

Hospitals Upset As WH Directs HHS To Ensure SDPs Limited To Medicare Pay

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Hospital lobbies say the White House proposal to limit Medicaid payments to Medicare levels, which mirrors a proposal in the House-passed reconciliation, bill flies in the face of state flexibilities that President Donald Trump supported in the first administration and will threaten access to care for the same vulnerable patients whom Republicans want to protect.

In a Friday (June 6) memo on “eliminating waste fraud and abuse in Medicaid,” Trump directed HHS and CMS officials to ensure Medicaid pay doesn’t exceed what Medicare reimburses, claiming the Biden administration let providers and states use certain financing methods to “game” the system. This included allowing states to increase Medicaid pay to nearly three times Medicare rates. Spending on state directed payments increased from an estimated \$69.3 billion in February 2023 to a projected \$110 billion by August 2024, the White House said.

On Monday, the White House Office of Management and Budget began reviewing a proposed rule on “Medicaid Managed Care -- State-Directed Payments” that presumably aligns with the Friday memo.

“This trajectory threatens the Federal Treasury and Medicaid's long-term stability, and the imbalance between Medicaid and Medicare patients threatens to jeopardize access to care for our seniors,” the memo says.

The proposal is similar to a provision in the House-passed reconciliation bill that limits state-directed payments to Medicare levels while grandfathering in any higher payments in states that expanded Medicaid.

The proposal also lets non-expansion states increase Medicaid payments to Medicare plus 10% under the provision, which the Congressional Budget Office says will save about \$72 billion over 10 years.

It’s unclear whether the Senate intends to adopt the same provision. It is also unclear whether HHS and CMS will allow the existing rates to be grandfathered in. One source believes that’s the case, but the White House did not respond to a query by press time.

Prospective or retroactive, hospitals say that capping the SDPs will be disastrous for patients.

This “misguided effort to further reduce payments to support patients on Medicaid will have negative consequences that will result in severe access issues to our most vulnerable patients,” the American Hospital Association (AHA) tells *Inside Health Policy*.

“Hospitals rely on state directed payments to maintain critical services like labor and delivery, behavioral health and other essential care for which Medicaid chronically underpays,” the lobby explains. “Reducing these provider rates will put these services in jeopardy and this will not just impact Medicaid patients, it will also threaten access to care for everyone.”

America’s Essential Hospitals was disappointed to see the Trump administration reverse its own policy from 2018 “allowing states to set payment rates at levels that are needed to care for Medicaid beneficiaries, particularly in rural areas.”

Essential hospitals reported \$22.7 billion in uncompensated care costs in 2022, including \$10.3 billion from Medicaid patients, and the state-directed payments helped close the pay gaps between Medicaid and other payers, Beth Feldbush, AEH’s senior vice president of policy and advocacy, said.

“Many SDPs approved by the first Trump administration have allowed states to keep rural hospitals open; reduce infant and maternal mortality; and improve care quality, value, and access in other ways,” she said. “These programs could be eliminated by this proposed policy reversal.”

And while the White House suggests Medicaid pay that exceeds Medicare may incentivize providers to focus on the former, America’s Essential Hospitals points out a significant population is covered by both payers.

“Almost 12 million Americans have both Medicare and Medicaid benefits. Adequate payments for Medicaid “services allow hospitals to preserve access to care for these patients, Medicare beneficiaries, and all patients in their communities,” Feldbush says.

Granting states flexibility to set payments in response to local needs is particularly important for services that Medicare doesn’t cover, like maternity care, she adds.

In May, Manatt Health and the Commonwealth Fund released a paper that analyzed the impact of limiting the SDPs to Medicare levels, without grandfathering existing higher rates, across 25 states that had enough data to adequately examine.

“Reductions in SDPs would have profound implications for health care access, particularly in communities that rely on high-Medicaid urban, children’s, and rural hospitals,” Manatt and Commonwealth found.

Limiting Medicaid payments down from the average commercial rates to Medicare levels starting in 2026 would result in aggregate Medicaid cuts that range from 54% in Iowa to 0% to 0% in Wisconsin, where the SDP levels are already set at Medicare rates, according to the paper.

“In 19 of the 25 states we analyzed, the reduction in total Medicaid payments to hospitals exceeds 20%,” the paper said.

The impact on particular hospitals within a state will vary based on how broadly the SDP are spread across facilities and their reliance on Medicaid, the paper says, but payment reductions will “exacerbate existing financial challenges for hospitals, leading to service cutbacks, and, ultimately, diminished access to care for Medicaid enrollees and others who rely on high-Medicaid providers,” the paper says.