Medicare Payment for Rural or Geographically Isolated Hospitals

Medicare pays most acute-care hospitals under the inpatient prospective payment system (IPPS). Some IPPS hospitals receive payment adjustments, which may help address the potential financial distress associated with rural, geographically isolated, and low volume hospitals. These Medicare payment designations are Sole Community Hospitals (SCHs), Medicare-Dependent Hospitals (MDHs), and Low-Volume Hospitals (LVHs). Other similar acute-care hospitals—Critical Access Hospitals (CAHs)—are paid based on reasonable cost, not under IPPS.

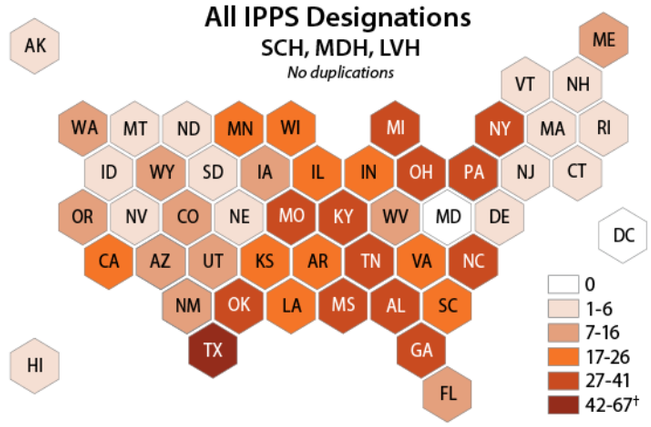
2021

Medicare Hospital Payment

IPPS
Inpatient Prospective Payment System

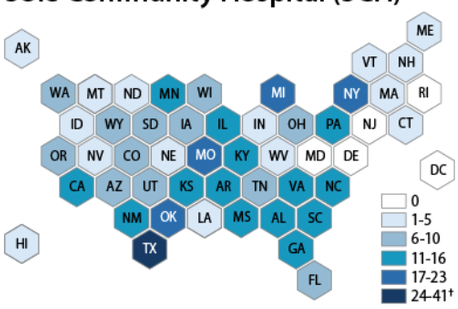
A predetermined, fixed, per discharge payment for inpatient services furnished to Medicare beneficiaries, subject to adjustments.

All IPPS Designations
SCH, MDH, LVH
No duplications



HOSPITAL DESIGNATION LOCATIONS	ELIGIBILITY CRITERIA	ADJUSTED PAYMENT	NO. of HOSPITALS

Sole Community Hospital (SCH)



Meets **ONE** of the following **FOUR** criteria:

1. > 35 miles from another IPPS hospital
2. Rural and 25-35 miles from another hospital *and*
   - Is the exclusive hospital provider in the area, *or*
   - < 50 beds, meets exclusive hospital provider criterion but for patient transfers to other hospitals for specialized care
3. Rural and 15-25 miles from a hospital that is inaccessible
4. Rural and ≥ 45 minute drive to nearest other hospital

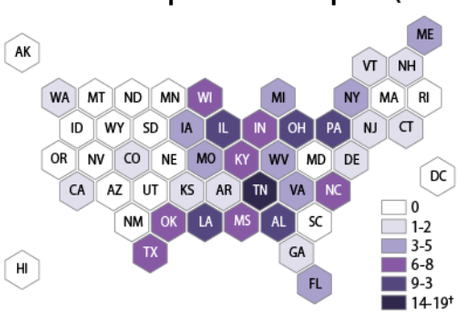
The > of the following:

FY - Fiscal Year

453

14%*

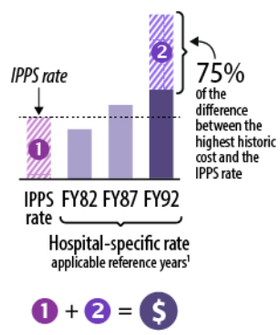
Medicare-Dependent Hospital (MDH)



Meets **ALL** of the following criteria:

1. Rural
2. ≤ 100 beds
3. Not an SCH
4. ≥ 60% are Medicare patients

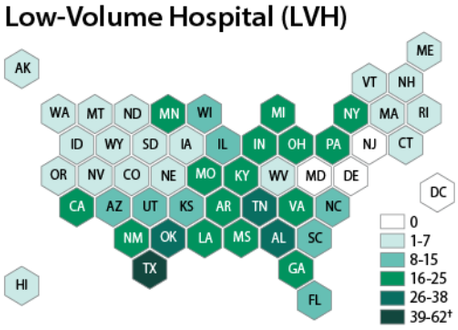
MDH will expire effective October 1, 2022, if Congress does not extend the program.



170

5%*

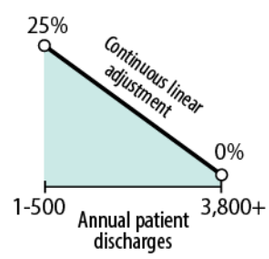
Low-Volume Hospital (LVH)



Meets **ALL** of the following criteria:

1. > 15 miles from another IPPS hospital
2. < 3,800 annual total discharges

LVH eligibility criteria are scheduled to change on October 1, 2022, if Congress does not extend the current criteria.

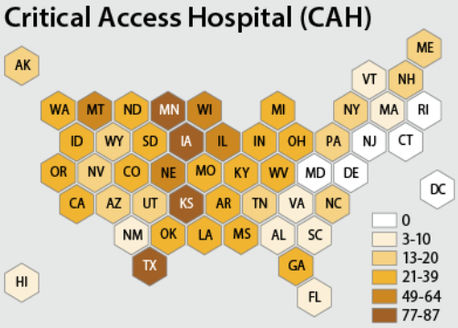


$ = IPPS + (IPPS x Applicable %)

621

19%*

Critical Access Hospital (CAH)



Meets **ALL** of the following criteria:

1. Rural
2. ≤25 inpatient beds
3. 24/7 emergency services
4. Annual average length of stay of ≤96 hours
5. >35 mile drive from another IPPS hospital or CAH, *or*
   - > 15 mile drive in mountainous terrain, *or*
   - Designated as a "necessary provider" before 1/1/2006

101%
CAH's reasonable costs

1,350
% not applicable

CAHs are not paid by Medicare under IPPS.

[1]**Hospital-specific rate (HSR):** A per discharge payment based on a hospital's average operating costs for furnishing inpatient services to Medicare beneficiaries. In contrast, IPPS is a per discharge payment based on the national average operating cost of furnishing inpatient services to Medicare beneficiaries. Both HSR and IPPS use costs from statutorily defined reference years, trended forward.

Designations: ▶ *Mutually exclusive* ▶ *Not mutually exclusive* **Total number of IPPS hospitals: 3,228 (Excludes hospitals in Maryland; they are exempt from the IPPS.)* †*Class ranges display only discrete values found in the data.*

Sources: CRS analysis of relevant statute, regulations, and Centers for Medicare & Medicaid Services (CMS), "Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals and the Long-Term Care Hospital Prospective Payment System and Final Policy Changes and Fiscal Year 2021 Rates; Quality Reporting and Medicare and Medicaid Promoting Interoperability Programs Requirements for Eligible Hospitals and Critical Access Hospitals," 85 *Federal Register* 58432, September 18, 2020. CAH data as of October 2020 provided by the Flex Monitoring Team—an academic consortium—funded by the Federal Office of Rural Health Policy.

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