



Charlene MacDonald
Executive Vice President, Public Affairs

**STATEMENT
of the
Federation of American Hospitals
to the
U.S. House of Representatives
Committee on the Budget**

Re: "Reversing the Curse: Rooting Out Waste and Fraud and Restoring the Dignity of Work"
June 25, 2025

The Federation of American Hospitals (FAH) submits the following statement for the record following the House Committee on the Budget hearing entitled "Reversing the Curse: Rooting Out Waste and Fraud and Restoring the Dignity of Work."

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. Tax-paying hospitals account for approximately 20 percent of community hospitals nationally.

We appreciate the Committee's attention to strengthening the integrity of the health care system by identifying and addressing waste, fraud, and abuse. Effective oversight is critical to ensuring that taxpayer dollars are used to support high-quality care for those who rely on Medicaid and premium tax credits to subsidize private coverage. Efforts to date — including improved data transparency, stronger audit tools, and collaboration with states — have helped root out bad actors and enhance program accountability. As the Committee continues this important work, it's essential to distinguish between practices that undermine the program and those, like provider taxes and state-directed payments, that play a legitimate role in financing care and supporting access for vulnerable populations. The Federation of American Hospitals offers the following comments for the committee's consideration.

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 patients¹. In 2023, the difference between the hospital's costs of serving Medicaid patients and the payment received was a shortfall of \$27.5 billion².

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.

Provider taxes are developed through an open and transparent process, reviewed by CMS, passed by the state legislature, enacted into law by the governor, and with procedures for regulatory oversight and compliance. A moratorium on new provider taxes under consideration as part of the Senate Finance Committee reconciliation package will not only create a permanent imbalance in Medicaid financing across states; it will deny states a critical tool employed to address access issues. The number of Medicaid patients – and the costs for treating them – remain the same regardless of how Medicaid programs are financed. Reducing states' ability to use permissible provider taxes will end up shifting costs to providers, exacerbating recent trends in hospital and nursing facility closures.

State Directed Payments

State Directed Payments (SDPs) are a vital tool many states use to ensure access to quality care for Medicaid beneficiaries. They are particularly important in rural areas, where access to specialized services is already more challenging. 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 (FFS). It is only natural that SDPs 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.

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.

Premium Tax Credits

¹ [Physician Acceptance of New Medicaid Patients: Findings from the National Electronic Health Records Survey](#)

² [Fact-Sheet-Medicaid-20250204.pdf](#)

We share Congress' goal of ensuring proper program integrity measures are in place in the Exchanges to ensure they function effectively and efficiently, while avoiding unnecessary costs and offering robust health insurance options to individuals, families, and small businesses in need of healthcare. We also believe it is critical to strike a proper balance when implementing these measures to ensure that those who otherwise would qualify for coverage are not deterred or even inadvertently precluded from obtaining healthcare coverage.

The FAH supports access to healthcare offered through the Exchanges, which is supported by the availability of premium tax credits. We are extremely concerned that such access will be severely diminished if the enhanced premium tax credits (EPTCs), which are set to expire at the end of this year, are not extended. The Make America Healthy Again movement begins with access to healthcare coverage, from preventive care to specialized services needed to treat those with chronic disease, and EPTCs will amplify this movement by ensuring millions of Americans' access to care. In fact, the EPTCs have saved Americans an average of \$700 annually in premium costs. On average, premiums will increase 93% if the EPTCs are allowed to expire, and an estimated 5 million Americans will lose health coverage entirely, including nearly two million people with chronic conditions. Without intervention, many families would face significant financial burdens and potential loss of coverage. We urge Congress to find a bipartisan path to extend the EPTCs to maintain health care access and affordability across the country.

As Congress considers additional policy levers to root out waste, fraud, and abuse, it's important to preserve the financing mechanisms that are fundamental to the stability of state Medicaid programs. Provider taxes, state-directed payments, and enhanced premium tax credits are essential tools that keep coverage affordable, sustain access to care, and manage growing program demands. Undermining these mechanisms would not only jeopardize access to providers, especially in rural and underserved areas, but also increase costs for patients. Protecting these financing structures is critical to maintaining the viability of Medicaid and the affordability of private exchange coverage into the future.

The FAH is prepared to collaborate on thoughtful reforms to reign in waste, fraud, and abuse, and would support a deliberate approach to ensuring coverage programs are meeting the needs of vulnerable patients. Unfortunately, policies currently under consideration threaten to create instability in the nation's Medicaid safety net, destabilize insurance markets, and undermine the financial viability of our nation's hospitals.

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,

A handwritten signature in blue ink, appearing to read "Anne M. McDonald".