



## Policy precision: How state leaders can have an impact on hospital resiliency in the face of systemic challenges

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# Introduction

Hospitals across the country are facing mounting financial pressures, marked by a 17.5% increase in expenses between 2019 and 2022.<sup>1</sup> In contrast, Medicare reimbursements rose by 7.5%<sup>2</sup> during the same period. Labor costs, constituting half of hospitals' budgets, surged by 20.8%,<sup>3</sup> while supply expenses per patient rose by 18.5%,<sup>4</sup> outpacing inflation. These financial challenges are especially acute for rural hospitals; in more than 15 states, 40% of rural hospitals are at risk of closing.<sup>5</sup>

Given these systemic challenges, many states are evaluating or enacting policy and regulatory changes to foster a more robust health care infrastructure, fortify the hospital community, and help ensure access to care. Interdisciplinary approaches, such as aligning Medicaid and commercial payer policies, navigating innovative care delivery models, and redefining hospital regulations to emphasize value-based care alongside patient safety and quality, are some ways states can help improve the financial resiliency of hospitals.

To identify where policy and regulatory support may be needed, states can undertake an in-depth analysis to better understand the common strategic, operational, and financial challenges their hospitals face and empirically assess the common drivers of financial instability. For example, a state may determine that many hospitals have excess capacity and, through collaborative, regional planning efforts, learn that this is due to the regulatory definition of a hospital or challenges in survey processes. The combination of data analysis and frank discussion with the hospital community is powerful—and creates a meaningful opportunity for state policymakers to drive progress toward maintaining and expanding access to care.

Based on the outputs of such a quantitative hospital community analysis, the state may then conduct thorough policy and regulatory analyses to identify additional opportunities to improve hospitals' outlook. These analyses may include both federal government initiatives and industry collaborations to help ensure internal barriers are addressed and external resources are leveraged for optimal health care enhancement.

# Federal-state synergy for hospital resilience

As state governments identify opportunities to enhance their support for hospitals, aligning with federal initiatives and capitalizing on opportunities in the commercial market are critical. States may consider several federal opportunities, including:

- **States Advancing All-Payer Health Equity Approaches and Development Model (AHEAD Model):** The AHEAD Model is a voluntary initiative focusing on the total cost of care (TCOC). Introduced in 2023, the model aims to collaboratively address increasing health care costs, improve people's health, and advance health equity, while also investing more in primary care, providing financial stability, and connecting beneficiaries with essential community resources.<sup>6</sup>
- **Rural Emergency Hospital designation:** Tailored for rural settings, the Rural Emergency Hospital (REH) designation enables hospitals to address unique challenges by providing financial incentives, including a 5% increase in payment for outpatient services to Medicare patients, an additional monthly facility payment, and the flexibility to adapt staffing and services within state licensure laws<sup>7</sup> to maintain access to crucial outpatient hospital services in rural communities. The REH may help strengthen health care infrastructure, foster resilience in rural hospital networks, and demonstrate a tailored approach that addresses the distinctive health care landscape of rural communities. However, because of the way most states define a "hospital" in statute or regulation, new legislation, regulation, or other measure may be necessary.
- **Acute Hospital Care at Home Waiver:** The Acute Hospital Care at Home Waiver, introduced by CMS in November 2020, marks a pivotal advancement in health care delivery as it removes the requirement for onsite nursing services 24/7 and immediate access to a registered nurse, enabling acute patients to receive care in the comfort of their homes.<sup>8</sup> Hospitals with a proven history of providing quality, at-home acute services to at least 25 patients can undergo an expedited waiver process. The waiver is on a two-year extension until December 2024 with the possibility of permanent implementation pending the impacts on quality of care, outcomes of care, and costs. States can work collaboratively with the federal government to provide data and other insights to inform the federal government's decision.

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# Strategic state actions amid health care evolution

As emerging market forces, including the shift toward consumer-centric care and the integration of telemedicine, reshape the health care landscape, hospitals face a turning point. Deloitte's *2021 global health care outlook* outlines some key issues to address the accelerating changes in health care; many of which states can support, including:<sup>9</sup>

- **Virtual health delivery:** States can implement policies that provide fair reimbursement for virtual and in-person services, promoting equitable access and financial sustainability for health care providers. Additionally, clear and adaptive regulations can encourage innovation in virtual health technologies, enabling states to harness the full potential of these solutions for improved patient outcomes and access to care.
- **Strengthening the workforce:** States can help develop and strengthen their health care workforces and ease provider shortages by enacting policies that support training, ease licensure restrictions, and incentivize collaborations with educational institutions. Creating a more favorable regulatory environment for innovative care models and virtual health adoption can enhance workforce resilience and improve health care delivery, as can addressing the compensation challenges of community health workers.

- **Digital transformation:** States can invest in robust infrastructure, promote interoperability standards, and incentivize the adoption of digital health solutions among health care providers. Fostering more collaboration between private and public sectors, and implementing supportive policy and regulatory frameworks, can create an environment that promotes greater integration of innovative technologies in the state's health care ecosystem. States may also want to consider using federal infrastructure funds to support the expansion of broadband and further enhance digital health care transformations.<sup>10</sup>
- **Collaboration:** States can actively promote policies and incentivize collaboration among health care providers, particularly in areas where demand may only sustain one specialty center. Empowering providers to work together to meet the demand effectively can improve the overall efficiency of health care services and enhance patient outcomes through coordinated and cooperative care delivery.

**Analyzing the strategic, operational, and financial challenges hospitals face, and then devising meaningful policy and regulatory changes at the state level to address them, can make a significant impact. States can also look outside of their borders to take advantage of federal opportunities, while also leveraging the commercial sector to improve health care access and quality.**

# Acknowledgments

Simone Levy, Addakin Thomas

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# Endnotes

1. American Hospital Association (AHA), "[Report: Hospitals face existential challenge from rising costs of care](#)," April 20, 2023.
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7. CMS, "[Rural Emergency Hospitals](#)," last modified November 18, 2024.
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