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Healthcare's uneven financial performance: Large hospitals bounce back while rural facilities face ongoing vulnerability concerns

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<https://www.chartis.com/insights/healthcares-uneven-financial-performance-large-hospitals-bounce-back-while-rural>

The Buzz This Week

Many health systems have started to settle into steadily improving financial margins, but recent reports highlight that this is not the case for all. While most large health systems have recovered or exceeded their pre-pandemic margins, small hospitals and rural hospitals continue to struggle with financial performance.

Last month, Moody's credit rating agency released its annual Not-for-Profit and Public Healthcare median financial report for 2023. It indicated that operating performance gradually improved at the 50 largest US hospitals, as defined by revenue, with cash flow margins increasing from 5.1% to 5.7%. Annual operating revenue growth also increased for the largest hospitals, to 9.3%. It surpassed the 8.6% expense growth for the 50 largest hospitals, reversing the trend from 2022.

The 50 smallest Moody's rated hospitals saw operating cash flow margin continue to decline from 3.2% to 2.9%. And 68% of the 50 smallest hospitals reported an operating deficit—evidence of the ever-growing gap between large and small hospitals. This cohort of smallest hospitals and health systems had a median number of maintained beds of 283 and median revenues of \$478 million.

The data also suggests the nation's rural and critical access hospitals continue to struggle. Recent findings from the Chartis Center for Rural Health indicate that 418 rural hospitals—approximately 20% of the rural hospitals in the country—are vulnerable to closure. The percentage of rural hospitals operating in the red jumped from 43% to 50% this year.

A regional trend was also evident in hospital finances for 2023, according to Moody's. The Northeast struggled the most, showing operating cash flow margins declining from 4.2% to 3.9%, compared to other regions that were flat or grew slightly. The South had the strongest operating cash flow margins, at 5.7%. This percentage remained unchanged from 2022 but was still greater than other regions for the sixth consecutive year. Variability was attributed to differences in population trends, labor pressures, and state supplemental programs.

Despite having the weakest financial performance, the Northeast had the most robust revenue growth, driven by strong volumes. The Northeast saw 8.8% growth in inpatient admissions and 11.3% growth in emergency room visits in 2023, compared with national growth of 2.2% and 3.8%, respectively.

Northeast hospitals were not the only ones experiencing increased patient volumes. Volume increases across the industry have been tied to overall population growth in fast-growing markets like Florida and Texas. They have rebounded from the pandemic and the related care delays, and the aging population is requiring more healthcare services. Matthew Cahill, Assistant Vice President at Moody's, reiterated increased emergency department visits are likely due to more normalized demand and the recent surge in COVID-19.

Why It Matters

The widening gap between larger and smaller hospitals continues an ongoing trend. It highlights the vulnerability of smaller hospitals, which have limited scale and resources when facing operating pressures. While high operating costs, low volumes, and a challenging and shifting payer mix contribute to the financial fragility of many small providers, these intersections create particular financial challenges for rural health.

Since 2010, nearly 180 rural hospitals have either closed or converted to an operating model that excludes inpatient care. These closures leave residents in rural communities with limited access to vital care and services. A report from the Chartis Center for Rural Health earlier this year indicates access to services such as obstetrics and chemotherapy continues to decline even at facilities that remain open. While urban communities may also see closures impacting choice of provider or wait times, alternative options for care will remain.

Specific to rural payer dynamics, Medicaid's unwinding of pandemic-related continuous coverage has significant implications for all systems, particularly in Medicaid non-expansion states, and especially for rural hospitals that already see higher uncompensated care rates than their urban counterparts. Rural providers are also managing through a continued increase in Medicare Advantage penetration. Medicare Advantage brings a different level of administrative complexity to navigate than that of traditional Medicare, which small and rural hospitals are often not well-equipped to handle. The ongoing tension within the rural model is bringing continued bipartisan legislative attention, but no clear single policy solution yet exists to address these complex issues.

For larger health systems experiencing improved financial performance, rising patient volumes have been identified as a key factor. Smaller hospitals and health systems are facing more volatility in utilization, which creates a situation with financial stability one year and uncertainty the next. This is driven by dynamics frequently outside the organization's control. For instance, small and rural providers often see a disproportionate Medicare population with less predictable utilization than those organizations with a larger commercial population.

To attract and retain talent, health systems of all sizes are expanding talent pipelines and enhancing benefits. Larger hospitals are often better able to manage expensive contract labor due to more predictable demand patterns. They also have larger talent pools to draw from, making talent search and acquisition less costly than smaller counterparts. Rural hospitals typically have to offer increased compensation to attract providers to smaller or more remote areas.

While the provider enterprise is a major investment for all health systems, the costs to maintain a small and/or rurally oriented medical group that meets quality and supply requirements is a bigger hurdle than for larger, urban health systems.

The unpredictable nature of hospital financials in recent years has caused health systems and hospitals all over the country to implement safeguards. Even those that have rebounded should remain diligent with their financials to ensure sustainable longevity. Reform and innovative transformation will be necessary to support the financial stability of small and rural hospitals. This may include determining opportunities for clinical service growth, shifting sites of care, providing targeted financial assistance, and investing in technology and telemedicine to improve access and efficiency.

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