Federation of American Hospitals®

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STATEMENT
of the
Federation of American Hospitals
to the
U.S. House of Representatives
Committee on Energy and Commerce
May 13, 2025

The Federation of American Hospitals (FAH) submits the following statement for the record in advance of the **"Full Committee Markup of the Committee on Energy and Commerce Budget Reconciliation Text."**

The FAH is the national representative of over 1,000 leading tax-paying hospitals and health systems throughout the United States. FAH members provide patients and communities with access to high quality, affordable care in both urban and rural areas across 46 states, plus Washington, DC and Puerto Rico. Our members include teaching, acute, inpatient rehabilitation, behavioral health, and long-term care hospitals and provide a wide range of inpatient, ambulatory, post-acute, emergency, children's, and cancer services.

We applaud Congress and the Administration for working toward ensuring a pro-growth tax agenda by preventing tax increases on American families and businesses and continuing to build a robust economy that keeps America globally competitive. The tax reforms enacted in 2017 played a key role in boosting the economy, encouraging capital investment, creating jobs, and raising wages, including in the health care sector. Allowing these tax cuts to expire would slow economic growth, raise costs for families, hurt small businesses, lower workers' take-home pay, and lead to substantial job losses.

However, financing these tax cuts through drastic cuts to the Medicaid program risks undermining our shared goal of promoting opportunity and economic security for hardworking Americans at every income level. More than 72 million Americans across our country rely on Medicaid to for their health and well-being, ensuring a healthy workforce and a strong economy. In fact, a 2023 Congressional Budget Office (CBO) analysis found that providing children with an additional year of Medicaid coverage was associated with higher earnings and labor productivity in adulthood, yielding long-term fiscal benefits that can exceed the initial investment by up to 197%.[1]

Strengthening and improving the Medicaid program is critical to ensuring health coverage and access for America's most vulnerable populations. Over 37 million children – including half of all

[1] Exploring the Effects of Medicaid During Childhood on the Economy and the Budget | Congressional Budget Office

kids under the age of 19 – have access to critical pediatric care through Medicaid and CHIP. Medicaid also ensures pregnant women have access to prenatal care, improving health outcomes for their babies. In addition, over 7 million seniors rely on Medicaid for care they otherwise couldn't afford, and over 15 million hardworking Americans access health care services through Medicaid because their employer doesn't offer health coverage.

For many individuals covered by Medicaid, it serves as their only health coverage option and provides essential access to health care services. Compared to uninsured individuals, Americans covered by Medicaid are more likely to use preventive care, have a primary care provider, and receive regular care for chronic conditions, helping to avoid costly emergency hospitalizations and lowering health care costs for everyone. In contrast, uninsured patients often delay seeking care, leading to more severe and expensive health issues, ending up in hospital emergency rooms where uncompensated care costs strain the health care system and taxpayer resources.

We urge lawmakers to hear their constituents' concerns and reject the deep cuts to the Medicaid program contained in this legislation. The FAH offers the following comments regarding specific proposals under consideration:

Provider Taxes - Moratorium on new or increased provider taxes

Hospitals treat every patient who walks through the door, and when those patients lack coverage, providers bear the cost. However, Medicaid base rates inadequately cover the cost of providing care, and considerable research has shown that low Medicaid payments rates are a key reason why few providers accept Medicaid patients.[2]

Provider taxes allow states to expand patient access to covered Medicaid benefits by taxing providers, such as hospitals, nursing homes, and managed care plans, instead of increasing the burden on individual taxpayers. States have used provider taxes to help finance Medicaid since the program's inception, and every single state, except Alaska, relies on one or more provider taxes to help finance health care costs of their Medicaid program. In most states, provider taxes are used to help offset unpaid costs of care for core Medicaid services, such as emergency services, obstetric care, behavioral health, and long-term care.

A moratorium on new provider taxes will not only create a permanent imbalance in Medicaid financing across states; it will deny states a critical tool employed to address access issues. With reduced funding, states will be forced to make difficult decisions to balance their budgets. This policy leaves states no choice but to cut hospital reimbursement rates or reduce or eliminate

[2] Physician Acceptance of New Medicaid Patients | MACPAC (June 2021)

coverage for Medicaid beneficiaries. The only alternative to these essential provider taxes is to raise other state and local taxes and shift the burden to local residents.

State Directed Payments - Revising the payment limit for certain state directed payments

State Directed Payments (SDPs) help states offset low Medicaid payment rates in managed care – just as supplemental payments are used to offset low payment rates in fee-for-service. It is only natural that state-directed payments under Medicaid managed care have increased alongside the growth of Medicaid managed care in states with rising enrollment. This growth in SDP spending is offset by the decrease in FFS supplemental payments, reflecting how Medicaid SDP payments follow the patient.

In 2023, the difference between the hospital's costs of serving Medicaid patients and the payment received was a shortfall of $27.5 billion.[3] Democratic and Republican administrations alike have noted that using the Average Commercial Rate (ACR) benchmark allows states to reimburse providers at a level closer to the actual cost of providing care, helping to ensure access for Medicaid beneficiaries. In contrast to Medicare, which provides health care coverage to seniors over 65, Medicaid is more reflective of a commercial population serving moms, children, the disabled, and able-bodied and working adults aged 19-64. Using an ACR benchmark in assessing reimbursement in an SDP brings providers closer to the fair market value of services for the population served and helps to limit the cost shift to commercial insurance and employers.

Even when states use the "average commercial rate" methodology, the net payments providers receive after accounting for taxes and other costs is often much lower than the ACR benchmark given the provider taxes that are paid to finance the state portion of the programs. This legislation would set a cap for new state directed payments at the published *Medicare* rate, prohibiting states from using the more accurate ACR methodology in any new SDP plan. Published Medicare rates will not reflect obstetric, labor and delivery services and, as such, are not an appropriate benchmark for payment of Medicaid services.

These provisions, coupled with the freeze of provider taxes, weaken the state-federal partnership that has been critical to the Medicaid program's success for decades. Eliminating these funding mechanisms creates instability in the nation's health care safety net and, moreover, threatens the financial viability of our nation's hospitals.

The Landscape of Affordable Health Care Coverage

The FAH is prepared to collaborate on thoughtful reforms to reign in waste, fraud, and abuse, and would support a deliberate approach to ensuring the Medicaid program is fulfilling its mission for

[3] AHA Medicaid Fact Sheet (February 2025)

current and future generations. Unfortunately, the Medicaid policies currently under consideration will reduce access to care for hardworking families, children, seniors, and those with disabilities, and do not improve the program to better meet its intended goals.

Further, any reforms to coverage programs must be considered in the context of the broader landscape for health coverage. Congress has yet to act on extending the enhanced premium tax credits (PTCs) for purchasing individual insurance set to expire at the end of this year. Without extending these tax credits, individual premiums will rise on average by 93%, leaving 5 million Americans, including 2 million with chronic conditions, without coverage.[4] In five states – Texas, South Carolina, Mississippi, Louisiana, and Georgia – the enhanced tax credits will approximately double the size of the nongroup health insurance market in 2025 and result in a 21 percent or greater decline in the uninsured rate in each of these states.[5]

Coupled with the Medicaid reforms above, the impact of allowing the tax credits to expire has the potential to push millions of Americans into the ranks of the uninsured, ultimately leading to higher overall health care costs and increased uncompensated care for hospitals and other providers.

Both action and inaction have consequences. The FAH urges the Committee to reject cuts to Medicaid and instead work with stakeholders to strengthen and secure access to health care for the most vulnerable Americans.

We would welcome the opportunity to work with you on this important matter. If you have any questions or wish to speak further, please do not hesitate to reach out to me at cmacdonald@fah.org.

Sincerely,

[4] https://tcf.org/content/commentary/enhanced-aca-marketplace-tax-credits-worked-and-shouldnt-be-eliminated/
[5] https://www.urban.org/research/publication/who-benefits-enhanced-premium-tax-credits-marketplace