United States Senate
Committee on Finance

Sen. Chuck Grassley · Iowa
Ranking Member

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M E M O R A N D U M

TO: Reporters and Editors
FR: Jill Kozeny, 202/224-1308
for U.S. Senator Chuck Grassley of Iowa
RE: GAO report on supplemental payments to hospitals
DA: Monday, June 30, 2008

Senator Chuck Grassley is urging the Centers for Medicare and Medicaid Services to implement recommendations issued today in a new report of the Government Accountability Office payments of disproportionate share (DSH) funds to hospitals. The report, GAO-08-614, is titled MEDICAID CMS Needs More Information on the Billions of Dollars Spent on Supplemental Payments and is posted at www.gao.gov. Senator Grassley also said he will continue to study the practices of non-profit hospitals to confirm that they are providing a public benefit commensurate with the public subsidies they receive.

Below is a statement from Senator Grassley. He is Ranking Member of the Committee on Finance, which is responsible for Medicare legislation and tax policy.

"Hospitals in America, particularly non-profit hospitals, receive numerous forms of support from federal, states, and local governments. The Medicare and Medicaid programs provide disproportionate share (DSH) funds to hospitals that provide care to a significant caseload of uninsured patients. The Medicaid payment system for hospitals allows states to pay hospitals up to an Upper Payment Limit (UPL) which is greater than their costs under the state Medicaid program. In addition to not paying income taxes, non-profit hospitals receive tax-deductible contributions, issue tax-exempt bonds and receive exemptions from state and local property and sales taxes.

"Hospitals were granted special status back at the turn of the last century when hospitals were the only places where the poor could go when they were sick. The enactment of Medicare in 1965 and the explosion of the insurance market since then has resulted in incentives for hospitals to treat only paying patients. The current environment is no different than where we were over a hundred years ago. Back then, people with money had private physicians who made home visits. The poor received treatment at alms houses supported by philanthropy. The only difference now is that many of those former alms houses have become rich institutions that believe they no longer need to serve the poor to reap all the benefits of their tax-exempt status.

"In my investigation of non-profit hospitals, I have found disturbing evidence that some hospitals are not delivering the services that they should in exchange for the benefits they receive. Some hospitals lack charity care policies, or don't make them known to the public. They bill the uninsured or underinsured chargemaster rates, which are significantly higher than what insurance companies and Medicare actually pay. They engage in questionable collections practices. They pursue payments from the poor and near-poor uninsured without consideration of the DSH funds that they receive from states or the funds they hold in endowments. On June 10, 2008, the Finance Committee heard testimony from Lisa Kelly, who was required to come up with a cashiers check for tens of thousands of dollars before receiving treatment for cancer at the MD Anderson Center. An institution with an endowment of more than a half billion dollars required an underinsured woman with cancer to come up with tens of thousands of dollars before they would treat her. http://finance.senate.gov/sitepages/hearing061008.htm

"We need to know that the public appropriately benefits from these numerous federal subsidies. We need to know that federal funds are being properly spent. In 2003, Congress passed a provision in the Medicare Modernization Act (MMA) to require states to submit annual audits of their DSH payments to CMS. Almost five years have passed, and CMS has still not implemented the final rule for the MMA provision. The GAO report I am releasing today shows how critical it is CMS issue the final rule. CMS doesn't know where DSH funds are being used. That simply cannot continue."