

# PROTECT MEDICARE-DEPENDENT, SMALL RURAL HOSPITALS

## Background

The Medicare-Dependent, Small Rural Hospital (MDH) program was established in 1990 with the intent of supporting small rural hospitals for which Medicare patients make up a significant percentage of inpatient days or discharges. To qualify as a MDH, a hospital must be (1) located in a rural area, (2) have no more than 100 beds, and (3) demonstrate that Medicare patients constitute at least 60 percent of its inpatient days or discharges.

Because they primarily serve Medicare beneficiaries, MDHs rely heavily on Medicare reimbursement to sustain hospital operations. These hospitals are believed to be more vulnerable to inadequate Medicare payments than other rural hospitals because they are less able to cross-subsidize inadequate Medicare payments with more generous payments from private payers. As such, Congress acknowledged the importance of Medicare reimbursement to MDHs and established special payment provisions to buttress these hospitals. Congress recognized that if these hospitals were not financially viable and failed, Medicare beneficiaries would lose an important point of access to hospital services.

The primary benefit of MDH status is eligibility for payments based on hospital-specific payment rates. Other benefits include, a low-volume payment adjustment and no cap on disproportionate share hospital (DSH) payments.

Today, over 200 hospitals nationwide have MDH status.

## Extend the Medicare-Dependent, Small Rural Hospital Designation

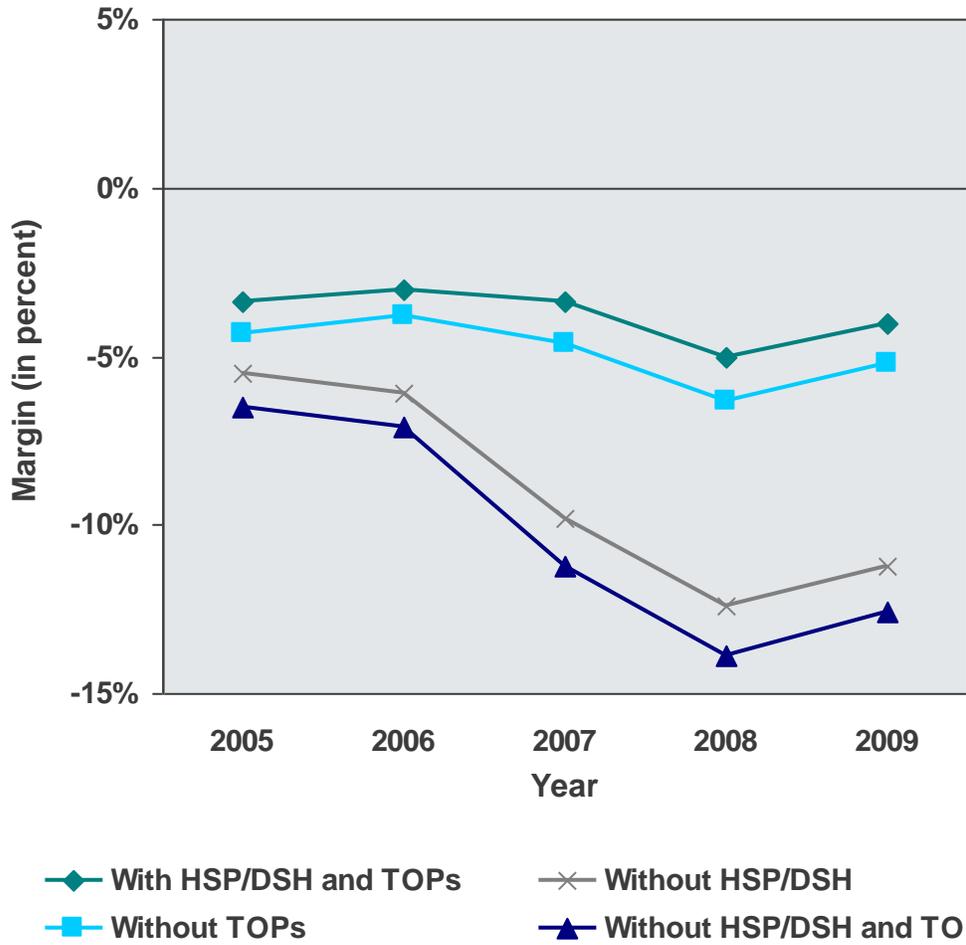
Because MDHs serve a disproportionate number of Medicare beneficiaries, MDHs rely on Medicare payments for delivering patient care to these beneficiaries and their broader communities. MDH status and the associated payment protections are critical to the continued viability of these facilities.

Congress has extended the MDH designation many times since the program's beginning – most recently in the 2010 Affordable Care Act (ACA), which extended the MDH program through September 30, 2012. With the program expiring this year, Congress must act to renew the MDH program.

## MDHs Will Not Be Viable Without Payment Protections

Despite protections under Medicare, MDHs do not perform meaningfully better than other rural hospitals and without hospital-specific payments and transitional outpatient payments, Medicare margins would degrade significantly. According to a recent analysis of hospital margins, MDHs have consistently low Medicare margins. In 2009, MDHs were operating at a negative 4 percent margin. Without hospital-specific and transitional outpatient payments, MDH margins would have fallen to negative 12.6 percent. The loss of hospital-specific and transitional outpatient payments would have a severe adverse impact on MDHs and the communities they serve. Many of these providers will not remain viable.

**Overall Medicare margins:  
MDH with and without TOPs and HSP/DSH**



**Co-Sponsor S. 2620 and H.R. 5943**

Senators Schumer (D-NY) and Grassley (R-IA) introduced S. 2620, the Rural Hospital Access Act of 2012. The House companion bill, H.R. 5943, was introduced by Representatives Tom Reed (R-NY) and Peter Welch (D-VT). This legislation would, among other things, extend the MDH hospital program to October 1, 2013.

The Congressional Budget Office has scored a one-year extension as costing less than \$100 million over 10 years.