CAHPR CENTER FOR ADVANCING HEALTH POLICY THROUGH RESEARCH

School of Public Health BROWN UNIVERSITY

Financial Performance of Critical Access Hospital and Rural Hospitals Depends on System Affiliation

Updated Findings from 2025

Policy Brief

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Summary

US hospitals are characterized by “haves” and “have-not” hospitals. As highlighted in previous research, this characterization extends to critical access hospitals (CAHs).[1] Using hospital cost report data over the 2016 to 2022 period, CAHs that were affiliated with health systems had higher financial and operating margins than independent CAHs. We examine if these differences also exist for rural hospitals and in 2023. While many rural hospitals are CAHs, many rural hospitals exceed the 25 bed threshold CAHs are limited to.

Data and Methods

This study utilized 2023 data from the National Academy for State Health Policy (NASHP), which reports hospitals’ overall operating margins and payer-specific operating margins for Medicare, Medicaid, and commercial insurance. This dataset incorporates hospital cost report data from the Center for Medicare & Medicaid Services (CMS). The Agency for Healthcare Research and Quality Compendium was used to identify hospital system affiliation. Hospital zip codes were mapped onto the 2020 United States Department of Agriculture (USDA) Rural-Urban Commuting Area (RUCA) Codes to identify rural status, which was defined by a Primary RUCA code of greater than or equal to four.[2] All datasets are publicly available. The sample was restricted to general medical and surgical hospitals and excluded specialty hospitals. Financial outcomes were compared by hospital type using multivariate linear regressions adjusting for bed count, Medicaid, Medicare, and commercial insurer payer mix. This study followed STROBE reporting guidelines.

[1] Whaley C, Bartlett M, Bai G. Financial Performance Gaps Between Critical Access Hospitals and Other Acute Care Hospitals. *JAMA Health Forum*. 2024;5(12):e243959. doi:10.1001/jamahealthforum.2024.3959
[2] How We Define Rural. www.hrsa.gov. Published September 2025. Accessed October 15, 2025. https://www.hrsa.gov/rural-health/about-us/what-is-rural

Results

Financial Performance of Critical Access Hospitals

A total of 3,498 hospitals were included in the analysis for 2023. Of these, 14.9% (n = 522) were independent CAHs, 16.9% (n = 592) were system-affiliated CAHs, 7.1% (n = 247) were independent non-CAHs, and 61.1% (n = 2,137) were system-affiliated non-CAHs. The proportion of CAHs that were system-affiliated remained stable between 2022 (53.8%) and 2023 (53.1%).

On average, overall operating margins in 2023 were 0.4% (95% CI: -3.7% to 4.5%) for independent CAHs, 7.2% (95% CI: 5.4% to 9.0%) for system-affiliated CAHs, 5.5% (95% CI: 2.0% to 9.0%) for independent non-CAHs, and 14.7% (95% CI: 13.4% to 16.1%) for system-affiliated non-CAHs. Medicare operating margins were near zero for CAHs, -10.2% (95% CI: -13.1% to -7.3%) for independent non-CAHs, and -6.6% (95% CI: -7.6% to -5.7%) for system-affiliated non-CAHs (Figure 1). Medicaid operating margins remained consistently negative across hospitals, at approximately -14%. Commercial operating margins were 15.6% (95% CI: 10.4% to 20.9%) for independent CAHs, 31.5% (95% CI: 28.1% to 34.9%) for system-affiliated CAHs, 21.5% (95% CI: 16.4% to 26.6%) for independent non-CAHs, and 38.6% (95% CI: 36.9% to 40.3%) for system-affiliated non-CAHs.

Financial Performance of Rural Hospitals

A total of 3,467 hospitals with identifiable RUCA codes were included in the 2023 analysis. Of these, 18.7% (n = 648) were independent rural hospitals, 31.4% (n = 1089) were system-affiliated rural hospitals, 3.2% (n = 111) were independent non-rural hospitals, and 46.7% were (n = 1619) system-affiliated non-rural hospitals. The share of rural hospitals that were system-affiliated decreased from 2022 (64.1%) to 2023 (62.7%).

As highlighted in Figure 2, average overall operating margins in 2023 were close to zero for independent rural hospitals (1.1%; 95% CI: -3.3% to 5.5%) and positive for system-affiliated rural hospitals (10.1%; 95% CI: 9.0% to 11.2%), independent non-rural hospitals (7.5%; 95% CI: 4.0% to 10.9%), and system-affiliated non-rural hospitals (15.1%; 95% CI: 13.5% to 16.7%). Medicare operating margins were -1.7% (95% CI: -3.7% to 0.4%) for independent rural hospitals, -3.2% (95% CI: CI: -4.3% to -2.0%) for system-affiliated rural hospitals, -7.1%

(95% CI: -11.6% to -2.7%) for independent non-rural hospitals, and -5.8% (95% CI: -7.1% to -4.5%) for system-affiliated non-rural hospitals. Medicaid operating margins were approximately -15.5% across rural hospitals, -9.2% (95% CI: -18.9% to 0.4%) for independent non-rural hospitals, and -12.6% (95% CI: -15.3% to -9.8%) for system-affiliated non-rural hospitals. Commercial operating margins were 16.2% (95% CI: 10.9% to 21.5%) for independent rural hospitals, 32.8% (95% CI: 30.7% to 34.9%) for system-affiliated rural hospitals, 26.6% (95% CI: 18.0% to 35.1%) for independent non-rural hospitals, and 39.8% (95% CI: 37.7% to 42.0%) for system affiliated non-rural hospitals.

Discussion

Using national hospital cost report data, we found substantial differences in financial performance for both CAHs and rural hospitals depending on system affiliation. Independent CAHs and rural hospitals have low overall operating margins, while system-affiliated hospitals have much higher operating margins. Limitations include limited data on 2024 or 2025 financial performance. While operating margins among commercial insurance plans were examined, comprehensive data on negotiated prices with commercial insurers is not available.

Despite these limitations, the results of this study highlight the unequal financial conditions of CAH and rural hospitals based on system affiliation. Independent CAH and rural hospitals have low, and in many cases, negative operating margins. In contrast, system affiliated CAHs and rural hospitals average positive overall operating margins. These differences are notable given current policy debates on allocating funds through the $50 billion Rural Health Transformation Fund.[3] The results of this study suggest that targeted allocation of limited resources to financially CAH and rural providers may be appropriate.

[3] Rural Health Transformation (RHT) Program . U.S. Centers for Medicare & Medicaid Services (CMS). Published 2025. Accessed October 15, 2025. https://www.cms.gov/priorities/rural-health-transformation-rht-program/overview

Tables and Figures

Figure 1. Regression-Adjusted Overall and Payer-Specific Operating Margins for Critical Access Hospitals in 2023

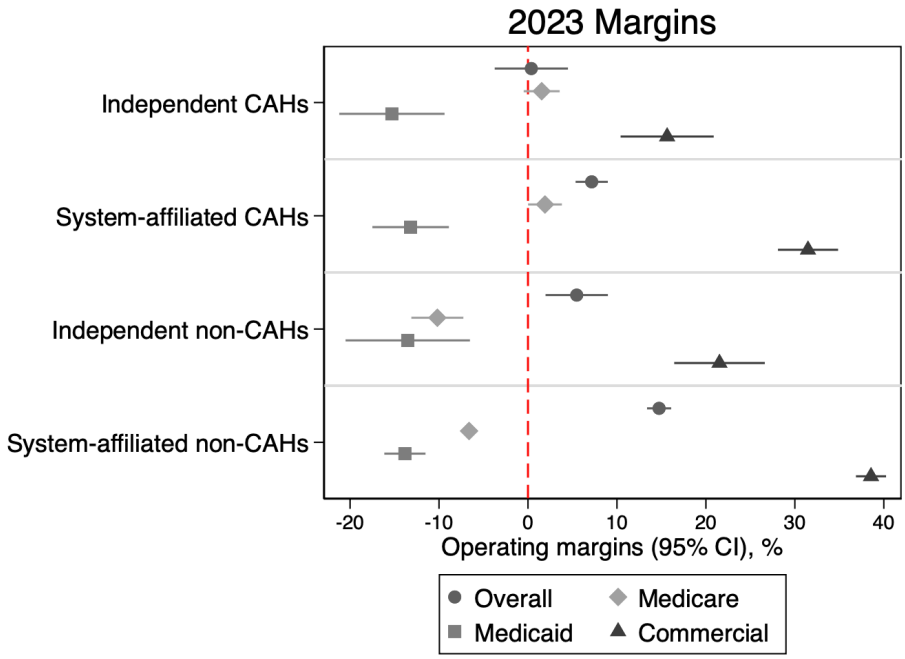

Figure 2. Regression-Adjusted Overall and Payer-Specific Operating Margins for Rural Hospitals in 2023