

## Federal Reimbursement Allowance (FRA)

How is FRA used for Medicaid?

### FRA is one of the major financing mechanisms for Medicaid.

The FRA is based on a 4.8% tax on the adjusted net revenue, the total revenue minus direct expenses, of all hospitals in MO. In the budget, these funds are considered general revenue equivalent and are matched by federal funds (equaling about 65% of total combined funds). These total funds, the hospital tax and matching federal money, make up the FRA program. The tax may fluctuate from year to year but cannot exceed 6% in MO (**Figure 1**; OA 2023).

FRA funds are distributed to the hospitals that serve Medicaid patients to cover costs associated with providing services. Costs that this program covers include (OA 2023):

- Inpatient Per Diems - daily cost for serving patients staying overnight.
- Outpatient Payment - cost for serving patients that visit the hospital for non-overnight services (e.g., X-ray).
- Outpatient direct Medicaid payments - payments to cover the cost of serving MO HealthNet outpatients.
- Acuity Adjustment Payment - payments to cover adjustments to managed care plans due to users with uncertainty in health status.
- Poison Control Payments - payments for the



## Research Highlights

FRA is funded through taxes on hospitals and federal matching dollars.

Funds FRA are distributed back to hospitals to pay for Medicaid services.

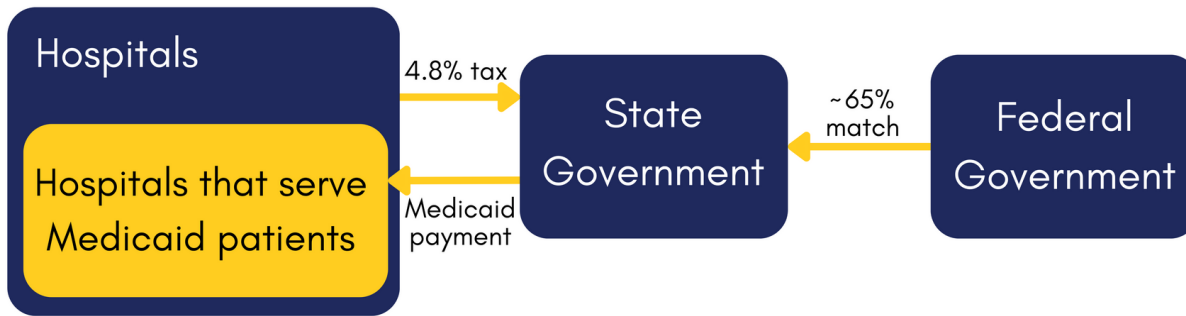
About \$1.8 billion from FRA funds is budgeted towards Medicaid services in FY 2024.

- expense of running a Poison Control Center.
- Stop Loss Payment - payments to predictably cover excess costs that may result from MO HealthNet Division recalculating the cost of inpatient per diem.
- Disproportionate Share Hospital (DSH) Payments - payments to cover costs of serving uninsured patients or for costs not covered by Medicaid.
- Upper Payment Limit - payments to cover the difference in cost between Medicare and Medicaid.
- Graduate Medical Education - payments to cover the cost of training residents and fellows.

Once the payment has been made to hospitals, the money is considered general revenue and does not have to specifically go toward any of these line items (personal communication, Checkett 2023).

### FRA funds pay for different MO HealthNet Division services.

In FY 2024 the estimated assessment from hospital taxes is about \$1.2 billion, with an



**Figure 1. The Federal Reimbursement Allowance Program.** Illustration of how hospital taxes and federal funds pay for Medicaid services in hospitals. The tax on hospitals is currently 4.8% but can fluctuate yearly.

additional \$2.4 billion in federal matching dollars (personal communication, MO Department of Social Services (DSS)).

In FY 2024 about \$1.8 billion (50%) of FRA funds is budgeted for payments to hospitals (HB 11 2023). This includes:

- costs for DSH payments.
- costs of the Poison Control Center.
- costs of the Gateway to Better Health 1115 Demonstration, which covers costs for uninsured patients in St. Louis City and County.
- Medicaid Emergency Psychiatric Demonstration services.

About \$719 million (20%) of FRA funds is budgeted towards the DSS General Revenue Fund in FY 2024 (HB 11 2023).

An additional amount of about \$345 million (10%) of FRA funds is budgeted to cover other MO HealthNet costs and services (HB 11 2023).

This includes but is not limited to:

- MO HealthNet Division administrative services.
- Pilot program that seeks waivers for postpartum care for up to 12 months to women with substance use disorders.
- Rx Reminder Program.
- Remote patient monitoring program.

## Provider taxes are a common mechanism for financing Medicaid in states.

Every state, except AK, has at least one type of provider tax. Most provider taxes are on hospitals, intermediate care facilities, nursing facilities, and managed care organizations (KFF 2022). MO has provider taxes for hospitals (FRA), nursing facilities (NFFRA), intermediate care facilities (ICF-IID Provider Tax), and an ambulance tax (DSS 2023).

These taxes must follow the following rules: be broad-based, uniform, and no providers can be held harmless from the tax (KFF 2017). Hold-harmless agreements exist among hospitals so that hospitals not receiving the full amount of money back from the FRA program for payment of Medicaid services (because they have few or no Medicaid patients) receive the amount they paid back from other hospitals so that there is no revenue loss from the tax. Federal law does not allow these agreements.

Evidence of hold harmless agreements would result in a reduction in the amount of money the federal government contributes (Medicaid 2023). However, if provider taxes are below 6%, like FRA in MO, the taxes are not tested for hold-harmless agreements (KFF 2017).

*MOST Policy Initiative is a 501(c)3 nonprofit organization that provides nonpartisan research information to members of the Missouri General Assembly upon request. This Science Note is intended for informational purposes and does not indicate support or opposition to a particular bill or policy approach. A full list of references used in this Science Note may be found at <https://www.mostpolicyinitiative.org/science-note/federal-reimbursement-allowance>. Please contact [info@mostpolicyinitiative.org](mailto:info@mostpolicyinitiative.org) with any questions.*