

## Pennsylvania Medicaid Physician Payment Analysis

Prepared for the Hospital and Healthsystem Association of Pennsylvania

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## Introduction

On behalf of the Hospital and Healthsystem Association of Pennsylvania (HAP), Health Management Associates, Inc. (HMA), conducted a survey of HAP member hospitals and health systems to analyze costs for their employed and contracted physician services provided to Medicaid and uninsured populations and determine to what extent reimbursement covered the costs of those services. Combining these results with a similar analysis on hospital services offers a comprehensive look at the financial burden hospitals and health systems bear when providing care to Pennsylvania's Medicaid and uninsured patients. Results from the survey indicate that physician services are reimbursed at only about 40 cents on the dollar for these populations. Along with the payment-to-cost shortfall on the hospital side, this figure indicates that over \$4.2 billion in annual costs are unrecouped.

## Background

In the summer of 2024, HMA performed an analysis of Pennsylvania hospital cost reports to calculate the Medicaid and uninsured payments and costs for hospital services. The results of that analysis estimated that Pennsylvania hospitals received approximately 82 cents on the dollar for those services, resulting in a shortfall of over \$1.8 billion for the Medicaid and uninsured populations in fiscal year (FY) 2023–24. Feedback from HAP members noted that this deficit was only part of the story, however, as many hospitals and health systems operate their own physician groups, and that Medicaid reimbursement for those services was contributing to even greater losses for the hospitals and health systems.

## Methodology and Caveats

Unlike with the hospital facility side, professional services have no standard reporting mechanism that details operational costs and revenues. Because no data repository exists, HMA developed a survey for distribution to HAP members that would collect the data needed to determine a Medicaid payment-to-cost ratio. Details regarding the data fields and calculations are included as an appendix.

Data collected from the survey resulted in a large, representative sample of professional services provided in Pennsylvania. HMA received responses from health systems spanning all regions of the state, accounting for more than 88 percent of all Medicaid hospital revenues in FY 2023–24. The cumulative survey data collected include over 30,000 full-time equivalent providers, \$28.6 billion in professional charges, and \$6.0 billion in Medicaid professional charges. Data collected from the survey were aggregated by health system. Hence, the results cannot be broken out by hospital type nor geographic location (i.e., whether the services were delivered in an urban or rural facility).

Note that the survey was limited to HAP members in Pennsylvania and the compiled data are specific to professional services for employed or contracted physicians within their health systems. Professional services for practices not operated or contracted with a hospital or health system are not represented in the data. All data are self-reported and have not been audited. Results are dependent on total practice cost-to-charge ratios that are then applied to the practice's Medicaid and uninsured charges to estimate the costs of providing care to these populations.

## Results

Table 1 highlights the survey results. Though results varied, all responses were consistent in showing significant Medicaid and uninsured shortfalls; the payment-to-cost ratio (PCR) for survey responses ranged from 22 percent to 52 percent. Although the PCR was slightly higher for fee-for-service (FFS) reimbursement than managed care organization (MCO) compensation, the MCO levels were more significant in determining the total Medicaid PCR as they accounted for 88 percent of the Medicaid charges and revenues.

*Table 1. FY 2023–24 Medicaid and Uninsured Professional Services Costs and Payments (in millions)*

	Medicaid FFS	Medicaid MCO	Total Medicaid	Uninsured	Medicaid + Uninsured
Costs	\$ 426.4	\$ 3,123.8	\$ 3,550.2	\$ 348.9	\$ 3,899.0
Revenues	\$ 179.4	\$ 1,296.4	\$ 1,475.8	\$ 94.6	\$ 1,570.4
Shortfall	\$ (247.0)	\$ (1,827.4)	\$ (2,074.4)	\$ (254.2)	\$ (2,328.7)
<b>Payment to Cost Ratio</b>	<b>42.1%</b>	<b>41.5%</b>	<b>41.6%</b>	<b>27.1%</b>	<b>40.3%</b>

The following table combines the results of the professional services survey with last year’s hospital PCR analysis. Notably, though the total professional costs for the Medicaid and uninsured populations collected from the survey are substantially lower than the hospital costs for the same populations, the professional services PCR results in a higher shortfall for those services. This highlights the extremely low Medicaid reimbursement for professional services and the additional financial pressures hospitals and health systems experience as a result.

*Table 2. FY 2023–24 Medicaid and Uninsured Hospital and Professional Services Costs (in millions)*

	Professional*	Hospital	Combined
Costs	\$ 3,899.0	\$ 10,590.0	\$ 14,489.0
Revenues	\$ 1,570.4	\$ 8,715.0	\$ 10,285.4
Shortfall	\$ (2,328.7)	\$ (1,875.0)	\$ (4,203.7)
<b>Payment to Cost Ratio</b>	<b>40.3%</b>	<b>82.3%</b>	<b>71.0%</b>

*\*Professional costs and revenues represent a subset of total providers in the state based on survey participation*

The collected data broke out Medicaid reimbursement by FFS and MCO base payments, and supplemental and state-directed payments (SDPs). It is notable that for professional services, supplementals and SDPs were reported on only two submissions and that these net payments accounted for only approximately 7 percent of total Medicaid reimbursement. This finding is in stark contrast to hospital reimbursement, in which any hospital providing Medicaid services received some form of supplemental or SDP revenues, with these programs accounting for nearly 37 percent of Medicaid hospital net revenues.

The survey addressed other areas of concern for professional services reimbursement as well. Though the data collected showed Medicare having a higher PCR than Medicaid, it also showed that the survey respondents experienced an annual Medicare shortfall of nearly \$5.5 billion. Additionally, half of the survey respondents noted \$2.3 billion in health system subsidies were used to help the professional practices remain viable. It is unclear whether the other respondents did not rely on subsidies or if those data were unavailable to be reported on the survey.

## Discussion and Conclusion

On a statewide basis, the results of this analysis show that the current levels of Medicaid reimbursement for professional services are woefully inadequate to cover the costs for those services. These unreimbursed costs are often borne by the hospital or health system where the services occur, furthering the financial burden those hospitals already bear as the result of Medicaid losses related to facility costs. With over a quarter of Pennsylvanians enrolled in Medicaid or uninsured, the significant losses for this population will result in hospitals facing difficult decisions, both in terms of the services they are able to offer and even whether they are able to remain open. Additional Medicaid funding for services provided at hospitals could be critical to ensuring both the short-term and long-term viability for hospitals in Pennsylvania.

## Appendix: Survey Data and Calculations

The primary source of the data used for the analyses presented in this report came from survey responses submitted to HMA from hospitals and health systems in Pennsylvania. A sample of the survey is included as an Attachment. Respondents were asked to provide data based on state fiscal year 2024, when available (July 1, 2023–June 30, 2024). Most respondents used these date ranges, though some adjusted based on their internal fiscal years. All responses encompassed data from at least six months within this timeframe. Submitted data were checked for reasonability, but audits were not conducted to confirm accuracy. The accuracy of the calculations and analysis in this report are dependent on the accuracy of the data submitted.

The first step of the analysis was to obtain a provider cost-to-charge ratio (CCR) for physician and other professional services. To accomplish this phase of the process, the survey collected data on the total charges for all included providers, as well as total patient care costs, applicable overhead costs, research, and other costs. The total costs were then divided by total charges to arrive at a provider CCR.

$$\text{Provider Cost-to-Charge Ratio} = \frac{\text{Total Provider Costs}}{\text{Total Provider Charges}}$$

Survey respondents included their Medicaid, Medicare, and uninsured charges. Multiplying these reported charges by the calculated provider CCR resulted in the calculated costs for providing services to Medicaid and uninsured patients.

$$\text{Provider Medicaid Costs} = \text{Medicaid Charges} * \text{Provider CCR}$$

$$\text{Provider Medicare Costs} = \text{Medicare Charges} * \text{Provider CCR}$$

$$\text{Provider Uninsured Costs} = \text{Uninsured Charges} * \text{Provider CCR}$$

A net Medicaid reimbursement amount was then calculated based on reported amounts for any base payments, supplemental payments, state-directed payments, and any direct liabilities related to financing the nonfederal share of supplemental or state-directed payments. Medicare and uninsured revenue amounts were also included in the survey.

$$\begin{aligned} \text{Medicaid and Uninsured Payments} = & \text{Medicaid Base Payments} + \text{Uninsured/Self Pay Revenue} \\ & + \text{Supplemental and State Directed Payments} - \text{Liabilities Directly Related to Supplemental and State} \\ & \text{Directed Payments} \end{aligned}$$

Finally, the annual shortfall and payment-to-cost ratios were calculated. With the costs and payments calculated for each payer type, the resulting PCR was obtained by dividing these values. Similarly, the shortfall was calculated from subtracting the total costs from total payments.

$$\text{Medicaid and Uninsured PCR} = \frac{\text{Total Medicaid + Uninsured Payments}}{\text{Total Medicaid + Uninsured Costs}}$$

$$\text{Medicare PCR} = \frac{\text{Total Medicare Payments}}{\text{Total Medicare Costs}}$$

Medicaid and Uninsured Shortfall =	Total Medicaid and Uninsured Payments - Total Medicaid and Uninsured Costs
Medicare Shortfall =	Total Medicare Payments - Total Medicare

Additional information collected included the number of full-time equivalent providers in the dataset and subsidy amounts that came from the health system to support the physician practices. These data were compiled and are noted in the report.