AAMC Position Statement: *Medicaid Financing Policies Under Consideration as Part of Reconciliation*

As Republicans in Congress continue to hone their plans for budget reconciliation, the **Association of American Medical Colleges (AAMC)** reiterates and reaffirms our commitment to the Medicaid program, which is a vital source of coverage and care for over 70 million Americans.

About the AAMC: The AAMC is a nonprofit association representing 160 U.S. medical schools and nearly 500 academic health systems and teaching hospitals. AAMC member institutions play a critical role in our nation's health care safety net – **although our members comprise just 5% of hospitals nationwide, they account for 29% of all Medicaid inpatient days**.[1] This statistic illustrates our members' shared commitment to caring for Medicaid enrollees and the disproportionate impact of cuts to Medicaid on teaching hospitals and the communities they serve.

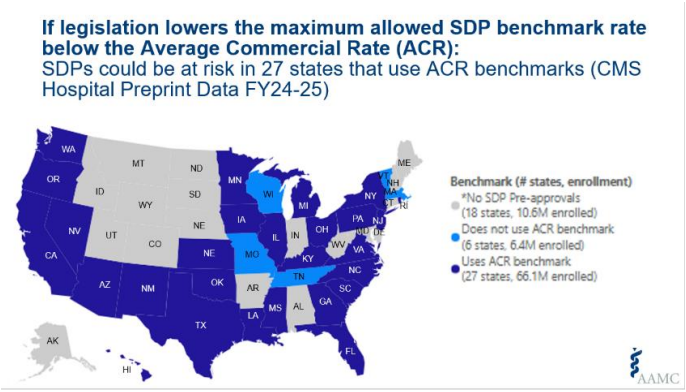
The AAMC strongly supports efforts to ensure that Medicaid enrollees have access to timely and comprehensive care and opposes policies that threaten access for this population. For this reason, we are deeply concerned by the House and Senate passed budget resolution (H. Con. Res. 14), which seeks to offset tax policies and address the debt ceiling through potential cuts to mandatory spending, including key health care programs.

As policymakers contemplate cuts to the Medicaid program to offset other policy priorities, the AAMC would like to state its position on certain policies under consideration as part of the reconciliation process:

State-Directed Payments (SDPs)

Background

- It is widely acknowledged that Medicaid reimburses hospitals at lower rates than the cost of providing care, creating serious financial challenges for providers who treat this population.
- To strengthen network adequacy for Medicaid enrollees and ensure access to care, policymakers have leveraged Medicaid state-directed payments to provide targeted financial support to providers who care for a disproportionate share of Medicaid enrollees.
    - SDPs allow states to provide additional reimbursement to a particular provider or class of providers, depending on the unique needs of their Medicaid population.
- States use SDPs to tailor investments and recruit and retain a sufficient number and mix of providers in their Medicaid programs.



AAMC Position

- The AAMC urges policymakers to preserve SDPs as an option for states to strengthen Medicaid network adequacy and meet the unique health care needs of their enrollees. We urge Congress to reject restrictions on SDPs and maintain the average commercial rate (ACR) as the ceiling for these payments.

[1] AAMC analysis of FY2022 American Hospital Association data, American College of Surgeons Level 1 Trauma Center designations, 2023, and the National Cancer Institute's Office of Cancer Centers, 2022. AAMC membership data, December 2023.

Provider Taxes

Background

- States can use taxes levied on health care providers to help finance the non-federal share of Medicaid spending, *without increasing the tax burden on individual residents*.
- Every state (with the exception of Alaska) uses these provider taxes to support their Medicaid programs.
- The funds generated through provider taxes can be used to draw down additional federal Medicaid funding according to a state's FMAP (see more below).
- Provider taxes may not exceed 6 percent of a provider's net revenues from treating patients. This is commonly referred to as the "safe harbor threshold."

AAMC Position

- The AAMC urges policymakers to preserve provider taxes as a mechanism for states to finance their Medicaid programs. We oppose proposals to reduce the safe harbor threshold or eliminate the use of provider taxes altogether.

Changes to the Federal Medical Assistance Percentage (FMAP)

Background

- The federal government's share of Medicaid expenditures is referred to as the FMAP. A state's FMAP varies inversely with their per-capita income, with lower-income states receiving greater levels of federal funding.
    - FMAP rates for traditional Medicaid have a statutory minimum of 50%.
- States that have expanded Medicaid currently receive an enhanced 90% FMAP for expansion adults.
- Some stakeholders have recommended implementing changes to the FMAP to reduce federal Medicaid spending and achieve savings. Proposals have included equalizing the FMAP for expansion populations to the traditional statutory formula, lowering or removing the statutory minimum FMAP of 50%, and other policies.

AAMC Position

- The AAMC opposes policies that would alter the FMAP to reduce the federal government's share of Medicaid expenditures, which would shift costs and financial risks to the states and providers.
- Faced with funding cuts, states would be forced to make difficult trade-offs, such as rescinding Medicaid expansion, cutting provider rates, or restricting enrollees' access to care. These policies would unavoidably harm Medicaid enrollees and the providers who care for them.

Block Grants and Per-Capita Caps

Background

- Some stakeholders have suggested using block grants or per-capita caps to limit the growth of federal Medicaid spending. While these proposals have different features, both would fundamentally restructure Medicaid financing, imposing strict limits on the federal funds available to states.

AAMC Position

- While these policies are considered to be less politically feasible than other, less far-reaching proposals, the AAMC nevertheless strenuously opposes efforts to cap federal Medicaid spending through the imposition of block grants and/or per-capita caps.
- Setting fixed Medicaid budgets would limit states' ability to respond to unexpected increases in health care costs, potentially forcing cuts to enrollee benefits or provider reimbursement.
- The AAMC is concerned that these policies would reduce federal funding for Medicaid, forcing states to limit program eligibility or cut already inadequate provider reimbursement rates.

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