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February 21, 2025

The Honorable John Thune
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Mike Johnson
Speaker
United States House of Representatives
Washington, DC 20515

Dear Majority Leader Thune and Speaker Johnson:

As Congress works to extend and expand the Tax Cuts and Jobs Act (TCJA, P.L. 115-97) and address health, immigration, and energy policies, the Association of American Medical Colleges (AAMC) urges you to prioritize policies that ensure access to life-saving health care and improve the health of patients and communities through strategic investments in the nation's health care, research, and public health infrastructure. We urge you to avoid policies that harm the nation's health, particularly cuts to the Medicare and Medicaid programs.

The AAMC is a nonprofit association dedicated to improving the health of people everywhere through medical education, health care, medical research, and community collaborations. Its members are all 160 U.S. medical schools accredited by the Liaison Committee on Medical Education; 14 accredited Canadian medical schools; nearly 500 academic health systems and teaching hospitals, including Department of Veterans Affairs medical centers; and more than 70 academic societies. Through these institutions and organizations, the AAMC leads and serves America's medical schools, academic health systems and teaching hospitals, and the millions of individuals across academic medicine, including more than 201,000 full-time faculty members, 97,000 medical students, 158,000 resident physicians, and 60,000 graduate students and postdoctoral researchers in the biomedical sciences.

AAMC-member teaching health systems and hospitals play a vital and unique role in our nation's health care infrastructure and economy. These institutions train the next generation of physicians and other health care professionals, provide a wide range of high-quality health care services, and pioneer cutting-edge research, including new and more effective diagnostics, treatments, and cures. Only in academic medicine do these missions of education, patient care, and research coalesce for the benefit of the American public. Through these missions, AAMC-member institutions enhance both the health and economic vitality of our nation's communities. Teaching health systems and hospitals are anchor institutions, delivering essential health care

and emergency services while also driving employment and economic growth. A 2022 report found that AAMC-member teaching hospitals and medical schools contributed over $728 billion to the U.S. economy, supporting more than 7 million jobs.[1]

Building on these vital contributions to the nation's health care and economy, we urge Congress to protect and strengthen key programs that directly impact our members' ability to serve patients and communities. We urge Congress to:

- Protect Medicaid and the health care safety net
- Maintain hospital tax-exempt status
- Ensure access to care for Medicare patients
- Strengthen and enhance the physician workforce
- Preserve access to coverage and care
- Safeguard access to high-quality medical education
- Support legal immigration for health care workers

PROTECT MEDICAID AND THE HEALTH CARE SAFETY NET

Medicaid is a vital source of coverage and care for over 70 million Americans, including infants, children, the frail elderly, people with disabilities, and working adults in all 50 states. The Medicaid financing structure has garnered criticism from some stakeholders, who allege that federal Medicaid spending is growing at an unsustainable rate. Despite these claims, it is worth noting that Medicaid is a relatively efficient program, with a 2023 growth rate of 7.9%, as compared to 8.1% for Medicare and 11.5% for private insurance.[2] As policymakers contemplate changes to Medicaid's financing structure, the AAMC would like to emphasize that reducing federal Medicaid funding could have devastating, wide-ranging consequences for our health care delivery system and economy, resulting in higher uncompensated care costs for providers and a sicker, less productive workforce.

AAMC-member institutions play an outsized role in caring for the Medicaid population, providing Medicaid enrollees with access to a wide range of primary care and specialty services, including labor and delivery, inpatient psychiatric care, transplant services, and burn treatment, among others. Although AAMC-member teaching hospitals comprise just 5% of hospitals

[1] https://www.aamc.org/data-reports/teaching-hospitals/data/economic-impact-aamc-medical-schools-and-teaching-hospitals
[2] https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/nhe-fact-sheet#:~:text=Historical%20NHE%2C%202023%3A&text=Medicare%20spending%20grew%208.1%25%20to,18%20percent%20of%20total%20NHE.

nationwide, they account for 26% of Medicaid hospitalizations.[3] This demonstrates our members' ongoing commitment to providing high-quality care, regardless of a patient's ability to pay, and the vital role they play in the Medicaid program.

The AAMC strongly supports efforts to ensure that Medicaid enrollees have access to timely, comprehensive care and opposes policies that threaten access for this population. For this reason, the AAMC urges Congress to abide by the following principles when implementing changes to the Medicaid program:

1) Ensure Medicaid enrollees can access quality care by reimbursing providers sufficiently to ensure robust provider networks.
2) Preserve targeted financial support for safety-net providers that care for many Medicaid enrollees.
3) Uphold the federal government's commitment to match state spending on Medicaid, without reducing federal matching rates or implementing block grants or per-capita caps.

State-Directed Payments (SDPs)

While Medicaid plays an important role in our nation's health care system, it is not without problems. Medicaid reimburses hospitals at lower rates than the cost of providing care, creating financial challenges for providers who care for this population. According to data from the American Hospital Association, hospitals received only 88 cents for every dollar spent caring for Medicaid patients in 2020.[4] To ensure that providers have the resources they need to care for Medicaid enrollees, policymakers have leveraged a variety of targeted supplemental payments, including Medicaid state-directed payments (SDPs). Since 2016, states have used these payments to strengthen Medicaid provider network adequacy and ensure access to care for Medicaid enrollees. Under this approach, states are given latitude to direct Medicaid managed care plans to provide additional payments to a given provider or class of providers, depending on the needs of the state. One key strength of Medicaid SDPs is that they provide states with the flexibility to tailor investments in their Medicaid program to meet the unique health care needs of their enrollees. In recent years, states have leveraged SDPs to recruit and retain a sufficient number and mix of providers in their Medicaid programs, expanding enrollees' access to essential services.

[3] AAMC analysis of FY2022 American Hospital Association data, American College of Surgeons Level 1 Trauma Center designations, 2023, and the National Cancer Institute's Office of Cancer Centers, 2022. AAMC membership data, December 2023.
[4] https://www.aha.org/system/files/media/file/2020/01/2020-Medicare-Medicaid-Underpayment-Fact-Sheet.pdf

We urge you to protect SDPs as an option for states to enhance provider network adequacy and meet the unique health care needs of their Medicaid population. In particular, we are concerned with proposals to restrict SDPs, such as by reducing the ceiling for these payments from the average commercial rate to the Medicare rate. Lowering the allowable payment limit for SDPs would limit access to care and destabilize teaching hospitals that care for many Medicaid patients. These types of restrictions on SDPs could have wide-ranging consequences, threatening hospital closure, limiting provider network adequacy, and undermining access to care for the Medicaid population. Rather than pursuing a top-down mandate, we encourage you to engage with state leaders to understand how they have leveraged these flexibilities to ensure access to care for Medicaid patients.

Consistent with federal law, states are permitted to finance their share of SDPs through a variety of permissible sources, including state general funds, intergovernmental transfers from local governments, and provider-based funding sources, such as provider taxes. Provider taxes, including those imposed on hospitals, play a crucial role in allowing states to implement SDPs, helping states stretch their scarce financial resources to ensure access to care for enrollees. In light of the growing fiscal pressures facing state governments, provider taxes have emerged as a critical source of funding for SDPs, and therefore, we urge you to avoid additional restrictions on states' use of provider-based funding sources. We encourage you to engage with state leaders regarding the importance of these Medicaid financing flexibilities, and allow states to leverage provider-based funding sources as they see fit to ensure access to care for patients in their Medicaid program.

Block Grants and Per-Capita Caps

Block grants and per-capita allotments ("caps") are two proposals under consideration by lawmakers to help reduce Medicaid spending. While these two proposals have different features, both would fundamentally restructure the way Medicaid is financed, limiting the federal government's commitment to the program while shifting costs and financial risks to the states, Medicaid enrollees, and providers. This type of approach would render states vulnerable to unexpected shocks in health care spending – whether due to rising enrollment during an economic downturn, a public health emergency, the high cost of a breakthrough treatment or medication, or other unforeseen factors beyond the state's control. Under these circumstances, fixed federal funding could negatively impact provider reimbursement or enrollee benefits.

Although block grants and per-capita caps both represent a significant departure from Medicaid's current funding structure, these proposals differ in detail. Under a block grant approach, states would receive a fixed amount of federal funding to administer their Medicaid program, irrespective of program enrollment. By comparison, under a per-capita cap approach, states

would receive a fixed amount of federal funding *per Medicaid enrollee*, leaving states responsible for the remaining costs. This per-enrollee amount would be annually adjusted according to a specified trend rate, such as the state's historical Medicaid spending, the medical component of the Consumer Price Index, or another benchmark. Proponents of block grants and per-capita caps argue that these policies would provide states with greater flexibility to administer their Medicaid programs, while accounting for program growth and reasonable increases in health care costs. Given the inherent unpredictability of health care costs, the AAMC remains concerned that block grants and per-capita caps will not keep pace with states' Medicaid expenses, thereby imposing undue financial strain on state Medicaid budgets. One of the stated goals of these types of policies is to reduce federal spending on the Medicaid program, which, by definition, will shift costs to states. Reducing federal funding for Medicaid could force states to limit program eligibility, further cut already inadequate provider reimbursement rates, or restrict enrollees' access to care. These trade-offs would have serious consequences for our member teaching health systems and hospitals, and their affiliated physician faculty practices, increasing Medicaid shortfalls and uncompensated care costs at a time when providers are struggling to stay afloat in an increasingly inflationary environment.

Changes to the Federal Medical Assistance Percentage (FMAP)

Medicaid is a federal-state partnership, jointly funded by the states and the federal government. The federal government's share of Medicaid expenditures, referred to as the Federal Medical Assistance Percentage (FMAP), varies by states and is inversely associated with a state's per-capita income, allowing lower-income states to receive greater federal funding. As you contemplate changes to Medicaid, the AAMC urges to uphold the federal government's commitment to Medicaid and reject reductions to the FMAP. Reducing the federal funding available to states could result in widespread consequences, including cuts to provider reimbursement, reduced enrollment, and restricted access to care.

The 340B Drug Pricing Program

Established in 1992, the 340B Drug Pricing Program allows certain safety-net health care providers, referred to as "covered entities," to purchase covered outpatient drugs at a discount from manufacturers. The program supports our health care safety net at no cost to the taxpayer – the savings come directly from pharmaceutical companies. The AAMC opposes policies that reduce reimbursement for drugs acquired through the 340B program, which would erode the savings available to covered entities and ultimately harm the patients and communities they serve.

MAINTAIN HOSPITAL TAX-EXEMPT STATUS

AAMC-member teaching health systems and hospitals play an outsized and unique role in our nation's health care infrastructure, providing specialized care, training future physicians, and leveraging cutting-edge technology, research, and expertise to care for the nation's most vulnerable patients. These institutions provide highly specialized health care services that are often unavailable in other settings, including oncology services, transplant surgery, trauma care, and treatment for rare and complex conditions. Although they account for just 5% of all hospitals nationwide, AAMC members comprise 100% of National Cancer Institute (NCI)-designated comprehensive cancer centers, 72% of all burn unit beds, and 61% of all level one trauma centers.[5] In addition to the unique services they provide, AAMC members serve a more medically and socially complex patient population than their non-teaching counterparts, making them critical to our health care safety net.

Any attempt to restrict or eliminate the tax-exempt status of nonprofit teaching health systems and hospitals would undermine their ability to sustain their mission-oriented work. The interconnected nature of AAMC members' patient care, education, research, and community efforts means that weakening one area inevitably harms the others. As Congress debates revisions to federal tax policy, we urge you to work with stakeholders to consider targeted revisions to the Internal Revenue Service Form 990, Schedule H, incorporate the more comprehensive definition of community benefit, and reject the elimination or restriction of the tax-exempt status of non-profit hospitals.

ENSURE ACCESS TO CARE FOR MEDICARE PATIENTS

AAMC-member teaching health systems and hospitals and their affiliated physician faculty practices continue to face profound financial challenges that seriously endanger their ability to care for patients, train the next generation of physicians, drive medical innovation, and foster economic growth. Historic workforce shortages, unprecedented capacity constraints, insufficient reimbursement from payers, supply chain disruptions, and a growth in expenses, all contribute to the acute financial pressures currently facing academic medicine. According to the Medicare Payment Advisory Commission, hospitals' overall fee-for-service Medicare margins dropped to a record low -11.6% in 2022,[6] a trend that is expected to persist. This is further exacerbated by a 2.8% reduction to the Medicare Physician Fee Schedule that took effect in January. These

[5] AAMC analysis of FY2022 American Hospital Association data, American College of Surgeons Level 1 Trauma Center designations, 2023, and the National Cancer Institute's Office of Cancer Centers, 2022. AAMC membership data, December 2023.
[6] https://www.medpac.gov/wp-content/uploads/2023/03/Hospital-Dec-2023-SEC.pdf

compounding challenges jeopardize access to care for Medicare patients at a time when their needs are increasing.

Shortsighted policies such as so-called "site-neutral" payment cuts, including those considered and passed by the House in the 118th Congress, would further exacerbate these financial challenges, disproportionately harming teaching health systems and hospitals, many of which are safety net providers. Despite representing just 5% of all hospitals, AAMC-member institutions would shoulder nearly half of the cuts under current proposals.[7] These cuts fail to account for the more clinically and socially complex patient population cared for in teaching health systems and hospitals' outpatient departments (HOPDs) than physician offices, while complying with greater licensing, accreditation, and regulatory requirements. Reducing Medicare payments for care provided in these settings would threaten patients' access to critical services, particularly in rural and underserved communities, and diminish the ability of our members to sustain their missions.

Congress must act to protect access to care for Medicare beneficiaries by rejecting HOPD cuts, ensuring that there are no cuts to the Medicare program, and enacting meaningful Medicare Physician Fee Schedule reform. While we understand the difficult fiscal decisions before Congress, the AAMC strongly opposes financing temporary provisions through permanent reductions to the Medicare program. Teaching health systems and hospitals cannot absorb additional cuts without dire consequences for patients, communities, and the future of the physician workforce. We urge you to preserve and strengthen Medicare's support for academic medicine to ensure that our nation's most vulnerable patients continue to receive the high-quality care they need and deserve.

STRENGTHEN AND ENHANCE THE PHYSICIAN WORKFORCE

The United States faces a projected physician shortage of up to 86,000 doctors by 2036, with demand rapidly outpacing supply.[8] To address this growing crisis, it is critical that we expand physician training through additional investment in graduate medical education (GME), the supervised hands-on training after medical school that all physicians must complete to be licensed and practice independently. While the AAMC greatly appreciates and applauds recent bipartisan investments by Congress to expand Medicare support for GME, including the 1,200 new residency positions provided in the Consolidated Appropriations Act, 2021 (P.L. 116-260) and the Consolidated Appropriations Act, 2023 (P.L. 117-328), additional investment is needed to counteract the cap imposed on GME in 1997.

[7] AAMC Analysis of 2021 100% Medicare Standard Analytic File
[8] https://www.aamc.org/media/75236/download?attachment

While representing only 5% of hospitals nationwide, AAMC members train 72% (approximately 78,000) of residents nationwide, shouldering substantial financial responsibility while receiving only Medicare's "share" of the costs to train physicians.[9] Despite the significant financial challenges our members face, they continue to train thousands of residents beyond their Medicare caps, fully funding the training of over 21,000 resident full-time equivalents or FTEs. Teaching health systems and hospitals spend approximately $24.6 billion on physician training annually, but they are reimbursed only Medicare's "share" of the costs, which is approximately $6 billion (about 24%).[10] This amounts to nearly $19 billion in direct costs not paid for by Medicare. However, misguided proposals, such as transitioning GME into a block grant program with growth tied to the medical component of the Consumer Price Index or reducing "excess GME payments to 'efficient' teaching hospitals," would place these "over the cap" positions at risk, undermine the critical mission to train more physicians, and worsen workforce shortages, particularly in rural and underserved areas. Rather than impose these harmful cuts, Congress must build on recent bipartisan GME progress and strengthen GME support to ensure a robust physician workforce for the future.

PRESERVE ACCESS TO COVERAGE AND CARE

The AAMC is committed to ensuring that all people have access to affordable, comprehensive health insurance coverage. Consistent with this commitment, the AAMC supports policies to expand coverage and reduce the number of uninsured nationwide. We are concerned with proposals that would lead to coverage losses among the Medicaid population, including work and community engagement requirements. To protect and strengthen coverage options for everyday Americans, we urge policymakers to extend enhanced premium tax credits provided by the American Rescue Plan beyond 2025, which help ensure that coverage remains affordable to middle-class families. These tax credits have enabled millions of people to gain coverage through the marketplace exchanges, increasing access to high-quality care in teaching health systems and hospitals. Absent congressional action to extend these credits, the Congressional Budget Office estimates that nearly 4 million Americans could lose coverage, jeopardizing their access to life-saving care.[11]

SAFEGUARD ACCESS TO HIGH-QUALITY MEDICAL EDUCATION

Federal student loans play a key role in supporting aspiring physicians from all backgrounds to access medical education. For example, nearly 40% of medical students rely upon the Direct

[9] AAMC's analysis of FY2022 Hospital Cost Reporting Information System (HCRIS) data, July 2024 release.
[10] AAMC Analysis of FY2022 Medicare Cost Report data, July 2024 Hospital Cost Reporting Information System (HCRIS) release**.** If FY2022 data is not available, FY2021 data is used.
[11] https://www.cbo.gov/system/files/2024-12/59230-ARPA.pdf

PLUS Loan program to finance their medical education. Direct PLUS Loans have several key features that support prospective medical students, offering flexible income-driven repayment options, allowing students the ability to borrow up to the cost of attendance, and other essential borrower protections. Without Direct PLUS as an option, many prospective students would be unable to access medical school, further exacerbating the physician workforce shortage.

We also encourage you to maintain loan repayment options as a way to recruit and retain physicians in medically underserved areas, such as the public service loan forgiveness program (PSLF). The PSLF program is a critical tool to incentivize physicians to practice in rural and urban medically underserved communities, where serious health care workforce shortages impede access to care. Absent loan repayment plan options like PSLF, our physician shortage will continue to grow to the expense of access to care for rural and underserved communities.

The medical and higher education community also encourages lawmakers to reject proposals that would limit federal loan options and repayment plans based on factors institutions cannot control. This includes proposals to limit financial aid to institutions based on tax status. Restrictions to student loan access and flexible repayment plans create barriers to train the future physician workforce and in turn, limit access to high-quality care, especially in communities that historically struggle to recruit and retain physicians.

SUPPORT LEGAL IMMIGRATION FOR HEALTH CARE WORKERS

Physicians and health care workers from other countries play a significant role in safeguarding our nation's health and well-being by alleviating workforce shortages in rural and other underserved communities. Approximately 23% of active physicians practicing in the United States are international medical graduates, many of whom are now citizens or permanent residents.[12] As policymakers consider changes to immigration policy as part of the budget reconciliation process, we encourage you to preserve the visa programs commonly used by health care workers and ensure continued access to care for rural and underserved communities who rely on these providers. Additionally, we urge policymakers to maintain work authorization for individuals with qualified Deferred Action for Childhood Arrivals (DACA) status, including tens of thousands of health care workers. Given the serious health care workforce shortages facing our nation, our health care system can ill-afford to lose valuable personnel. We urge you to preserve and fortify policies that protect legal immigration which will in turn help maintain and improve access to care for patients.

[12]Nagarajan KK, Bali A, Malayala SV, Adhikari R. Prevalence of US-trained International Medical Graduates (IMG) physicians awaiting permanent residency: a quantitative analysis. J Community Hosp Intern Med Perspect. 2020 Oct 29;10(6):537-541. doi: 10.1080/20009666.2020.1816274. PMID: 33194124; PMCID: PMC7599012.

If you have any further questions, please contact me or Len Marquez, Senior Director, AAMC Government Relations and Legislative Advocacy, at lmarquez@aamc.org.

Sincerely,

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CC: David J. Skorton, MD
President and CEO
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The Honorable Mike Crapo, Chair, Senate Finance Committee
The Honorable Bill Cassidy, Chair, Senate Health, Education, Labor, and Pensions Committee
The Honorable Lindsey Graham, Chair, Senate Budget Committee
The Honorable Brett Guthrie, Chair, House Energy and Commerce Committee
The Honorable Jason Smith, Chair, House Ways and Means Committee
The Honorable Tim Walberg, Chair, House Education and Workforce Committee
The Honorable Jodey Arrington, Chair, House Budget Committee