# State of the Healthcare Industry:
## Updates for Rural Strategy – Q1 2021

NOSORH Quarterly Updates

April 27, 2021

Eric Shell, CPA, MBA, Chairman

Stroudwater Associates

# Panelist

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# Agenda

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- **COVID-19 Updates**
- **Legislative/Regulatory Updates**
- **Other Market Events**

# COVID-19 UPDATES

# Public Health and Social Services Emergency Grant Fund (PHSSEF)

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- CARES Act directed $175B in provider relief funds (PRFs) to hospitals and other healthcare providers, particularly those impacted by Covid-19

- Consolidated Appropriations Act of 2021 (CAA), signed into law on 12/27/2020, provided an additional $3B for provider relief funds (PRFs)
  - 85% of funds to cover providers' financial losses and changes in operating expenses for the second half of 2020 and Q1 2021
  - 15% of funds to be distributed at discretion of HHS

- As of 3/25, reported that of the $178B available, HHS had spent $151B on general and targeted distributions and $3B testing/treatment claims

- American Rescue Plan Act (ARPA) of 2021 provided no new PRFs

# Public Health and Social Services Emergency Grant Fund (PHSSEF) (continued)

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## PHSSEF Grants (continued)

- Qualifying expenses include all non-reimbursable expenses attributable to COVID-19 including:
  - Building or retrofitting new Intensive Care Units (ICUs)
  - Increased staffing or training
  - Personal Protective Equipment (PPE)
  - Building of temporary structures
  - Foregone revenue from cancelled procedures
    - Revenue losses associated with fewer outpatient visits, canceled elective procedures or services, or increased uncompensated care
    - "HHS encourages the use of funds to cover lost revenue so that providers can respond to Covid-19 by maintaining healthcare delivery capacity"

# PHSSEF – NRHA Concerns and Requested Changes (2/19/21)

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- **2/19 NRHA Letter to HHS**
  - Issue #1: Capital Costs
    - Projects costs are included when the project is put under contract
    - Future estimated cost-based reimbursement for capital should not be used to offset
    - Question: How does future cost-based reimbursement on depreciation impact expense claimed for PRFs?
  - Issue #3: Q4 Covid Surge Revenue
    - Include as reduction in Covid related expenses and not double dipping by also including in 2020 Revenue
  - Issue #4: Cost Reporting
    - Interest income earned on PRFs be returned to HHS, net of cost reimbursement impact
    - Providers allowed to make reasonable effort of cost reimbursement impact when calculating the net unreimbursed Coivd expenses
  - Issue #7 and #8: Required Quarterly Reporting
    - Quarterly reporting or both revenue and expenses should be eliminated due to the burden
  - Issue #11: Principal Payments
    - Allow providers to include total payment (is debt incurred related to Covid) as an allowable expense
  - Issue #12: PPP forgiveness
    - Revenue from PPP forgiveness should be used in the period during which underlying expenses were incurred, and not when the loan is forgiven

# Public Health and Social Services Emergency Grant Fund (PHSSEF) (continued)

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## 3/31 – Frequently Asked Questions (FAQs) – Important clarifications

- **How does cost-based reimbursement relate to my Provider Relief Fund payment? (added 3/31/2021)**
  - Under cost-based reimbursement, the payer agrees to reimburse the provider for the costs incurred in providing services to the insured population. In these instances, if the full cost was reimbursed based upon this method, there is nothing eligible to report as an expense attributable to coronavirus because the expense was fully reimbursed by another source.
  - Since the reimbursed amount by Medicare or Medicaid does not fully cover the actual cost, those non-reimbursed costs are eligible for reimbursement under the PRF.
- **When reporting my organization's healthcare expenses attributable to coronavirus, how do I calculate the "expenses attributable to coronavirus not reimbursed by other sources"? (Modified 3/31/2021)**
  - Providers can identify their healthcare related expenses, and then apply any amounts received through other sources, such as direct patient billing, commercial insurance, Medicare/Medicaid/CHIP, or other funds received from FEMA, the PRF COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured, and the SBA and PPP that offset the healthcare related expenses.
  - The PRF permits reimbursement of marginal increased expenses related to coronavirus provided those expenses have not been reimbursed from other sources or that other sources are not obligated to reimburse

# Public Health and Social Services Emergency Grant Fund (PHSSEF) (continued)

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## 3/31 – Frequently Asked Questions (FAQs) – Important clarifications

- **Does HHS intend to recoup any payments made to providers not tied to specific claims for reimbursement, such as the General or Targeted Distribution payments? (Modified 3/31/2021)**
  - PRF payment amounts that have not been fully expended on health care expenses or lost revenues attributable to coronavirus by the end of the final reporting period must be returned to HHS
- **Is there a set period of time in which providers must use the funds to cover allowable expense or lost revenues attributable to COVID-19? (Modified 3/31/2021)**
  - Funds must be expended no later than June 30, 2021. HHS will provide directions in the future about how to return unused funds. HHS reserves the right to audit PRF recipients now or in the future, and is authorized to collect PRF amounts that were overpaid or not used in a manner consistent with program requirements or applicable law.
- **Can a parent organization transfer General Distribution PRF payments to its subsidiaries? (Modified 3/31/2021)**
  - Yes, a parent organization can accept and allocate General Distribution funds at its discretion to its subsidiaries, as long as the Terms and Conditions are met.

# Public Health and Social Services Emergency Grant Fund (PHSSEF) (continued)

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## 3/31 – Frequently Asked Questions (FAQs) – Important clarifications

- **Can a parent organization with a direct ownership relationship with a subsidiary that received a PPRF Targeted Distribution payment control and allocate that Targeted Distribution payment among other subsidiaries that were not themselves eligible and did not receive a Targeted Distribution? (Modified 1/28/2021)**
  - Yes, in accordance with the Coronavirus Response and Relief Supplemental Appropriations Act. The parent organization may allocate the Targeted Distribution up to its pro rata ownership share of the subsidiary to any of its other subsidiaries that are eligible health care providers.

# Small Business Association (SBA) Payroll Protection Program (PPP)

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- **Loans**
  - 2.5 times borrower's average monthly payroll costs, not to exceed $10M
    - Note that payroll costs include salary, wages, vacation, payment for group healthcare benefits, and state and local taxes assessed on the compensation
  - Excluded costs include compensation of an individual in excess of an annual salary of $100K, as prorated for the period 2/15/20-6/30/20
- **PPP Flexibility Act, signed into law on 6/5**
  - Extends covered period for forgiveness from 8 weeks to 24 weeks or 12/31
  - Extends the period for allowable uses of the loan from 6/30 to 12/31
  - 75% payroll requirement for amount to be forgiven reduced to 60%
  - Loan deferral has been extended from 6 months to the date on which the amount of forgiveness is determined or 10 months after the last day of the covered period
- ***S 4116 Signed into Law on 7/4/2020***
  - ***Reauthorizes lending under the PPP through 8/8/2020***
- **August 26 FAQ (Page 99-100):**
  - "Do not offset SBA Loan Forgiveness amounts against expenses unless those amounts are attributable to specific claims such as payments for the uninsured."

# Small Business Association (SBA) Payroll Protection Program (PPP) (continued)

**CAA of 2021 (12/27/20) – Division N, Title III, Continuing the PPP and Small Business Support (Sections 301-348)**

- **$284B included for second round of PPP**
- **Loans**
  - 2.5 times borrower's average monthly payroll costs
    - Payroll costs determined based on: one year prior to loan application; or CY2019
  - Excluded costs include compensation of an individual in excess of an annual salary of $100K, as prorated for the period 2/15/20-6/30/20
- **Differences from First Round**
  - Maximum loan amounts reduced from $10M to $2M (only applicable to second-time borrowers)
  - Businesses employ 300 FTEs (or alternative size definition), down from 500 FTEs
  - Must have used (or will have used) the entire first round proceeds
  - Gross receipts during Q2, Q3, or Q4 25% less than gross receipts in prior year quarters

# Small Business Association (SBA) Payroll Protection Program (PPP) (continued)

- **American Rescue Plan Act of 2021**
  - Provides an additional $7.25B for the program
  - 501(c)(3) organizations that employ not more than 500 employees per physical location of the organization are eligible for the program (affiliation rules do not apply)
    - **Questions as to organizations that took employer tax credit and definition of "per physical location"**

- **PPP Extension Act of 2021**
  - Signed into law on 3/30 extends deadline to apply from 3/31/21 to 5/31/21

- **As of 4/1/21, only $62B of the new $292B remains available (Politico 4/7/21)**

# CAA of 2021 – Other Changes (continued)

- **Division CC – Health Extenders – Title I – Medicare Provisions (continued)**
  - Section 125
    - Rural Emergency Hospital Services
      - Allows a CAH or small acute care hospital to elect OP only model
      - Medicare reimbursement at 105% of APCs plus monthly fixed payment equaling the average payment difference between a CAH and an acute care hospital
  - Section 130
    - "Improving" Rural Health Clinic Payments
      - Phases in steady increase in RHC visit caps beginning at $100 in 2021 and increases at statutory increase for 8 years
        - in 2021, after March 31, at $100 per visit; in 2022, at $113 per visit; in 2023, at $126 per visit; in 2024, at $139 per visit; in 2025, at $152 per visit; in 2026, at $165 per visit; in 2027, at $178 per visit; and in 2028, at $190 per visit.
      - Subjects all "new" RHCs to capped amount
        - New RHCs defined as operating after 12/31/2019
          - Grandfather date changed to 12/31/2020 with passage of "An Act to prevent across-the- board direct spending cuts, and for other purposes" signed into law on 4/14/2021
      - Subjects all provider-based RHCs with payment amounts exceeding caps to annual increases at Medical Economic Index

# S. 748/HR 1868 Bill to Delay Sequester (4/14/2021)

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- **Bill introduced by Senators Shaheen (D-NH) and Collins (R-ME)**
  - Eliminates the 2% across-the-board cut to all Medicare payments, known as sequestration, until the end of 2021.
    - To pay for the change, the bill would increase the fiscal year 2030 sequester cuts
    - Centers for Medicare & Medicaid Services will hold the Medicare claims until the bill is signed into law as it has done in the past
  - Technical fix for RHCs that corrects grandfathering date from Dec. 31, 2019 to Dec. 31, 2020
    - Includes both Medicare-enrolled RHCs located in a hospital with less than 50 beds and RHCs that have submitted an application for Medicare enrollment as of this date.
- **Senate Bill 748 passed Senate 90-2 on 3/24**
- **HR Bill 1868 passed House 384-38 on 4/13**
- **Bill signed by President on 4/14 and became Public Law No. 117-7**

Source: https://www.congress.gov/bill/117th-congress/house-bill/1868

# American Rescue Plan Act (ARPA) of 2021 – Other Changes (3/11/21)

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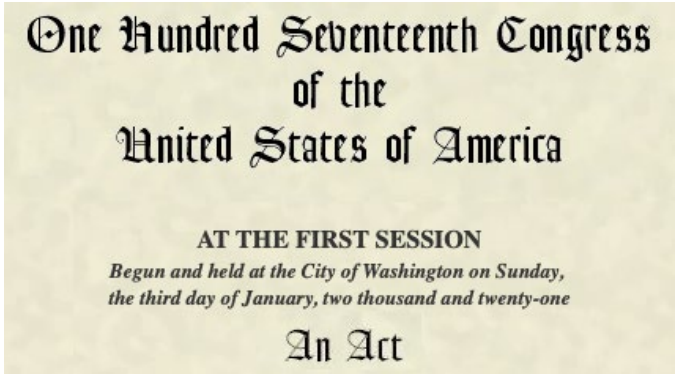
- **Financial Relief for Rural Providers**
  - $8.5B fund to reimburse rural healthcare providers for Covid-19 related expenses or lost revenue
    - Separate from, but similar to PRF
    - HHS must create process by which eligible providers will apply for funds which includes a statement from providers justifying need for payment
  - Definition of rural provider is broad and includes:
    - Located outside an MSA; or
    - Located in a rural census tract of an MSA; or
    - Located in area designated by the state as rural; or
    - Sole community hospital or rural referral center; or
    - Located in area that serves rural patients, such as a small MSA; or
    - A rural health clinic; or
    - Provide home health, hospice, or long-term services and supports in patients' homes that are located in rural areas; or
    - Otherwise qualify as a rural provider, as defined by the Health and Human Services (HHS) Secretary.



One Hundred Seventeenth Congress
of the
United States of America

AT THE FIRST SESSION

*Begun and held at the City of Washington on Sunday, the third day of January, two thousand and twenty-one*

An Act

To provide for reconciliation pursuant to title II of S. Con. Res. 5.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

**SECTION 1. SHORT TITLE.**
This Act may be cited as the "American Rescue Plan Act of 2021".

Source: American Hospital Association Summary of American Rescue Plan Act of 2021, March 17, 2021
https://www.aha.org/advisory/2021-03-17-summary-american-rescue-plan-act-2021-and-provisions-affecting-hospitals

# American Rescue Plan Act (ARPA) of 2021 – Other Changes (3/11/21)

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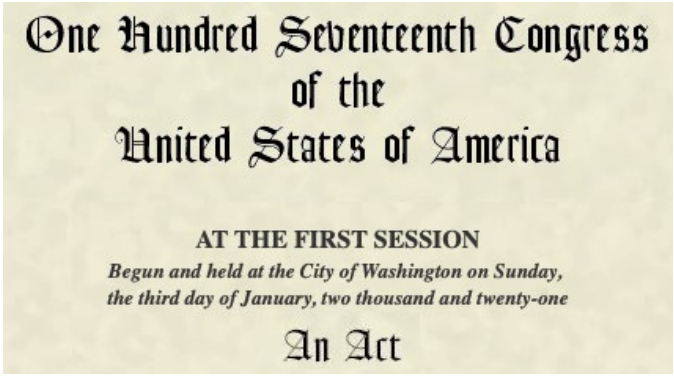
- **Rural Healthcare Grants**
  - $500M in grants to Dep of Agriculture to certain rural hospitals based on Covid-19 needs
    - Covid-19 related expenses
    - Lost revenue to maintain capacity
    - Increasing capacity for vaccine distribution
    - Telehealth capabilities
- **Skilled Nursing Facilities**
  - $200M for development and dissemination of Covid-19 prevention protocols
  - $250M to states to deploy strike teams to assist SNFs with Covid-19 outbreaks
- **Mental Health and Substance Abuse**
  - $3.5B block grants addressing behavioral health disorders and several million more for other behavioral health programs and workforce issues



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*Information related to the COVID-19 pandemic changes frequently. The content of this presentation is accurate to the best of our knowledge as of the day and time it was presented and will not be updated continuously once it is posted. Please reach out to the presenters with any questions or concerns.*

# ARPA of 2021 – Other Changes (3/11/21) (continued)

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- **Vaccines/Testing**
  - $70B to fund Covid-19 vaccine, testing and workforce efforts
  - $10B for activities under the Defense Production Act to manufacture and procure vaccines, supplies and equipment
    - Includes $6B investment in Community Health Centers to expand access to vaccines in underserved areas
      - "..deliver preventive and primary health care services to people at higher risk for COVID-19; and expand health centers' operational capacity during the pandemic and beyond, including modifying and improving physical infrastructure and adding mobile units."
      - HRSA will provide funding starting in April to nearly 1,400 centers across the country
- **Healthcare Coverage**
  - Incentive for states to expand Medicaid by increasing the state's FMAP for their base program by 5% for 2 years
  - Temporary expansion of health insurance marketplace subsidies for all subsidy-eligible individuals by increasing dollar value of premium tax credit subsidies
- **Public Health Workforce**
  - $9.1B in public health workforce related support including use of funds by public health departments to recruit, hire and train staff to fulfill a wide variety of functions, such as case investigators, contact tracers, laboratory personnel and community health workers.

Source: American Hospital Association Summary of American Rescue Plan Act of 2021, March 17, 2021
White House Fact Sheet, March 25, 2021 https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/25/fact-sheet-biden-administration-announces-historic-10-billion-investment-to-expand-access-to-covid-19-vaccines-and-build-vaccine-confidence-in-hardest-hit-and-highest-risk-communities

# Revenue Recognition: Possible Revenue Recognition Example

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**CARES ACT COST REPORT/REVENUE RECOGNITION**
**CRITICAL ACCESS HOSPITAL EXAMPLE**

| ASSUMPTIONS: | |
|---|---|
| Pre Covid Revenue | $ 30,000,000 |
| Pre Covid Expense | $ 30,000,000 |
| Cost-Based Payer Mix | 45% |
| Payroll Protection Funds Received | $ 3,000,000 |
| PHSSEF Funds Received | $ 5,000,000 |
| Covid Volume Change | -11% |
| Covid Related Capital Expense | $ 1,000,000 |
| Change in Expense due to Covid | 2% |

| Revenue: | Pre-Covid | PPP Funds (1) | Covid Exp Impact | Covid Rev Impact | Reduced Volume | |
|---|---|---|---|---|---|---|
| Cost Based | $ 13,500,000 | $ - | $ - | $ 270,000 | $ 13,770,000 | (2) |
| Non Cost-Based | $ 16,500,000 | $ - | $ - | $ (1,815,000) | $ 14,685,000 | |
| Total Revenue | $ 30,000,000 | $ - | $ - | $ (1,545,000) | $ 28,455,000 | |
| **Expenses:** | | | | | | |
| Cost-Based | $ 13,500,000 | $ - | $ 270,000 | $ - | $ 13,770,000 | |
| Non Cost-Based | $ 16,500,000 | $ - | $ 330,000 | $ - | $ 16,830,000 | |
| Total Expense | $ 30,000,000 | $ - | $ 600,000 | $ - | $ 30,600,000 | |
| Net Margin: | $ - | $ - | $ (600,000) | $ (1,545,000) | $ (2,145,000) | |
| PHSSEF Funds Received | | | | | $ 5,000,000 | |
| Covid Related Capital Expense (How will Cost-Based Portion be recognized?) | | | | | $ (1,000,000) | |
| Payroll Protection Funds Received | | | | | $ - | |
| Unused (Deficit of) PHSSEF Funds | | | | | $ 1,855,000 | |

(1) Updated guidance suggest PPP funds assumed NOT as a reduction in allowable cost base
(2) Cost-based revenue is equal to cost-based expense under any volume or expense scenario

# LEGISLATIVE/REGULATORY UPDATES

# President Releases $1.52T Budget Plan for FY2022 (4/11/21)

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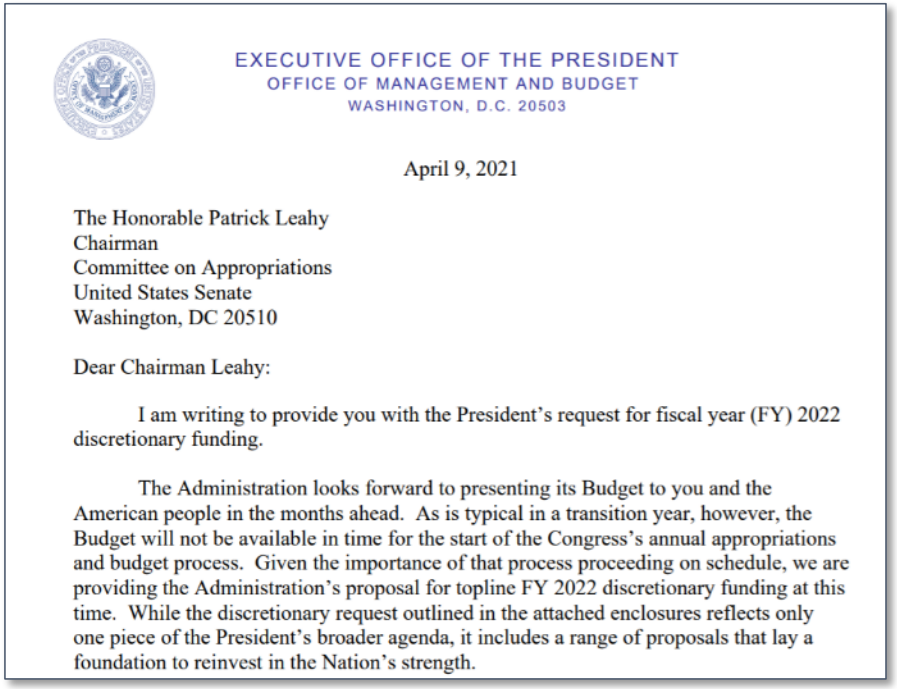
President Biden released his budget proposal for FY2022, which includes major initiatives for the healthcare industry.

While many items are unlikely to pass, the budget plan prioritizes:

- **Public health investment, including**
  - **Preparedness for public health crises**
  - **Mental health treatment**
  - **Addressing the opioid epidemic**
- The economy and job creation
- The climate crisis
- Advancing equity and supporting marginalized communities



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

April 9, 2021

The Honorable Patrick Leahy
Chairman
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Chairman Leahy:

I am writing to provide you with the President's request for fiscal year (FY) 2022 discretionary funding.

The Administration looks forward to presenting its Budget to you and the American people in the months ahead. As is typical in a transition year, however, the Budget will not be available in time for the start of the Congress's annual appropriations and budget process. Given the importance of that process proceeding on schedule, we are providing the Administration's proposal for topline FY 2022 discretionary funding at this time. While the discretionary request outlined in the attached enclosures reflects only one piece of the President's broader agenda, it includes a range of proposals that lay a foundation to reinvest in the Nation's strength.

Sources: Becker's Hospital Review, *Biden's $1.52 trillion budget proposal: 6 healthcare takeaways,* Kelly Gooch, 4/12/21 https://www.beckershospitalreview.com/finance/biden-s-1-52-trillion-budget-proposal-6-healthcare-takeaways.html?origin=CFOE; https://www.whitehouse.gov/wp-content/uploads/2021/04/FY2022-Discretionary-Request.pdf; Fierce Healthcare, *3 major health items included in Biden's budget request,* Robert King, 4/9/21 https://www.fiercehealthcare.com/payer/3-major-health-items-included-president-biden-s-budget-request?utm_medium=nl

# President Releases $1.52T Budget Plan for FY2022 (4/11/21)

STROUDWATER

Specific healthcare-related initiatives in the President's plan were focused on **improving public health infrastructure, fighting the opioid epidemic, and increasing research funding,** including:

- A new research agency focusing on major diseases like cancer, diabetes and Alzheimer's
- $905 million for a Strategic National Stockpile of medical supplies for public health emergencies
- Major funding increases for CMS and HHS
- $3.9 billion to fight the opioid epidemic and a substantial increase in funds to fight HIV
- Investment in rural connectivity, including an increase of $65 million for rural broadband
- Funding to expand access to culturally competent healthcare and $153 million for CDC's Social Determinants of Health program
- Initiatives to reduce overall, and end race-based disparities in, maternal mortality
- $97.5 billion to improve access to the Department of Veterans Affairs (VA) healthcare

Sources: Becker's Hospital Review, *Biden's $1.52 trillion budget proposal: 6 healthcare takeaways,* Kelly Gooch, 4/12/21 https://www.beckershospitalreview.com/finance/biden-s-1-52-trillion-budget-proposal-6-healthcare-takeaways.html?origin=CFOE; https://www.whitehouse.gov/wp-content/uploads/2021/04/FY2022-Discretionary-Request.pdf; Fierce Healthcare, *3 major health items included in Biden's budget request,* Robert King, 4/9/21 https://www.fiercehealthcare.com/payer/3-major-health-items-included-president-biden-s-budget-request?utm_medium=nl

# Fairness for Rural Medicare Beneficiaries Act of 2021 (3/24/21)

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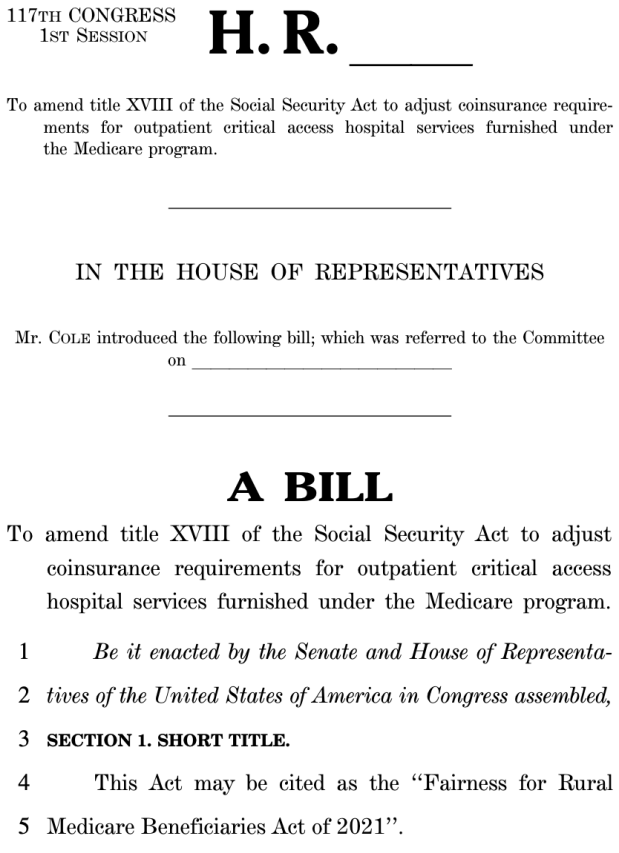
- **Representative Cole (R-OK)**
  - "Medicare beneficiaries seeking outpatient care at CAHs pay more in coinsurance (both in percentage and absolute amounts) than beneficiaries who obtain care at standard acute care hospitals by virtue of CAHs being paid at a reasonable cost basis. Since beneficiary coinsurance at CAHs is based on submitted charges, which can differ from what CMS calculates to be the reimbursable cost, beneficiaries are often paying more than 20% coinsurance
  - Our bill would stipulate that beneficiaries would pay 20% of the OPPS payment amount, regardless of whether the care is provided at a CAH or acute care hospital.
  - **To keep CAHs whole and the overall payment amount the same, Medicare would step in and fill in the difference**
  - ***Two drafts of bill for consideration***
    - ***One-year adoption***
    - ***4-year transition***



117TH CONGRESS
1ST SESSION

**H. R. _____**

To amend title XVIII of the Social Security Act to adjust coinsurance requirements for outpatient critical access hospital services furnished under the Medicare program.

IN THE HOUSE OF REPRESENTATIVES

Mr. COLE introduced the following bill; which was referred to the Committee on _____

**A BILL**

To amend title XVIII of the Social Security Act to adjust coinsurance requirements for outpatient critical access hospital services furnished under the Medicare program.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

**SECTION 1. SHORT TITLE.**

This Act may be cited as the "Fairness for Rural Medicare Beneficiaries Act of 2021".

Source: National Rural Health Association Grass Roots Email Dated 3/24/2021

# Primary Care First – Cohort 2 Applications (3/16/21)

- On April 22, 2019, HHS and CMS announced a set of new payment models called the Primary Cares Initiative to transform primary care through value-based options and to test financial risk and performance-based payments for primary care providers
- While originally intended to launch in 2020, CMS delayed in rollout by a year and announced in October 2019 that the first cohort will start in 2021, while the second will begin in 2022
  - ***Cohort 2 applications are due April 30, 2021***
- The payment model options are provided under two paths: Primary Care First and Direct Contracting

## Primary Care First

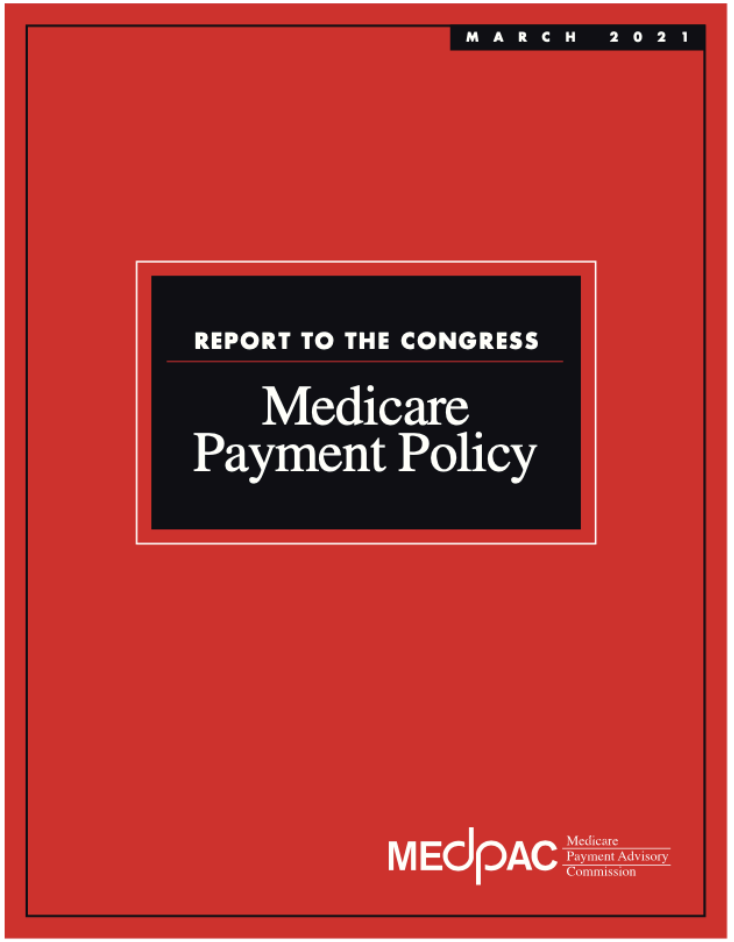
- Eligible providers include rural practices with advanced primary care capabilities required to participate
- Two payment model options:
  - General: population-based PMPM payment for attributed beneficiaries, and a flat per visit fee, as well as a performance-based adjustment with 50% upside and 10% downside risk sharing
  - High Need Populations: one-time payment for a first visit, a PMPM rate, a flat visit fee for subsequent visits, and a plus or minus quality adjustment

## Direct Contracting

- Eligible providers include RHCs, CAHs and FQHCs who meet criteria
- The program is still active, with performance periods ending in 2025
- Three payment model options
  - Professional: risk-adjusted monthly payment equal to 75% the cost of care for enhance primary care with 50% upside/downside risk
  - Global: either primary care capitation or total care capitation with 100% upside/downside risk
  - Geographic: total care capitation with 100% upside/downside risk

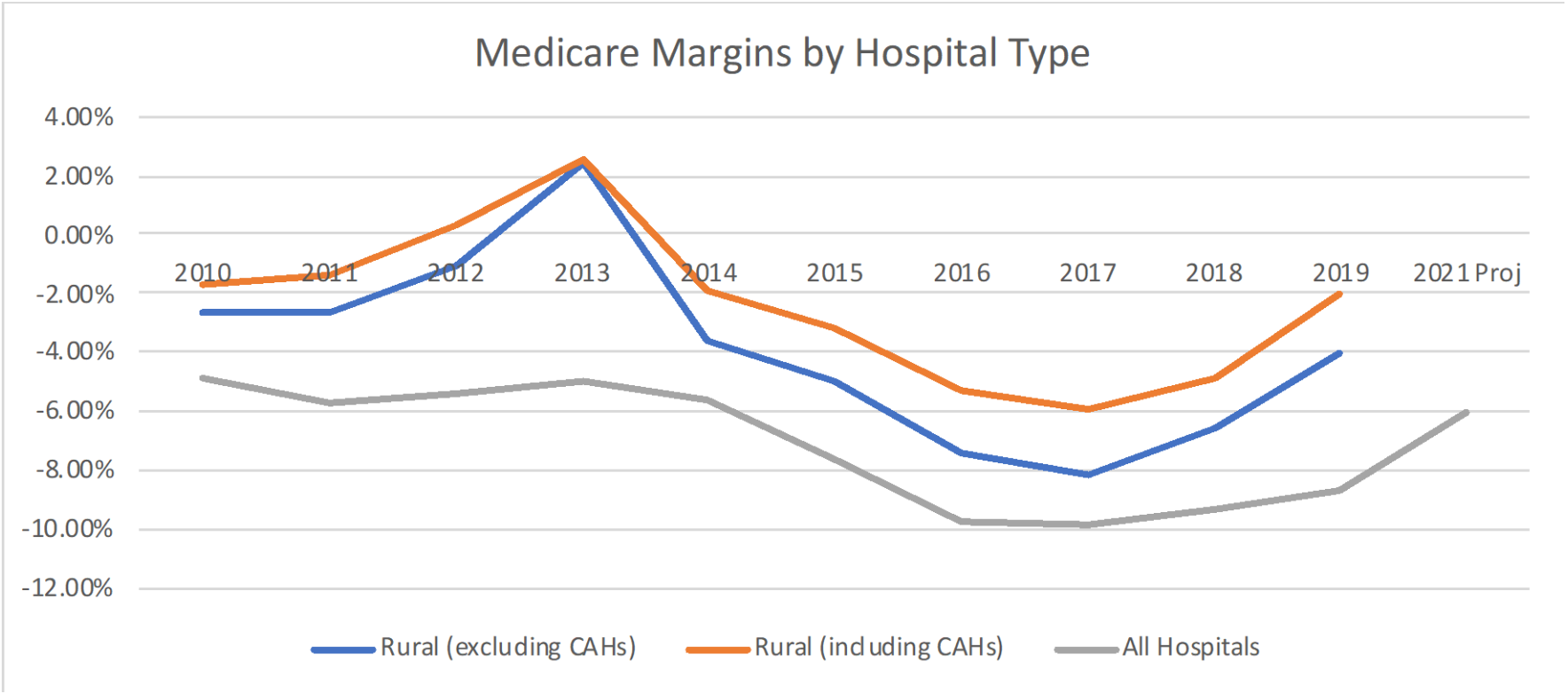
# MedPAC March 2021 Report to Congress: Highlights

- MedPAC recommends Congress update 2021 inpatient and outpatient payment rates by 2% for 2022
  - MedPAC continues to recommend their 2019 Hospital Value incentive program (HVIP) that aligns with principles for quality measurement and replaces the current quality incentive programs
- MedPAC recommends that the 2022 payment rate for physician and other health professional services be updated by the amount specified in current law
- MedPac Recommends no payment rate increase for ASCs, OP dialysis facilities, SNFs, and hospice
- MedPac recommends temporarily continuing the PHE Medicare Telehealth policy for 1 or 2 years to study impact of telehealth on beneficiary access to care, quality of care, and program spending




Source: MedPAC Report to the Congress: Medicare and the Health Care Delivery System, March 15, 2021
http://medpac.gov/docs/default-source/reports/mar21_medpac_report_to_the_congress_sec.pdf

# Medicare Margins by Hospital Type




Source: MedPac Report to Congress, March 15, 2021

# MedPAC March 2021 Report to Congress: Medicare Challenges

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- Long-Running Medicare Challenges include:
  - Medicare's payments for some type types of providers are excessive
    - Medicare margins high for freestanding home health agencies, inpatient rehab, hospice providers, freestanding SNFs, and Part B 340B drugs
    - Recommendation: Better align payments with costs
  - Medicare pays higher prices in some care settings than others – for the same service
    - Recommendation: Make payments site neutral
  - Medicare undervalues primary care and overvalues specialty care
    - Recommendation: Improve the accuracy of payments and increase payments to primary care
  - Medicare is required to pay providers' claims, regardless of clinical appropriateness
    - Recommendation: Scrutinize claims more closely
  - FFS Medicare lacks strong incentives to improve population-based outcomes and the coordination of care
    - Recommendation: Incentivize improving population-based outcomes, develop new payments for care coordination, and adopt value-based payment programs based on meaningful measures

Source: MedPAC Report to the Congress: Medicare and the Health Care Delivery System, March 15, 2021
http://medpac.gov/docs/default-source/reports/mar21_medpac_report_to_the_congress_sec.pdf

# CMS 2022 Proposed Rules (April 7-8, 2021)

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- **Skilled Nursing Facilities (4/8/2021)**
  - Proposed payment increase of 1.3% for 2022
  - Seeking public comment on methodology for recalibrating Patient Driven Payment Model (PDPM) that would account for effects of Covid-19

- **Hospices (4/8/2021)**
  - Proposed payment increase of 2.3% for 2022

- **Inpatient Rehabilitation Facilities (4/7/2021)**
  - Proposed payment increase of 2.2% for 2022
  - Updated measures and specifications for quality reporting program

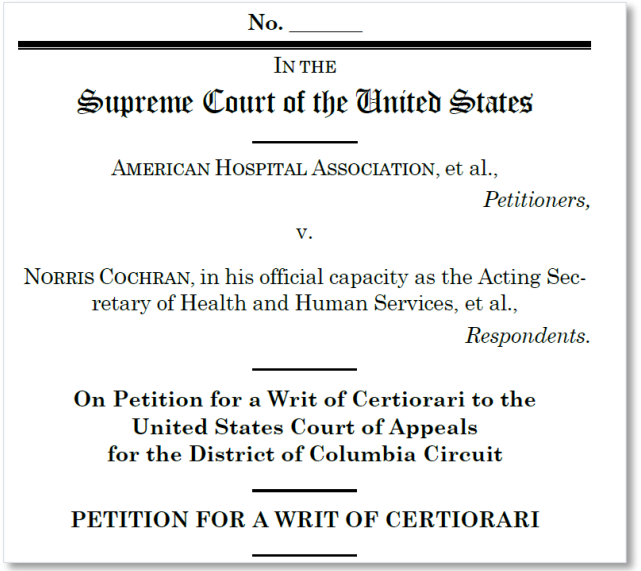
- **Inpatient Psychiatric Facilities (4/7/2021)**
  - Proposed payment increase of 2.3% for 2022

Source: CMS.Gov Fact Sheets

# Hospitals Ask Supreme Court to Overturn 340B and Site-Neutral Pay Cuts (2/11/21)

STROUDWATER

- AHA and other hospital groups formally petitioned the Supreme Court to throw out two decisions by lower courts upholding Medicare payment cuts for 340B drugs and off-campus outpatient visits
- The AHA seeks to undo:
  - A July decision that lowered some Medicare drug payments for 340B hospitals by 28.5%, and
  - A decision to uphold HHS' site-neutral payment policy, which lowered payments for office visits delivered at off-campus outpatient departments.
- AHA argued that the lower court allowed HHS to make changes to reimbursement rates for 340B hospitals that were beyond the scope of their authority
- The petition cites HHS as overstepping its authority when lowering payments for visits to off-campus outpatient departments
- The hospitals cited close votes (4-5) from the lower courts as evidence that the Supreme Court should intervene



No. _____

IN THE

Supreme Court of the United States

AMERICAN HOSPITAL ASSOCIATION, et al.,

*Petitioners,*

v.

NORRIS COCHRAN, in his official capacity as the Acting Secretary of Health and Human Services, et al.,

*Respondents.*

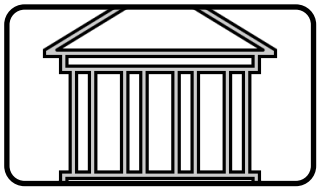
**On Petition for a Writ of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

**PETITION FOR A WRIT OF CERTIORARI**

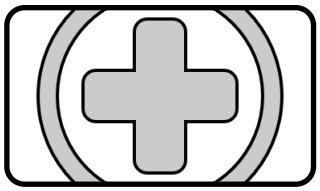
"IN AN ERA OF SKYROCKETING DRUG PRICES, THE 340B PROGRAM HAS BEEN CRITICAL IN HELPING HOSPITALS EXPAND ACCESS TO COMPREHENSIVE HEALTH SERVICES TO VULNERABLE COMMUNITIES, INCLUDING LIFESAVING PRESCRIPTION DRUGS. MANY OF THE IMPORTANT PROGRAMS AND SERVICES THAT THE 340B PROGRAM ALLOWS ELIGIBLE HOSPITALS TO PROVIDE

Sources: Modern Healthcare, *Hospitals ask Supreme Court to toss 340B, site-neutral pay cuts,* Michael Brady, https://www.modernhealthcare.com/law-regulation/hospitals-ask-supreme-court-toss-340b-site-neutral-pay-cuts?utm_source=modern-healthcare-am-Friday; Aha.org https://www.aha.org/system/files/media/file/2021/02/No__PetitionForAWritOfCertiorari.pdf

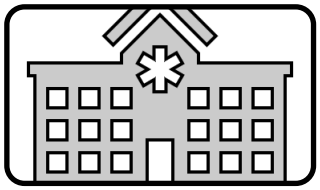
# House of Representatives Introduces "Medicare for All" Plan (3/17/21)



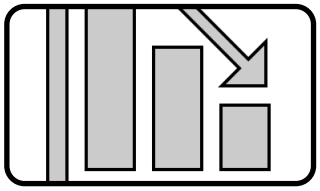
Members of the House Progressive Caucus introduced their plan for a single-payer health system, or "Medicare for All."



Although unlikely to pass, the proposal will start an important conversation among parties about how to reform the US healthcare system.



A single-payer system would mean a dramatic change in how healthcare is paid for, creating a national plan where all Americans are insured and ending the need for private or employer-sponsored insurance.



Representatives cited the COVID-19 pandemic as underscoring the need for public insurance, as millions lost their employer-sponsored insurance due to record layoffs and job losses.

Source: Modern Healthcare, *'Medicare for All' introduced with support of key House members,* Jessie Hellman, 3/17/21 https://www.modernhealthcare.com/politics-policy/medicare-all-introduced-support-key-house-members?utm_source=modern-healthcare-am-thursday

# OTHER MARKET UPDATES

# Humana Rebrands Senior Primary Care Centers (3/16/21)

- Starting April 1, Humana will rebrand its Partners in Primary Care and Family Physicians Group clinics as CenterWell.
- The rebranding is part of Humana's effort to expand its retail footprint and lower its cost of care, a move made by other major insurers as well.
- This trends represents a disruption to the health insurance industry and a move-toward value-based care. The CenterWell clinics are intended to:
  - ✓ Achieve better health outcomes for patients
  - ✓ Lower costs of care
  - ✓ Include various providers such as APPs, behavioral health, social workers, pharmacists, and care coaches
- Many of the clinics are in medically underserved areas and patients do not need to be Humana members.

Source: Modern Healthcare, *Humana's senior primary-care centers rebranded as CenterWell,* Nona Tepper, 3/16/21
https://www.modernhealthcare.com/insurance/humanas-senior-primary-care-centers-rebranded-centerwell?utm_source=modern-healthcare-am-wednesday

# Amazon Announces It Will Sell and Deliver Prescription Drugs (11/17/20)

- Amazon announced that it will sell prescription drugs via its online platform, Amazon Pharmacy.
- When paying without insurance, Prime members will be eligible for discounts of up to 80% for generic drugs and 40% for brand-name drugs.
- Per Amazon, transparency will be an important focus of the Amazon Pharmacy venture.
- The platform will allow customers to compare their insurance co-pay, the price without insurance, or the available savings with the new Prime prescription savings benefit to choose their lowest price option.
- In a further disruption to the status quo, Amazon's policies will encourage customers to pay for prescriptions in cash.

*"WE DESIGNED AMAZON PHARMACY TO PUT CUSTOMERS FIRST — BRINGING AMAZON'S CUSTOMER OBSESSION TO AN INDUSTRY THAT CAN BE INCONVENIENT AND CONFUSING." TJ PARKER, VICE PRESIDENT OF AMAZON PHARMACY*

Source: HealthcareDive.com, *Amazon finally jumps into pharmacy business, Prime members set to get steeper discounts,* Samantha Liss, 11/17/20
https://www.healthcaredive.com/news/amazon-finally-jumps-into-pharmacy-business-prime-members-set-to-get-steep/589180/?utm_source=Sailthru

# Amazon To Expand Primary Care Offerings with Crossover Health (3/11/21)

STROUDWATER

- Amazon and healthcare tech firm Crossover Health announced they will continue to collaborate and expand to provide telemedicine services and Neighborhood Health Centers in Texas, Arizona, Kentucky, Michigan and California.
- Amazon's Neighborhood Health Centers were established in July 2020 to provide Amazon employees with access to primary care near Amazon's Fulfillment Centers in Texas.
- The products are intended to make primary care more accessible, and offer extended hours, weekend hours, and virtual services to accommodate worker schedules.
- **"Access to convenient comprehensive primary care is essential for all employees and we are proud to see the Neighborhood Health program with Amazon continue to expand throughout the country," said Sally Larwood, RN chief nursing officer at Crossover Health**

Sources: https://www.modernhealthcare.com/information-technology/amazon-jumps-healthcare-telemedicine-initiative?utm_source=modern-healthcare-am-Thursday; https://www.prnewswire.com/news-releases/crossover-health-announces-expansion-of-amazons-neighborhood-health-centers-and-virtual-care-services-301245313.html; https://www.beckershospitalreview.com/consumerism/9-numbers-that-illustrate-amazon-s-expansion-into-healthcare.html?origin=CFOE; https://www.aboutamazon.com/news/operations/amazon-pilots-opening-health-care-centers-near-its-fulfillment-centers

# Amazon Expands Amazon Care, Moving Into Primary Care Outside Its Workforce (3/17/21)

- Amazon announced the expansion of Amazon Care, its first primary care offering accessible by non-Amazon employees.
- Until now, Amazon Care has been available only to Amazon employees in Washington State. It is now available to employees in every state and will be available to non-Amazon nationwide later this year.
- Amazon care has two components
  - Telemedicine
  - In-person care, where a professional is dispatched to a patient's home
- Per its news release, **"Amazon Care gives instant access to a range of urgent and primary care services, including COVID-19 and flu testing, vaccinations, treatment of illnesses and injuries, preventive care, sexual health, prescription requests, refills, and delivery, and much more."**

Source: https://www.aboutamazon.com/news/workplace/amazon-care-to-launch-across-u-s-this-summer-offering-millions-of-individuals-and-families-immediate-access-to-high-quality-medical-care-and-advice-24-hours-a-day-365-days-a-year; https://www.modernhealthcare.com/information-technology/amazon-jumps-healthcare-telemedicine-initiative?utm_source=modern-healthcare-am-thursday

# CVS Targets 65B Healthcare Interactions by 2030 (3/31/21)

- CVS continues its expansion into retail healthcare, setting a goal to facilitate 65 billion healthcare interactions over the next 10 years
- Key strategies include
  - Continuing to grow HealthHUB stores
  - Rethinking care delivery based on lessons learned during COVID-19
  - Investing in community health
- CVS opened 650 HealthHUBs in 2020 and is on track to reach 1500 by the end of 2021
  - HealthHUB stores offer both in-person and virtual services.
- CVS grew during the pandemic, becoming the largest private provider of COVID-19 testing and providing over 20k visits at its newly launched telehealth platform E-clinic


Source: FierceHealthcare, *CVS wants to facilitate 65B healthcare interactions by 2030. Here's how,* Paige Minemyer, 3/31/21 https://www.fiercehealthcare.com/payer/cvs-wants-to-facilitate-65b-healthcare-interactions-by-2030-here-s-how

# Microsoft Acquires Nuance (4/12/2021)

STROUDWATER

- On April 12, Microsoft announced that it would acquire Massachusetts-based tech company Nuance Communications, with which it had partnered previously to support Microsoft's telehealth capabilities.
- Microsoft and Nuance have worked together to create artificial intelligence (AI) capabilities that "listen" during a patient's telehealth visit and take notes for the patient's electronic health record.
- Per Microsoft, the acquisition will double its addressable market of healthcare providers to nearly $500 billion.

*"AI IS TECHNOLOGY'S MOST IMPORTANT PRIORITY, AND HEALTHCARE IS ITS MOST URGENT APPLICATION."*

*SATYA NADELLA, MICROSOFT'S CEO*

Sources: Modern Healthcare, *5 things to know about Microsoft's Nuance acquisition,* Jessica Kim Cohen, April 12, 2021 https://www.modernhealthcare.com/information-technology/5-things-know-about-microsofts-nuance-acquisition?utm_source=modern-healthcare-am-tuesday

# Reluctance to Accept Risk Slows Population Health Transition

- Providers' reluctance to accept risk to keep patients healthy continues to slow the industry's transition toward population health, which depends on tying revenue to risk.
- The transition often finds healthcare leaders caught between the need to transition the payment system for the long term and the urgency to increase revenue for the short term.
- Per a Numerof & Associates survey, readiness to assume risk in 2019 fell short of 2017 predictions. Providers cited struggles to transition while entrenches in a fee-for-service system. According to the AHA, inpatient care still made up more than half of U.S. hospitals' nearly $1.1 trillion in total revenue in 2019.
- The loss of hospital volumes during COVID-19 exposed the weakness of the fee-for-service model.
- Despite the challenges, providers such as ProMedica and Geisinger have seen success with population health models. Experts cite a carefully calculated pace of transition as the key to success.

"Right now there is no financial model for keeping the population healthy."

Dr. Don Berwick, president emeritus and senior fellow at the Institute for Healthcare Improvement

Source: ModernHealthcare, *Population health still at odds with fee-for-service,* Tara Bannow, 4/6/21 https://www.modernhealthcare.com/finance/population-health-still-odds-fee-service?utm_source=modern-healthcare-am-tuesday

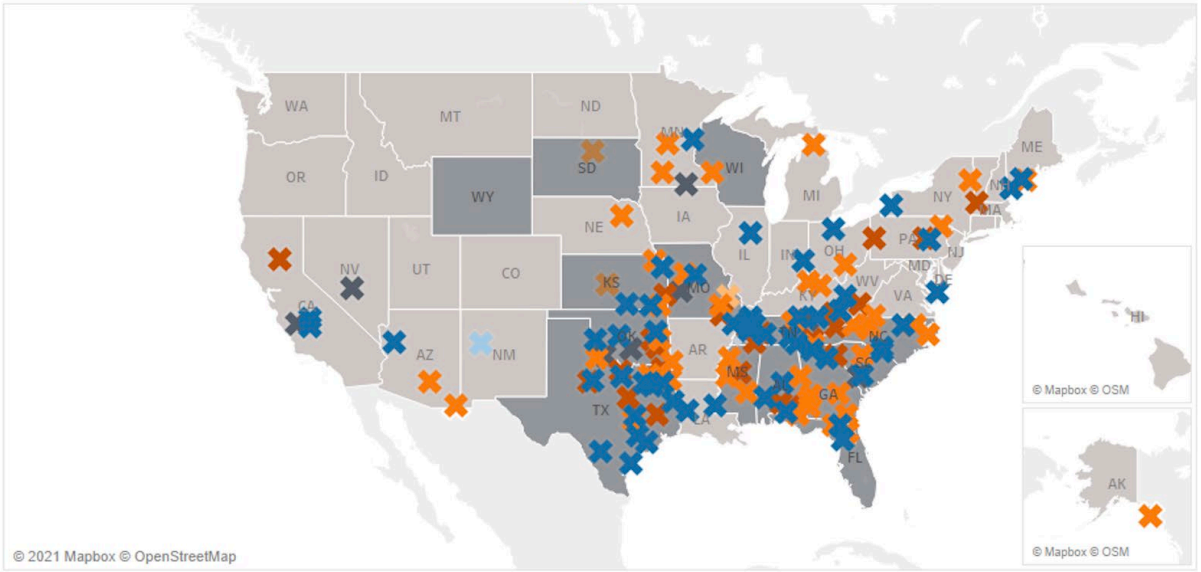
# Rural Hospital Closures (4-07-2021)

STROUDWATER

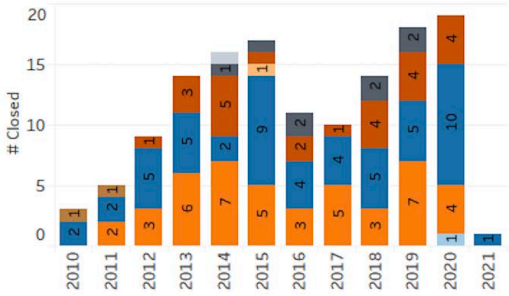
## 137 Closed Rural Hospitals

There have been 137 Rural Hospital closures since 2010 and 179 since 2005. These counts include those that have closed and re-opened.

STROUDWATER




| Closure Year | Hospital Name |
|---|---|
| 2021 | Jellico Medical Center-TN |
| 2020 | Perry Community Hospital-TN |
| | Acoma-Canonocito-Laguna Service Unit-NM |
| | Northridge Medical Center-GA |
| | Southwest Georgia Regional Medical Cente.. |
| | Shands Lake Shore Regional Medical Cente.. |
| | Cumberland River Hospital-TN |
| | Bluefield Regional Medical Center-WV |
| | St. Luke's Cushing Hospital-KS |




| StateAbv | # Closed |
|---|---|
| TX | 21 |
| TN | 16 |
| GA | 8 |
| OK | 8 |
| KS | 7 |
| MO | 7 |
| NC | 7 |
| AL | 6 |
| FL | 5 |
| MS | 5 |
| CA | 4 |
| MN | 4 |
| PA | 4 |
| SC | 4 |
| AZ | 3 |
| KY | 3 |
| ME | 3 |
| VA | 3 |
| NY | 2 |
| OH | 2 |
| WV | 2 |
| AK | 1 |
| AR | 1 |
| IL | 1 |
| IN | 1 |
| LA | 1 |
| MA | 1 |
| MD | 1 |
| MI | 1 |
| NE | 1 |
| NM | 1 |
| NV | 1 |
| SD | 1 |
| WI | 1 |

| Closure Year | Prospective Payment System | Critical Access Hospital | Medicare Dependent Hospital | Sole Community Hospital | Re-based Sole Community Hospital | Disproportionate Share Hospi.. | IHS | Rural Referral Center | Total |
|---|---|---|---|---|---|---|---|---|---|
| 2010 | 2 | | | | 1 | | | | 3 |
| 2011 | 2 | 2 | | | 1 | | | | 5 |
| 2012 | 5 | 3 | 1 | | | | | | 9 |
| 2013 | 5 | 6 | 3 | | | | | | 14 |
| 2014 | 2 | 7 | 5 | 1 | | 1 | | | 16 |
| 2015 | 9 | 5 | 1 | 1 | | | | 1 | 17 |
| 2016 | 4 | 3 | 2 | 2 | | | | | 11 |
| 2017 | 4 | 5 | 1 | | | | | | 10 |
| 2018 | 5 | 3 | 4 | 2 | | | | | 14 |
| 2019 | 5 | 7 | 4 | 2 | | | | | 18 |
| 2020 | 10 | 4 | 4 | | | | 1 | | 19 |
| 2021 | 1 | | | | | | | | 1 |
| Total | 54 | 45 | 25 | 8 | 2 | 1 | 1 | 1 | 137 |

Medicare Payment Type
- Prospective Payment System
- Critical Access Hospital
- Medicare Dependent Hospital
- Sole Community Hospital
- Re-based Sole Community Hospital
- Disproportionate Share Hospital
- Rural Referral Center
- IHS

Current Status of Medicaid Expansion Decision
- Adopted the Medicaid Expansion
- Not Adopting the Medicaid Expansion at this Time

Updated:4/7/2021

Sources: The North Carolina Rural Health Research Program (NC RHRP) at the Cecil G. Sheps Center for Health Services Research & kff.org

Design:@GreggLathrop

Source: NC Rural Health Research Program at the Cecil G. Sheps Center for Health Services and Research and KFF.org

# QUESTIONS?

STROUDWATER