

Looming Medicare Cuts Threaten U.S. Health Care Providers as COVID-19 Resurges Nationwide

Between depressed utilization across the health care system and increased costs associated with operating in a pandemic, many hospitals and health care providers continue to face unprecedented financial challenges as COVID-19 intensifies across the country. On January 1, 2021, these financial pressures will be compounded by the return of the Medicare sequester, a two percent across-the-board cut to Medicare payments. Medicare sequestration – which impacts all clinicians and facilities providing services to Medicare beneficiaries – is a blunt instrument, originally intended to motivate policymakers to reach an agreement on a more nuanced approach to fiscal discipline.

In the context of the ongoing public health crisis, the return of Medicare sequestration could easily undermine the viability of frontline health care providers as COVID-19 case levels reach new peaks. That is why Congress wisely acted in March 2020 to suspend Medicare sequester cuts through the end of the year under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. But with experts now predicting that the impact of the COVID-19 pandemic will persist well into 2021, any reduction in Medicare payments during the public health emergency has the potential to disrupt access to care.

“Our biggest challenge right now has been finding beds when we need them,” says Beverly Vilhauer, CEO of South Central Health in Wishek, N.D., which is about 100 miles from Bismarck. “What we’re finding out is that the bigger hospitals, they don’t have enough available staffed ICU beds.”

(NPR, 10/20/2020)

- As of early November, the U.S. was averaging over 85,000 daily COVID-19 cases – the highest number since cases first peaked in July – and reached multiple single-day records of over 120,000 cases.^{1,2} In Wisconsin, for example, the number of hospitalized COVID-19 patients tripled in just one month.³
- On November 9th, the U.S. hit its highest number of hospitalizations at just over 59,000.⁴ Most CDC projections show that both cases and hospitalizations will continue to increase. Forecasts show that in the last week of November alone, the U.S. could have as many as 960,000 new COVID-19 cases and up to 13,000 COVID-19 hospitalizations per day.^{5,6}
- A September report from Kaufman Hall & Associates found that operating margins for U.S. hospitals were down 89 percent in the first eight months of 2020, and recent Q4 hospital revenue projections show that revenues will remain below benchmarks through the end of the year.⁷

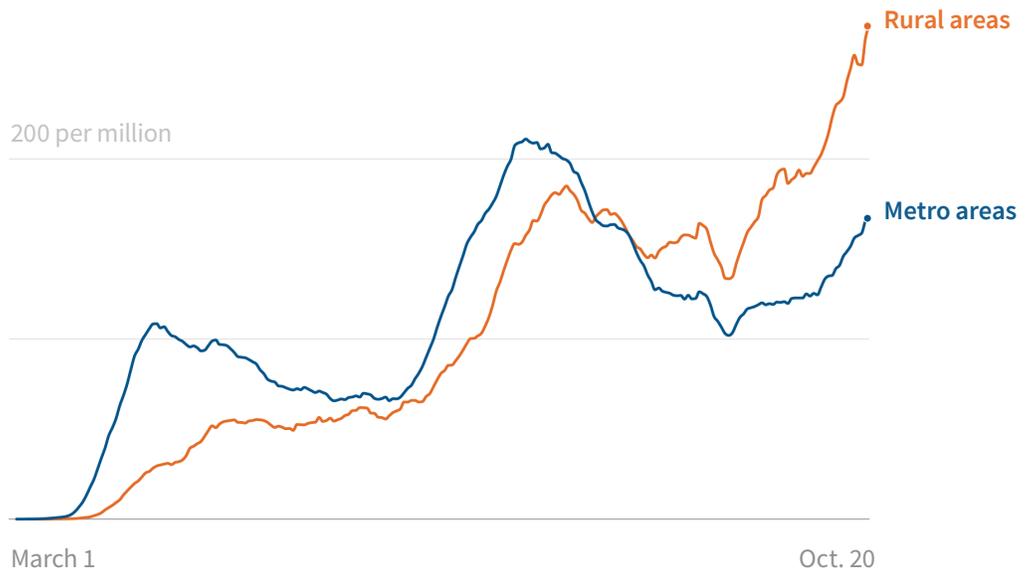
- Administrators at Fairview Health in St. Paul, MN cited COVID-19 as a major contributor to its rapid downsizing of hospital and clinic operations as it faces a \$250 million operating loss. This includes the closure of a 90-bed hospital in St. Paul that had been converted in March to treat COVID-19 patients.⁸
- An American Medical Association (AMA) survey fielded over the summer found that 81 percent of physicians reported revenue that was lower than in February. In addition, almost two in five medical practice owners reported a 50 percent or greater increase in spending on personal protective equipment (PPE).⁹
- A July survey by the American Physical Therapy Association (APTA) found that physical therapists and physical therapist assistants experienced declines in weekly income by up to 45 percent, with 62 percent of physical therapists reporting declines in referrals compared to pre-pandemic levels.¹⁰
- A survey by the Larry A. Green Center and the Primary Care Collaborative found that 35 percent of primary care providers reported revenue and income that was significantly below pre-pandemic levels, with some reporting in-person patient volumes that are 30 to 50 percent below benchmark. Other providers reported they are at risk of closure by December 2020.¹¹
- A September Medscape report found that five percent of U.S. physicians have yet to reopen their practices following the initial shutdowns in March of 2020.¹²
- In a recent survey conducted by Barclays, more than half of respondents projected hospital volumes will not return to normal until late 2021.¹³

The epicenter of America’s COVID-19 crisis has migrated from the country’s urban core to the heartland, escalating the pressure on rural hospitals and health care providers for whom Medicare makes up a larger share of revenues relative to their urban peers.

New reported cases by day in the United States, 7-day average

Note: Rural areas are those counties located outside of metropolitan areas, as defined by the United States Department of Agriculture’s Economic Research Service. They may include small cities and towns.

Source: NYT Oct. 22, 2020



- In September, the rate of new infections per capita in rural areas started to outpace that of urban areas.¹⁴ This is particularly notable in the rural areas of Kansas, South Dakota and Nebraska, where infection rates are some of the highest in the country.¹⁵
- Across the country, hospitals remain at risk of closure. As of mid-October, 15 rural hospitals have closed this year, including 11 since March. Analysts predict as many as 18 rural hospital closures by the end of the year, surpassing a record high in 2019.¹⁶
- Due to the rise in COVID-19 rates, hospitals in virus hotspots are still incurring extra expenses to treat patients, procure PPE, provide hazard pay, and undertake and maintain ICU expansions. In Carroll County, Iowa, St. Anthony Regional Hospital has had to invest in expanding their COVID-19 unit three times.¹⁷

- Hospitals across the country are competing for the small group of nurses that are trained in acute care. Demand for nurses more than doubled in COVID-19 hotspots, and some hospitals, including smaller facilities, are offering pay up to \$5,000 per week to recruit and retain nursing staff.¹⁸

In anticipation of a continued surge in COVID-19 cases converging with flu season, which will carry into 2021, health care providers are working to increase capacity and secure staffing and PPE. Many will require increased support for their public health response efforts, including immunization tracking and administration.

- Experts predict that factories will not be able to meet the demand for PPE and medical equipment until 2021, with some projecting an ongoing shortage of PPE, including gowns, N95 masks, and specialized beds, through the duration of flu season.¹⁹
- Providers are preparing to store, administer, and track vaccinations. These efforts are costly, demanding more administrative time of providers and their staff to accurately match immunization records across disparate locations and systems, without getting reimbursed for this extra time spent between patients.²⁰
- Adding to the challenge, providers are faced with addressing the backlog of regular immunizations for patients who delayed routine care during the pandemic. COVID-19 immunizations, which may also require second doses or “boosters,” will only further complicate this administrative challenge.²¹

The vast majority of hospitals and health care providers in the U.S. serve seniors through participation in the Medicare program, which is a critical source of revenue, particularly for those in rural and underserved communities. Delaying the reinstatement of arbitrary cuts to Medicare – at least through the duration of the public health emergency – is critical to sustaining access to care for the nation’s most vulnerable patients.

CITATIONS

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- CDC: [Trends in COVID-19 Cases and Deaths in the United States, by County-level Population Factors](#)
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