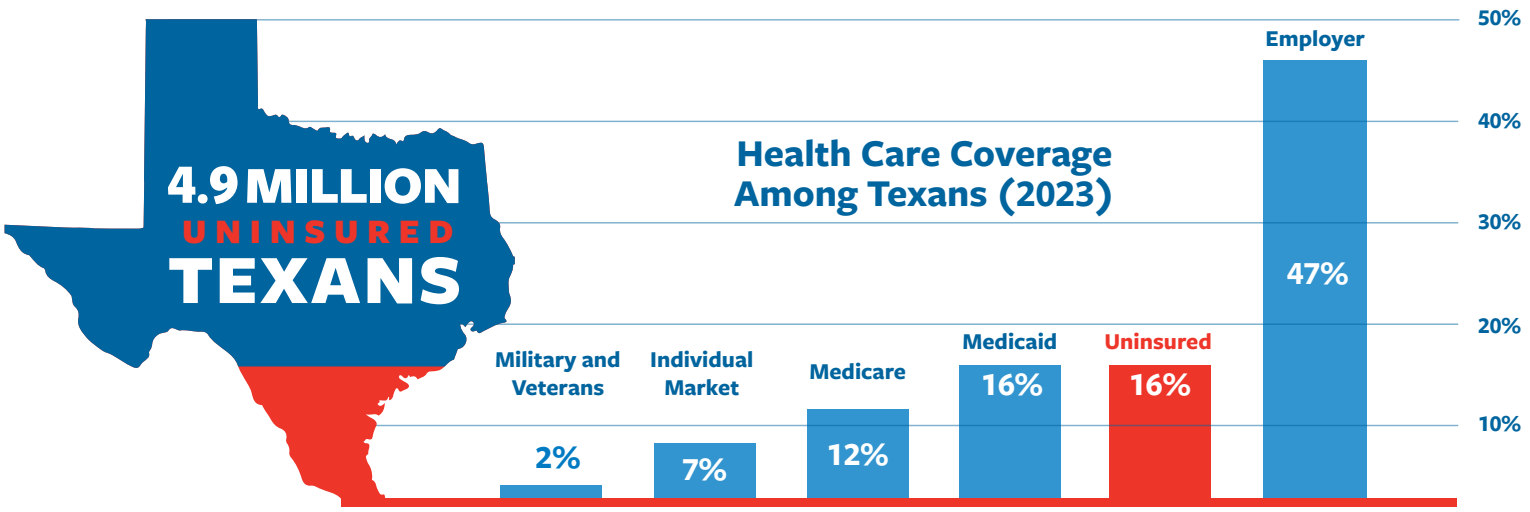
Texas Hospital Association

Hospital Payment Sources



Hospitals Payments Explained

While they serve diverse communities across the state, Texas hospitals are unified under one core mission: providing the highest quality care to every Texan in need. Fair and equitable payment is critical to achieving this goal. **This document provides an overview of the major sources of hospital payments and why reimbursement often is insufficient.**

Hospital payments come from a number of sources, including state, federal, and local governments, health insurers, and individuals. Rates paid vary widely based on the payer – whether the payer is public or private and, importantly, which public or private payer. Other factors like patient mix and local market conditions affect reimbursement. **Payments from government payers often fall below the actual cost of providing care.**

Hospitals must find ways to keep their doors open to everyone in the community **despite high numbers of uninsured patients and chronic underpayments.**

Visit **www.tha.org** for additional information | | 1108 Lavaca, Austin TX, 78701-2180

One Hospital, Many Payers

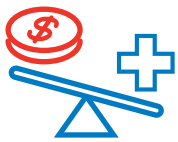
Public payers primarily include Medicare and Medicaid. Private payers include employer-sponsored health insurance, self-pay patients and individually purchased private health plans, such as those available through the federal health insurance marketplace. Although government payers cover about one-quarter of Texans, they account for half of Texas hospitals' payments. Patients with government insurance require more hospital care due to age, pregnancy status and complex medical needs.

Public Payers

Medicare

Medicare provides health coverage for individuals age 65 and over as well as people with specific disabilities. About 3.4 million Texans have Medicare coverage. The federal government determines Medicare reimbursement, but payment amounts vary according to certain hospital characteristics, such as teaching hospital status and location. **Medicare payments cover about 82% of hospitals' costs of care for Medicare patients, a record low.**

Medicaid



Medicaid is a jointly funded state-federal program that typically provides health insurance to about 4 million low-income Texans. Medicaid enrollment grew from 4 million to nearly 6 million during the COVID-19 public health emergency. After the end of the federal continuous coverage requirement, statewide Medicaid enrollment declined to 3.8 million in 2024. Medicaid reimbursement for inpatient and outpatient hospital care is funded by state general revenue (40%) and federal matching funds (60%). **Yet, Medicaid reimbursement is well below the cost of care.** Hospitals' base Medicaid reimbursement, on average, covers 72% of inpatient care costs and 75% of outpatient care costs for Medicaid clients. This underpayment leaves Texas hospitals with a multibillion-dollar Medicaid shortfall.

Private Payers

Employer-provided health insurance is the most common private payer. Yet, nationwide, **Texas has a below-average rate of employer-provided health coverage, with just 47% of Texans having this form of private health insurance in 2023.** An additional 2.1 million Texans purchased individual private health insurance through the health insurance marketplace or independent brokers in 2023. Depending on the terms of their plans, private health plan enrollees often are responsible for a significant portion of their health care bill due to deductibles, copays or coinsurance. Under these cost-sharing arrangements, even having private insurance does not necessarily mean the full cost of a service will be covered.

The Uninsured

Texas leads the nation in number of residents without any form of health insurance coverage—public or private. **4.9 million Texans are uninsured. When these uninsured people seek care in a Texas hospital, the hospital commonly absorbs the cost of that care.** Under federal law, Texas hospitals must treat and stabilize anyone who presents in an emergency setting regardless of ability to pay.

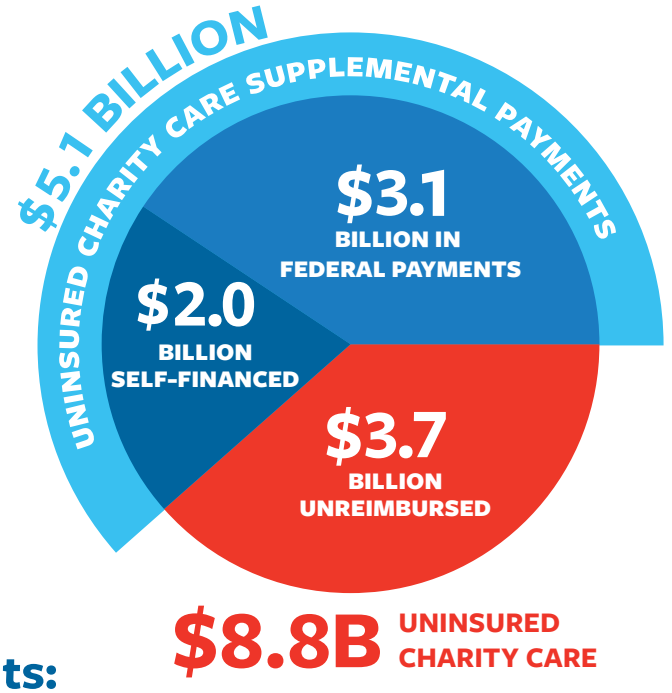
The combination of underpayment from payers, most significantly Medicaid, and the cost of caring for such a large number of Texans without a payment source is borne by taxpayers and the private sector. Homeowners, businesses and those with private or job-based coverage absorb these costs through higher taxes and higher commercial insurance premiums.

Supplemental Payments

Texas has not increased Medicaid hospital payment rates across the board in over a decade and has a high uninsured rate, forcing a heavy reliance on supplemental payments.

Hospitals Self-Finance Supplemental Payments

Like all Medicaid payments, supplemental payments require the combination of a non-federal payment and federal payment. In Texas, the Legislature appropriates no general revenue for the non-federal share of these supplemental payments. As a result, **Texas hospitals themselves finance the non-federal contribution – 40% of the gross payment – through intergovernmental transfers from public hospitals and local provider participation funds (LPPFs).**



Types of Supplemental Payments:

Outside 1115 waiver:

- Medicaid disproportionate share hospital (DSH) program
- Hospital Augmented Reimbursement Program (HARP)
- Medicaid Graduate Medical Education (GME)

Enabled by 1115 waiver:

- Uncompensated care (UC) pool
- Directed payment programs

Under the Texas Health Care Transformation and Quality Improvement program section 1115 waiver, Texas currently operates several directed payment programs (DPPs). DPPs enhance Medicaid reimbursement to close the gap between base payments and actual cost of care. Hospitals self-finance 40% of payments earned in the programs, which flow through Medicaid managed care organizations. **After administrative fees and reductions, hospitals net less than 60% of the total program value.**

THE FOUR DPP PROGRAMS PAYING HOSPITALS ARE:

DPP	Name	Amount (STATE FISCAL YEAR 2025)	Benefiting	Financed by Local Provider Participation Funds
CHIRP	Comprehensive Hospital Increase Reimbursement Program	**$6.5 billion**	Hospitals	Yes
TIPPS	Texas Incentives for Physicians and Professional Services	**$787 million**	Physician groups, including those affiliated with hospitals	Yes
RAPPS	Rural Access to Primary and Preventive Services	**$22 million**	Rural health clinics, including hospital-based clinics	Yes
QIPP	Quality Incentive Payment Program	**$1.75 billion**	Nursing facilities, including public hospital-owned	No

Supplemental Payments

The uncompensated care (UC) pool partially reimburses hospitals for uninsured charity care. Some Medicaid DSH dollars also reimburse uninsured charity costs not duplicated in UC. In 2024, Texas hospitals provided $8.8 billion in uninsured charity care. Out of $5.1 billion in total UC and DSH payments for uninsured charity care, Texas hospitals netted $3.1 billion. $3.7 billion in uninsured charity costs not reimbursed by any supplemental payments remained stranded.

Public hospitals and hospital districts provide the non-federal share of supplemental payments by levying local property taxes. The state's five largest public hospitals provide almost 100% of the intergovernmental transfer funds for DSH.

Local provider participation funds (LPPFs) are a way for private hospitals in Texas to join public hospitals in generating the non-federal share of supplemental Medicaid payments. With approval from the Texas Legislature, local governments can assess a uniform fee on the net patient revenue of hospitals in their geographic region to generate these funds.

Medicaid reimbursement should be regularly adjusted to be commensurate with the cost of care. Texas hospitals also need to maintain local funding arrangements that align with the unique markets in which they operate in order to provide specialized, lifesaving care to every Texan in need.

Glossary of Texas Hospitals' Supplemental Payments

Medicaid Disproportionate Share Hospital (DSH) Program

- Provided **$2.2 billion** in payments to 177 qualifying Texas hospitals Texas hospitals (2024).

  DSH hospitals care for the highest proportions of Medicaid and low-income patients.

Uncompensated care (UC) pool

- Provided **$4.5 billion** in UC payments to 371 Texas hospitals (2024).

  UC payments partially reimburse the cost of charity care to the uninsured.

Comprehensive Hospital Increase Reimbursement Program (CHIRP)

- CHIRP was approved at **$6.5 billion** for 2025. Actual program size can fluctuate based on caseload.

  CHIRP enhances rates paid on Medicaid managed care claims. For fiscal year 2025, $1.4 billion of CHIRP transitioned from rate increases to pay-for-performance.

Hospital Augmented Reimbursement Program (HARP)

- Provided **$1.4 billion** in payments to 262 Texas hospitals.

  HARP enhances reimbursement for Texas Medicaid fee-for-service patients.

Medicaid GME

- Provided **$306 million** to 85 public and private teaching hospitals in 2024, reimbursing Medicaid's share of these hospitals' medical residency training costs.

Visit **www.tha.org** for additional information | | 1108 Lavaca, Austin TX, 78701-2180