ESSENTIAL HOSPITALS RELY ON MEDICAID DSH

Essential hospitals are driven by mission and dedicated to ensuring all people can access high-quality health care. They are the foundation of our health care safety net. These hospitals protect communities by providing lifesaving services, such as trauma and neonatal intensive care, and reach outside their walls to influence social and economic factors that affect health. Essential hospitals have served the people and communities hit hardest by the pandemic and suffered workforce shortages and high labor costs that still stress their finances, resources, and staffing.

Essential hospitals’ mission means they shoulder a disproportionate share of unreimbursed care. They constitute about 5 percent of all U.S. hospitals but provide more than 27 percent of charity care nationally. This leaves them with an average operating margin 60 percent less than that of other U.S. hospitals (Figure 1). Because of this mission, essential hospitals rely on a patchwork of federal support, including Medicaid disproportionate share hospital (DSH) payments, which Congress established to stabilize these financially fragile hospitals.

Affordable Care Act reduced Medicaid DSH payments to hospitals under the assumption their uncompensated care costs would decrease as health care coverage increased. But the expected coverage increases did not occur, and an estimated 30 million Americans remain uninsured. Also, Medicaid underpayment continues to create financial challenges for hospitals that treat disadvantaged patients.

Congress recently established the Medicaid Improvement Fund (MIF) of $7 billion to “improve the management of the Medicaid program” in the Consolidated Appropriations Act, 2022. These funds should go toward eliminating the scheduled Medicaid DSH cuts.

Additionally, for years, congressional leaders have worked in a bipartisan manner to block DSH cuts more than a dozen times and must act again to preserve this vital safety net support.

- Most recently, in December 2020, Congress passed the Consolidated Appropriations Act, 2021, which delayed fiscal year (FY) 2021 DSH reductions until FY 2024 and extended DSH allotment reductions until FY 2027.

- In 2019, a bipartisan group of more than 300 U.S. House of Representatives members sent House leaders a letter urging them to delay the cuts at least two years.

America’s Essential Hospitals appreciates the strong precedent of bipartisan support for stopping the Medicaid DSH cuts. We urge Congress to act swiftly, before the October 1 deadline, to preserve this vital safety net support and eliminate the DSH reductions for fiscal years 2024 and 2025.

Now, unless Congress acts, $32 billion in DSH cuts over the next four years will undermine these hospitals and could push some to the brink. The scheduled DSH cuts include an $8 billion reduction on October 1, 2023 — more than two-thirds of all federal DSH spending annually. The