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Hospitals Would See Medicaid Funds Slashed If Hill Fails to Act

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Over $8 billion in federal funding for safety net hospitals will be cut starting Oct. 1 unless Congress postpones or delays the latest reduction in Medicaid Disproportionate Share Hospital payments.

The payments are scheduled to be cut because the Affordable Care Act calls for the reductions in DSH payments, which provide supplemental income to hospitals that serve a large proportion of low-income or uninsured patients, at the start of each fiscal year under the assumption that the need for the payments would shrink each year as more Americans enrolled in health-care coverage through Obamacare. Yet millions of Americans remain uninsured.

“More than 2,500 hospitals in the U.S. receive DSH payments to address Medicaid underpayment and uncompensated care,” and allowing cuts to happen would “impact on hospitals, patients, and communities,” a consortium of hospitals groups said in a letter to congressional leaders earlier this month.

The consortium included the American Hospital Association and the Association of American Medical Colleges. The group is urging Congress to enact legislation to stop the DSH payment cuts, noting that bipartisan legislators have delayed the reductions in the federal funds allocated to state Medicaid programs nine times in the past.

High Stakes for Hospitals

The stakes for hospital groups to persuade lawmakers to postpone the cuts are greater this time around, said Anne Karl, Medicaid adviser and lawyer at Manatt, Phelps & Phillips LLP., because state Medicaid agencies will begin eligibility checks on all of their beneficiaries starting April 1. Redeterminations of eligibility for benefits had been suspended during the pandemic.

The end of the Covid-19 public health emergency May 11 and the unwinding of measures put in place to fight it, such as a moratorium on Medicaid cancellations, will see the number of uninsured patients soar.

“It’s just a really tricky moment. I think a loss of $8 billion in DSH payments would be very painful at any point, but I think at this particular moment, given everything that’s going on with rising costs, hospitals fighting for supplies and workforce, in addition to the PHE unwinding. All of those factors come together to make this a particularly difficult time for the DSH payments cuts to take effect.”

The DSH program was founded in 1981 in response to concerns that state Medicaid programs were providing low reimbursement rates to hospitals, which would in turn, “threaten hospitals serving large numbers of Medicaid beneficiaries and the uninsured,” according to the Medicaid and CHIP Payment and Access Commission. Hospitals say Medicaid underpayment is still a problem as the country emerges from the pandemic.

‘Different Things in Different Places’

The DSH program provides around $19.5 billion in funding to hospitals each year, according to Paula Chatterjee, assistant professor of general internal medicine and director of health equity research at the University of Pennsylvania. Of that amount, about $7 billion comes from the states and a little over $12 billion comes from the federal government.

“The DSH program, in a lot of ways, is trying to do different things in different places,” she said. In a lot of states that haven’t expanded their Medicaid programs, “DSH payments are going to support hospitals that provide a lot of uncompensated care. In other states, DSH payments go to support the hospitals that serve a lot of Medicaid patients,” Chatterjee said.

These DSH funds, however, were not meant to be permanent. According to Chatterjee, the Affordable Care Act planned a staged reduction in DSH payments with the assumption that Medicaid expansion would decrease the number of uninsured individuals, in turn removing the need for federal subsidies.

“We know from research that uncompensated care provided at hospitals has declined since the ACA in states that expanded Medicaid coverage,” Chatterjee said. “And so with that, the argument at the time was saying, ‘We expect this reduction in uncompensated care, therefore, hospitals should be less reliant on DSH payments to stay afloat.’ Lawmakers saw this as an opportunity to support goals of budget neutrality so they anticipated making these cuts in a staged way.”

Despite optimistic projections that all states would expand their Medicaid programs to cover additional people—13 years after the ACA was passed, 10 states have continued to

reject Medicaid expansion. This has led to a larger-than-expected number of uninsured patients.

Scaling Back

Despite predictions that the level of uncompensated care would go down as more states expand Medicaid, research from the American Hospital Association found that hospitals received 88 cents for every dollar spent caring for Medicaid patients in 2020, creating an underpayment shortfall of $24.8 billion.

Without DSH payments, safety net hospitals—which often serve low-income and uninsured patients in urban and rural communities—would not have the financial viability to operate in the same capacity they do today, according to Beth Feldpush, senior vice president of policy and advocacy at America's Essential Hospitals, a group that advocates on behalf of safety net hospitals.

"Hospitals might have to make tough decisions like having to pull back on services. For example, if you had a primary care clinic that had previously run on weekends or had nighttime hours, you might not be able to operate that clinic on the weekends anymore if the DSH reimbursement were to be reduced," she said.

The planned 60% reduction in federal yearly DSH funding could have ripple effects for the entire health ecosystem. According to Feldpush, cuts would affect all hospitals and could lead to longer wait times for all patients, regardless of insurance status.

"A large hospital is not going to close outright, right away. They're going to look for how they can still provide services to their community, but maybe not as extensively as they could have before," said Feldpush.

Will There Be a 10th Time?

Concerns over the necessity of federal subsidies to hospitals have been on the minds of fiscal conservative voices like Michael F. Cannon of the Cato Institute, who have expressed concerns that hospitals have been known to game the shortfall system, driving up prices for private payers which then makes those programs seem more necessary than they actually are.

"If setting higher list prices will get hospitals bigger subsidies from the government, then they will do it until they maximize the revenue across all their payment streams," Cannon said.

Nevertheless, despite real concerns over the long-term viability of DSH funding, hospital leaders like Megan Cundari of the American Hospital Association, are cautiously optimistic that congressional leaders will delay cuts for the 10th time due to the unique challenges facing the American health-care system this year.

“We’re very hopeful that Congress will address the concern again in a way that makes sure the cuts don’t go into effect. We are not dictating how they accomplish that, but we request that they do, given that they’ve done this in the past multiple times, in a bipartisan manner,” Cundari said.