

Hospital Chains' Medicaid Profits Are a Juicy Target for GOP Budget Hawks


Republicans looking for cost savings could sink profits at Universal Health Services, others

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[Universal Health Services](#) UHS -1.33% decrease; red down pointing triangle has a billionaire controlling shareholder and a lucrative Medicaid cash stream. That plays into the hands of congressional Republicans eyeing large budget cuts while looking to show they aren't just targeting the poor. The stakes, and downside risks, are enormous for UHS investors.

Last year 68% of UHS's pretax income came from government outlays commonly known as supplemental Medicaid payment programs, including so-called state-directed payments. While the federal government funds these payments, state agencies direct where they go.


UHS netted \$1 billion of these payments last year, up from \$629 million a year earlier. Those payments contributed directly to pretax earnings because there was no incremental expense associated with them.

UHS has estimated this year's payments would be almost as large as last year's. Likewise, analysts' earnings estimates for next year and beyond have remained largely the same since Election Day.

In essence, both the company and Wall Street are making a bullish call on federal spending at a time when congressional Republicans and the Trump administration are pushing austerity. While nothing is certain in Washington, especially these days, that is a gutsy bet.

Trump's budget blueprint calls for \$880 billion in cuts from the committee that oversees Medicaid over the next decade. Here's how Republicans are looking to achieve that goal.

Concerns over Medicaid spending have weighed on UHS and other hospital stocks. But their situation could easily get worse, and, depending on the political climate, far worse. The stocks currently represent a wager on political outcomes as much as they do on company fundamentals.

UHS is controlled by its billionaire founder and executive chairman, Alan Miller, and members of his family, including his son Marc Miller, UHS's chief executive. Other big hospital companies that rely on supplemental payments for significant portions of their earnings include [Tenet Healthcare](#) THC -1.72% decrease; red down pointing triangle and [HCA Healthcare](#), although their dependence is less than UHS's.

Even before last year's presidential election, the supplemental Medicaid payment programs had drawn criticism across party lines for their largess and limited oversight. The payment arrangements have grown substantially in their usage by states and in their spending amounts.

The programs have often pushed payment rates above Medicare rates and up to commercial rates, according to an [October report by Macpac](#), a nonpartisan policy adviser to Congress on issues affecting Medicaid and the government's health-insurance program for children.

The states and healthcare providers have developed elaborate ways to maximize the payments providers receive. Namely, the states collect taxes from the providers and use those amounts to qualify for higher federal matching funds. Then the states return the taxes to the providers, along with higher Medicaid payments made possible by the higher matching funds. The “[provider taxes](#)” are taxes in name only.

Brian Blase, a former economic adviser to President Trump, called existing Medicaid financing “[legalized money laundering](#)” in a March report released by Paragon Health Institute, a conservative policy group he leads. “Congress created Medicaid to help finance health care services for the most vulnerable—not to serve as a slush fund for states and politically connected providers,” Paragon’s report said.

Whether one agrees with that characterization, the point is that the current system’s proponents face a serious challenge.

On UHS’s last earnings call, finance chief Steve Filton said the supplemental payments “are really meant to provide for frankly, what’s been inadequate Medicaid reimbursement for many years.” He said “the immediate impact is a significant boost to our earnings, but it is really making up, in our minds, for deficient earnings in the past.”

Recompense for past outlays is likely to hold little weight with lawmakers eager for future budget savings.

Last year Medicaid outlays were \$618 billion, or 9% of the federal budget. The recent budget blueprint approved by the House of Representatives and Senate tasked the House Energy and Commerce Committee with finding at least \$880 billion of deficit reductions over 10 years in areas it oversees.

Most probably would come from slowing Medicaid’s growth. Options for Congress could include clamping down on the circular provider taxes, or capping Medicaid payment rates so they don’t exceed Medicare rates.

How do you think the GOP will handle Medicaid as it looks to reach its deficit-cutting goals? Join the conversation below.

The haggling among Republicans over how to proceed could last months. The GOP has thin majorities in the House and Senate.

Some Republican lawmakers want Medicaid left alone. It covers 79 million people, lots of Trump supporters rely on it, and hospitals that benefit are a powerful lobby.

But the Trump administration will have trouble hitting its stated deficit-cutting goals without targeting Medicaid. Even if Congress trims funding only a little, the Trump administration could find creative ways to slash actual spending later.

In UHS and the Miller family, Republican budget hawks may have a poster child to make their case that the provider-tax system needs an overhaul. If they succeed, investors in UHS and other large hospital operators could be in a world of hurt.

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