients without insurance likely reflects furloughs and rising unemployment[4] — a trend virtually certain to result in a spike in uncompensated care.

CASE IN POINT

Beloit Health Systems in rural Wisconsin has taken an extreme financial hit from postponing scheduled, non-emergency procedures despite treating a limited number of COVID-19 cases. The hospital is operating at almost $1 million in losses per week, an estimated 55 percent drop in revenue as of June 2020. The rural hospital does not expect to recover lost revenue until at least 2021.

- The Kaiser Family Foundation (KFF) estimates that almost 27 million Americans may have lost their employer-sponsored insurance due to job loss by May 2, 2020. By 2021, 17 million of these individuals may be eligible for Medicaid, resulting in a drop in reimbursement rates from patients who would have otherwise had commercial coverage.[5]

Americans Continue to Forgo Essential Care

Even as the country begins to reopen, patient volume remains well below pre-pandemic levels, and hospitals are not expected to make a full recovery before 2021. The success of the MAAPP and other government relief efforts depends upon their ability to sustain hospitals through these financial challenges until patients are once again ready to seek care.

- According to the U.S. Census Bureau, approximately 94 million adults delayed medical care because of the COVID-19 pandemic. Almost one-third of those individuals needed care but didn't get it due to the virus.[6]
- Analysis by the electronic medical records vendor, Epic, found a significant drop in cancer screening appointments in March 2020 when compared to previous years. Screenings for breast cancer and cervical cancer plummeted by 94 percent, while colon cancer screenings fell by 86 percent.[7]
- In an analysis of geographic data, the Washington Post found that patient visits to hospitals nationwide dropped by 50 percent or more in April compared to 2019.[8] Despite states reopening, patients remain hesitant to return. According to a recent survey, 64 percent of U.S. consumers said they were postponing planned surgeries, and 16 percent said they were canceling altogether.[9]
- Americans are not only forgoing scheduled, non-emergency procedures but also emergent care. Analysts do not expect that hospitals will be able to fully recapture these revenues, even as patients slowly begin to return.[10]
- For some patients, the fear of contracting COVID-19 and avoidance of the health care system is likely to persist well beyond the reopening of the economy. Among patients who already delayed a medical procedure due to COVID-19, 13 percent said they would not be willing to undergo a medical procedure until a vaccine is developed.[11]
- A Crowe RCA Benchmarking suggests that the average American hospital will need to run at 110 percent of its previous capacity for six months straight to recover lost patient volume,[12] an estimate that does not factor in a potential second wave of COVID-19.

Patients Need Hospitals to Be There When They are Ready to Seek Care

Across the country, hospitals face unique challenges in grappling with the varying impact of COVID-19 in their region. Hospitals in COVID-19 hotspots continue to care for a sustained surge of acutely ill patients while those that have fewer COVID-19 patients work to ensure that they are prepared to handle a surge, all while at significantly reduced occupancy. Given the lingering financial impact of COVID-19, the MAAPP's repayment timeline could force a record number of hospitals to close their doors, leaving rural and underserved patients with nowhere to return. Many more may need to eliminate critical service lines of care.

- A record 47 hospitals closed their doors in 2019. As of mid-May, 15 U.S. hospitals had shuttered this year already, even before the full effects of the pandemic could be felt.[13]
- Many of these closures were rural hospitals. According to data by the University of North Carolina at Chapel Hill, 12 rural hospitals closed within the first four months of 2020.[14]
- A recently updated Guidehouse study found that 25 percent of rural hospitals are at a high risk of closure if their finances do not improve.[15]

CASE IN POINT

Williamson Memorial Hospital in rural West Virginia closed on April 21, 2020. The hospital was unable to recover from a 50 percent decline in revenues due to the halting of non-emergency procedures and reduced emergency room visits, despite not treating any COVID-19 cases. The hospital was the city's main employer and its property taxes alone accounted for almost a third of the city's business and occupation tax revenue.

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