

Success of Kentucky's MEDICAID HOSPITAL RATE IMPROVEMENT PROGRAM (HRIP)



As the 5th poorest state in the nation, one-third of Kentucky's population is covered by Medicaid. [State Directed Payments help fill the gap between base Medicaid rates that pay well below actual costs and reasonable reimbursement levels.](#) Without these payments, the average Kentucky hospital margin would drop from just 2% to negative 7%. Lowering payments to the Medicare rate will reduce access to care as hospitals will be forced to lay off up to 20,000 workers, eliminate services, and 35 hospitals will be at risk of closure. Kentucky would lose \$150 million in tax revenue and local economies would face further impact from loss of economic activity totaling more than \$1 billion.

Kentucky's Hospital Rate Improvement Program (HRIP), approved by President Trump's administration in his first term, is value-based where hospitals must meet CMS approved quality measures to receive a portion of the payments.

According to America's Health Rankings, Kentucky ranked 41st in 2024, up from 46th in 2021.

Kentucky hospitals have used these funds to improve quality:

MEASURE	RESULTS
Reduced Readmissions	Medicaid readmissions have been reduced 15% in just two years (2022-2024) with a cost savings of \$2.8 million.
Increased Sepsis Identification and Treatment	96% of ED patients are being screened for sepsis. Those screening positive are receiving timely treatment. Early recognition and treatment under HRIP has saved an estimated \$417M - \$1.1 Billion in costs. (2022-2024)
Reduced Infections	CAUTI (catheter-associated urinary tract infection) lowered 22% (2022-2024), with a cost savings of \$14,000/discharge C. Difficile (a germ causing diarrhea and colitis) lowered by 37% (2022-2024), with a cost savings of \$ 17,000/discharge
Reduced Use of Opioids	Virtually no patients (<2%) leave the hospital with multiple opioids after a hospital stay 86% of patients presenting to an ED with an ankle sprain are being treated with an alternative to opioid for pain relief Virtually every new mother with an uncomplicated vaginal delivery does not receive opioids at discharge for pain relief Reduced hospital opioid prescriptions have contributed to the 30% reduction in Kentucky Overdose deaths in 2024.
Improved Screening for Maternal Depression and Substance Use	More than 34,000 new Medicaid mothers were screened 2 weeks after discharge in 2024, with a 5 year projected cost savings of \$25 Million
Suicide Prevention	1.6 million Kentuckians, (> 94% of all ED patients over age 11) have been screened for suicide and referred to services, when indicated, for a cost savings of \$8,500/averted suicide
Reducing Health Disparities	94,000 Medicaid inpatients were screened in 2023 - 2024 for Social Drivers of Health, with referrals to resources
Increased Training	More than 1,400 hospital staff have been trained in various aspects of quality
Hospitals Have Invested in Staff	The State Directed Payments have allowed hospitals to increase staff salaries which has contributed to fewer vacancies. Vacancies for all staff as well as registered nurses have declined by 40% from 2022-2024.

MEDICAID STATE DIRECTED PAYMENTS AND PROVIDER TAX

EXECUTIVE SUMMARY

The **Medicaid State Directed Payment (SDP)** program makes it possible for states to draw down additional federal funds to cover the cost of care for patients covered by the Medicaid program. **Without the SDP, Medicaid covers only 82 cents on the dollar and does not cover the cost of care for the Medicaid patient.**

The SDP in Kentucky, known as the **Hospital Rate Improvement Program (HRIP)** has been used to make Medicaid payments close to the **average commercial rate (ACR)**. Hospitals pay a provider tax of **approximately 5% to cover the state's matching portion for the program**. The top permissible federal rate is 6%.

In Kentucky, the **SDP program is a value-based program that requires hospitals to meet certain quality performance measures to receive the full payment**. The **Cabinet for Health and Family Services verifies that hospitals have met the quality measures in order to receive the full payment**. Ten percent of the payment is held back to ensure hospitals are meeting the metrics.

The new federal law HR1, the **One Big Beautiful Bill Act (OBBBA)**, makes dramatic changes to the law by **phasing down the SDP by 10 percentage points each year from the ACR to no more than what Medicare pays in Kentucky**. Ultimately, this will result in a **90% reduction of HRIP**. This phase down begins in 2028.

In Kentucky the **Medicare and Medicaid reimbursement rates are nearly the same and the phase down will have the effect of virtually ending HRIP**. The bill also phases down the **Provider Tax to 3.5%**, which will prevent hospitals from being able to access dwindling federal funds.

If the new law is fully phased in, hospital operating margins will drop from approximately 2% on average to approximately **NEGATIVE 7%**. That will require hospitals to curtail services and in some cases close. In both instances, there will be a loss of access to care and negative impacts on local economies.

The ramifications of a **full phase down of HRIP is likely to result in 20,000 health care workers being laid-off and services such as obstetrics, behavioral health, and emergency departments closing**. The Cecil Sheps Center, which monitors rural hospital closures nationwide, **predicts 35 rural Kentucky hospitals are at risk of closure**.

A full phase down will damage not just access to care for everyone but also localities and the state economy will bear the impact of the losses. Hospitals are the **largest employer in many counties and in the top three largest employers in every county that has a hospital**.

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