



# Funding beyond the hospital

A new vision for rural health



Across the United States, efforts to save rural hospitals are critical, but the real challenge is to create a sustainable *rural health system*—the entire ecosystem of care that supports a community. The traditional fee-for-service model, which rewards the volume of procedures, has pushed this system to the brink of collapse, forcing a search for a more resilient financial foundation. A promising potential solution is a global budget: a fixed, predictable payment designed to serve the health needs of an entire population.

Shifting to a global budget isn't merely a change in accounting; it fundamentally rewrites the mission of every entity within the system. If a health system is no longer paid primarily for treating sickness, but is instead funded to foster wellness, its entire identity and structure are thrown into question.

This transition is far from simple. A major challenge is the difficulty in shifting an organization's culture and governance. Hospital boards, which have spent decades focused on financial margins and patient volume, can struggle to embrace new metrics centered on population health. Furthermore, getting buy-in from specialists who are comfortable with the fee-for-service model requires significant leadership and a clear demonstration that the new system won't penalize necessary, complex care.

This leads to the essential question that must now be answered: **If we change the financial model to reward health instead of sickness, what is the new role and responsibility of a health system in its community?**

## From treatment center to community-managed health system

The answer requires us to think beyond the hospital walls and envision a community-managed health system, where success is measured not by activity, but by the well-being of the population it serves. This transformation is driven by four key shifts:

1

### Appointing a system manager for the budget:

The global budget shouldn't be managed by the hospital alone. Instead, a neutral "system manager"—perhaps a public health authority or community coalition—becomes responsible for it. The hospital may act as an orchestrator of services, but only if it's best positioned for that role. This helps ensure that funds are directed toward the community's greatest needs, not just institutional preservation.



## 2

### Adopting true population health metrics:

Success in this new model is tracked with sophisticated, and at times counterintuitive, metrics. The goal is to:

- Reduce total inpatient bed days across the population, reflecting better community-wide health.
- Simultaneously, increase the average length of stay for the truly acute patients who are admitted, with the hospital now reserved for the most complex cases requiring intensive care.
- Systematically reduce the prevalence of chronic illness, like diabetes and heart disease, using standardized clinical measures.

## 3

**Meeting people where they are:** A flexible budget empowers the system to deliver care outside of clinical walls. This isn't just a theoretical concept. Pennsylvania's Rural Health Model (PARHM) demonstrates how predictable global budgets enable rural hospitals to meet people where they are by partnering with community organizations and investing in tools that support care coordination and outreach. PARHM evaluations show hospitals using this flexibility to pursue community-driven interventions that address local needs<sup>1</sup>, and national evidence from Meals on Wheels and medically tailored-meal programs show that such partnerships can significantly reduce hospital readmissions.<sup>2,3</sup>

## 4

**Creating a hybrid payment model:** This transformation doesn't have to be all-or-nothing. The approach can be bifurcated. For predictable, procedure-based care (like musculoskeletal surgery), a fee-for-service structure can remain appropriate when closely tied to patient outcomes. For the bigger, more complex challenges of managing chronic disease and improving

community-wide health, a system-wide global budget can provide the flexibility needed to support broader interventions. This type of hybrid model allows for specialized excellence while driving broad, population-level health improvements.

## Charting the path forward

For states undergoing rural health transformation initiatives, this is a pivotal time. The shift from a hospital-centric model to a community-focused system of care requires careful consideration of how to best build a sustainable foundation for the future.

As leaders move forward, key questions will emerge around designing governance that aligns with population health goals, creating payment models that reward wellness, and investing in the right digital tools to connect care. Addressing these areas thoughtfully will be central to making a lasting impact.

To explore strategies and models that can help guide this process, reach out to learn more about how KPMG works with states and health systems in this area.

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#### Sources:

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3. Kenneth K. Lee et al., "Association of Medically Tailored Meals With Hospitalizations and Health Care Costs Among Dually Eligible Medicare and Medicaid Beneficiaries," *JAMA Internal Medicine* 179, no. 11 (2019): 1616-1624.

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