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## Democrats target hospitals in Medicaid expansion holdout states with DSH cuts

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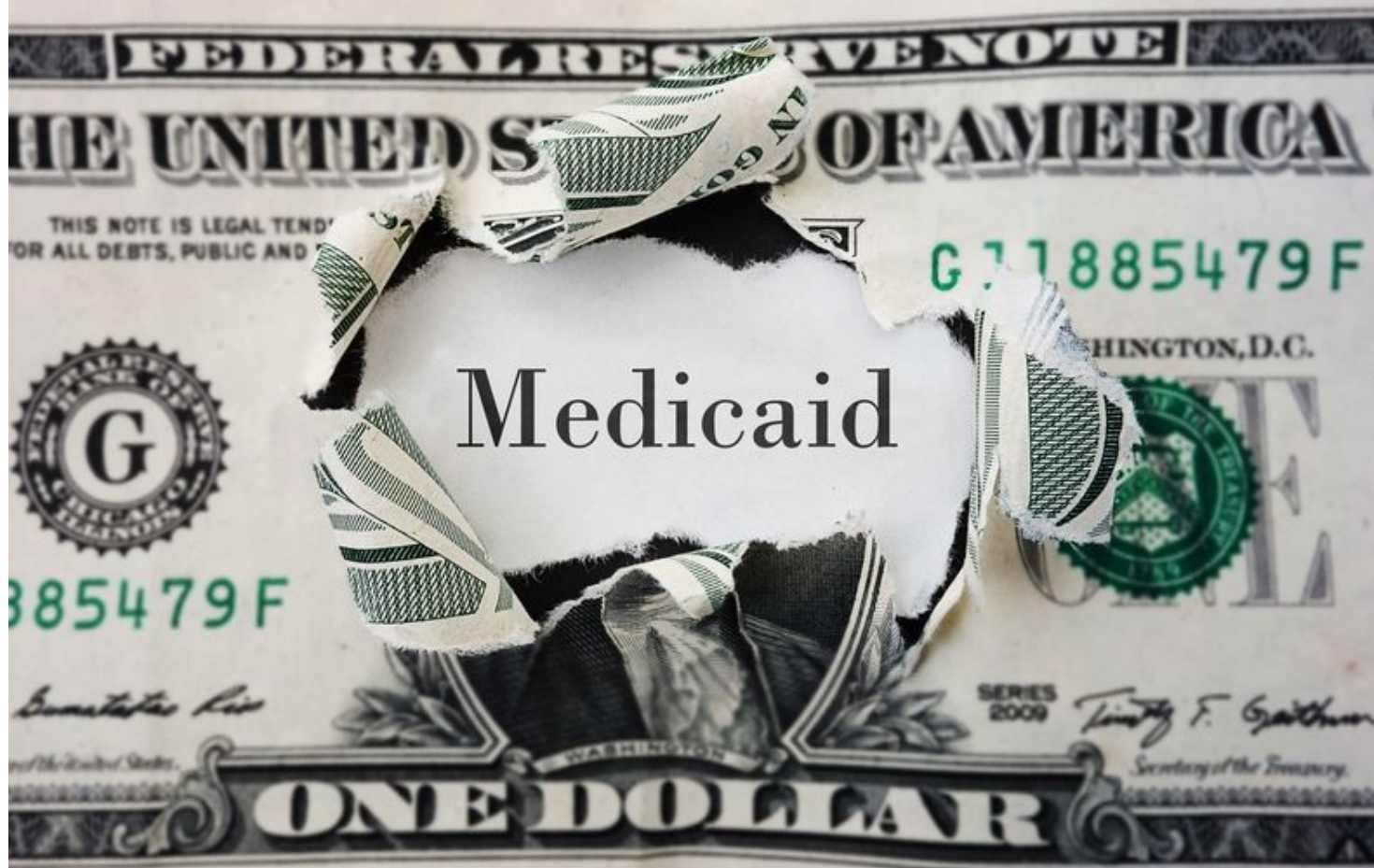
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House Democrats are taking a new approach to convince recalcitrant conservative states to expand Medicaid to low-income adults: threatening funding cuts to hospitals. Under an [updated version](#) of the domestic policy package that the House may consider as soon as this week, hospitals in states that don't expand Medicaid could face a 12.5% cut in funding meant to help hospitals that serve large numbers of Medicaid patients.

These so-called [disproportionate share hospital payments](#) are intended to keep safety net facilities financially stable by offsetting Medicaid's low payment rates and helping cover uncompensated care costs.

Democrats have already tried cajoling states into expanding Medicaid with the promise of extra federal funds through the [COVID-19 relief law enacted this year](#). No state has taken up the offer. That's on top of the fact that the federal government already covered 90% of the costs of Medicaid expansion under the Affordable Care Act.



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House Democrats maintain that other provisions in the law aimed at providing heavily subsidized private health insurance to low-income adults in non-expansion states obviates the need for higher DSH payments because fewer people in those states would be uninsured.

The bill would offer health insurance exchange tax credits to people who would qualify under expanded Medicaid if it were available in their home states, but this financial assistance would only be on the books through 2025, while the DSH cuts have no expiration date.

The American Hospital Association estimates this policy would deprive hospitals of about \$8 billion over 10 years.

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The proposed DSH cuts unfairly target hospitals, many which have been pushing state leaders to [expand Medicaid](#) for more than a decade, industry lobbyists said. Reducing this funding would affect hospitals in Alabama, Florida, Georgia, Kansas, Mississippi, North Carolina, South Carolina, South Dakota, Tennessee, Texas, Wisconsin and Wyoming, the last Medicaid expansion holdouts.

"It would significantly penalize safety net hospitals and providers in the hopes of getting states to move to expand Medicaid," said Lisa Smith, vice president of advocacy and public policy for the Catholic Health Association of the United States. "We've been on the front lines in many states pushing for expansion of the Medicaid program, so it's not for lack of trying on our part. It is, unfortunately, state politics," she said.

Republican leaders in the [dozen non-expansion states](#) have steadfastly refused to consider adopting the policy. This was true in Idaho, Maine, Missouri, Nebraska, Oklahoma and Maine, as well, until voters in those states enacted Medicaid expansions via ballot initiatives. Hospitals in those states weren't subject to similar DSH cuts.

"That's where I think hospitals have a legitimate gripe. It's unfairly punishing hospitals in the remaining non-expansion states," said Shawn Gremminger, director of policy at the Purchaser Group on Health and a former America's Essential Hospitals lobbyist.

If the subsidies aren't renewed after 2025, safety net hospitals would be in an even worse situation, lobbyists say, with a population that is back to having no health insurance and facilities in non-expansion states getting less funding to account for uncompensated care.

Democrats have been "very concerned about health equity and it seems to me this would make it that much more difficult for the providers who are treating populations that we want to help," said Barbara Eyman, Washington counsel to America's Essential Hospitals.

If a state decides to adopt Medicaid expansion after the DSH cuts take effect, the federal government would revert back to funding the full amount, a spokesperson for the House Energy and Commerce Committee said.

Hospital lobbyists dispute the argument that more people with coverage in non-expansion states would make up for the lost DSH money.

"We have no guarantee that people are going to enroll. We have no coverage numbers. We just have certainty of a cut," said Stacey Hughes, the AHA's executive vice president.

The Medicaid and CHIP Payment and Access Commission, a nonpartisan panel that advises Congress, reported this year that revenue from patient care at DSH-eligible hospitals was negative before and after DSH payments.

However, the report also found that at total margins at DSH hospitals, which include revenue not directly related to patient care such as investment

income and state and local subsidies, were 2.5% before DSH payments and 5.9% after those payments.

Other cuts to DSH payments from the ACA are set to **take effect** in 2024. The law's drafter's expected the ACA's coverage expansion to lead to less uncompensated care, but hospitals have successfully pushed Congress to delay implementation.

In 2019, the federal government spent \$11 billion on DSH payments, according to MACPAC.

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