



## BROOKS-TLC HOSPITAL SYSTEM, INC.

### ***A message to staff and the community on behalf of Ken Morris, President and CEO***

October 14, 2022

In my first communication (Aug. 5, 2022) I briefly touched on the challenging and complicated environment that is rural healthcare. As a follow up, I will discuss our mission and describe one of many critical financial impacts for everyone's understanding. I will also connect the Brooks-TLC's (BTLC) challenges with national trends affecting rural hospital financial sustainability.

Above all else, it is our mission to serve our communities by providing access to high quality personalized healthcare. Our communities are diverse and our dedicated staff do an incredible job of providing care for our region. This care is inclusive of all social classes, races and backgrounds, with the same level of care being provided and without regard to the form of payment. As a result, healthcare is one of the most complicated financial systems to exist. Below, I will attempt to explain this system for a better appreciation and understanding.

#### **Reimbursement System (aka revenue)**

In healthcare, revenue or dollars received (cash collected) rarely matches the actual charges for service. So, imagine you own a restaurant and you charge \$10 for a hamburger. Two customers walk in and purchase a burger. The first person hands you a card for payment in the amount of \$6.50 and the second customer hands you a card for payment in the amount of \$3.25. In both instances, your register confirms the transaction is complete and your customers are enjoying their burgers. You on the other hand, are left wondering about your future because the cost of the burgers was more than the cash you received. This is essentially how reimbursement works in healthcare.

This payment system can generally be split into three main groups:

1. **Commercial Insurance:** This form of payment is the highest form of reimbursement and is different from one service to another. The reimbursement is typically between 45% and 70%.
2. **Government Insurance:** This is the government sponsored Medicare and Medicaid programs used to pay for care. Medicare reimburses close to 35% and Medicaid is often between 15% and 20%.
3. **Self-Pay:** The charge is a lower rate for individuals that pay out of pocket and often never recovered.

There is a false perception that Medicare and Medicaid dollars is a subsidy to the hospitals. To clarify, these government insurance programs are a form of payment for care. It is also important to note that these government and self-pay payments do not cover the cost of care, so it is important to have a healthy percentage of commercial insurance to help fund **all** care.

This mix of payments (known as the payor mix), is at risk in rural populations for several reasons. To start, businesses and industries that continue to move out of rural communities equate to less commercial insurance in order to support other forms of payments. These areas also tend to have a declining population which equates to less patients as well. To further complicate the issues, a rural market generally has an aging population that leads to higher Medicare, and the rural population has a lower socioeconomic status that equates to higher Medicaid. Brooks-TLC is no exception to this trend. The organization has seen a year over year increase in government insurance for inpatient admissions. In 2018 the government (Medicare/Medicaid) insurance made up 77% of the admissions and rose to 84% in 2021. Therefore, currently 84% of our reimbursement for inpatient admissions is equivalent of 15 to 35 cents on every dollar charged.

So, let's return back to the restaurant example. If 84 out of every 100 customers are paying \$1.50 or \$3.50 for the \$10 hamburger, restaurants or any business would not be sustainable, much less profitable.

This payment system/payor mix is one of many reasons as why rural hospitals are struggling all throughout America. Over the course of 11 years (2010-2021) 136 rural hospitals across our country closed. Nineteen of those closures occurred in 2020 – the most of any year in the past decade. To learn more about the rural health care, I am attaching a link to a recent report from the American Hospital Association (AHA).

- [rural-hospital-closures-threaten-access-report.pdf \(aha.org\)](https://www.aha.org/~/media/2021/07/21/2021-07-21-rural-hospital-closures-threaten-access-report.pdf)

As you see, there are many contributing external factors that have to be considered, most of which are out of our control. Supporting local hospitals are critical to their survival. I hope this communication has been helpful.

Regards,



Ken Morris