GME Funding: How It Works

A plain-language guide to how the federal government funds physician training

The Short Answer

The federal government and some states, primarily through Medicare and Medicaid, fund graduate medical education (GME) by paying teaching institutions. The ACGME is not involved in this funding. It does not receive GME funds, distribute them, or determine how they are allocated. The ACGME's role is to set the standards that programs and institutions must meet to be accredited — a separate function entirely.

The GME Funding Structure

Where the Money Comes From

Federal GME funding flows through two distinct Medicare payment streams, both administered by the Centers for Medicare & Medicaid Services (CMS) under the U.S. Department of Health and Human Services (HHS). Some states also support GME through Medicaid and other sources, though structures vary significantly by state.

Direct Medical Education (DME)

Covers the direct costs of training residents — primarily the salaries and benefits of residents, teaching physicians, and program administrative staff.

How it is calculated

DME payments are based on each hospital's historical per-resident amount (PRA), updated annually. Congress capped the number of residents CMS will count in each hospital's DME calculation in the Balanced Budget Act of 1997.

Indirect Medical Education (IME)

Compensates teaching hospitals for the higher costs associated with operating in a teaching environment, including more diagnostic tests, more complex cases, and the time physicians spend supervising rather than solely treating patients.

How it is calculated

IME is a percentage add-on to the hospital's Medicare inpatient payment rate, based on the hospital's ratio of residents to beds. A higher resident-to-bed ratio generates a higher IME adjustment.

Who Receives the Money

CMS pays teaching hospitals directly. Hospitals use these funds — combined with their own revenues — to operate training programs, compensate residents and fellows, and support the clinical faculty members who supervise them. Residents/fellows do not receive CMS payments directly.

The 1997 Cap and its Consequences

The Balanced Budget Act of 1997 froze the number of residency positions that CMS will fund at each hospital based on 1996 resident counts. This cap has remained largely in place for nearly three decades. Because residency expansion generates little to no additional CMS funding above the cap, hospitals have limited financial incentive to open new training positions — a structural constraint that contributes to ongoing physician workforce shortages.

Congress has periodically authorized new funded slots through legislation, most recently through the Consolidated Appropriations Act of 2021, which added 1,000 new Medicare-funded residency positions over five years — the first significant cap increase in more than 25 years. Additional legislation to expand funded positions has been introduced but not enacted as of the time of this publication.

The ACGME's Role in GME Funding

The ACGME's primary function is accreditation, which means setting educational standards through independent peer review and enforcing them through annual review and accreditation actions. Funding is a separate matter overseen by Congress and CMS.

State Medicaid GME Funding

In addition to Medicare, many states provide GME funding through their Medicaid programs and other mechanisms. The structure, eligibility, and amount of state GME payments vary significantly by state — some states provide substantial supplemental payments, while others provide little to none. Medicaid GME policy is set at the state level in partnership with CMS and is subject to federal matching requirements.

Key Policy Takeaways

+ GME funding debates are state and federal appropriations and Medicare/Medicaid policy debates — not accreditation debates.
+ Expanding the physician workforce will take a collaborative effort among policy makers, the government and institutions that sponsor GME.
+ The ACGME can accredit new programs as they develop, but accreditation alone does not produce funding.
+ Teaching hospitals are the primary stakeholders in GME funding policy, not the ACGME.
+ State GME funding is an underexamined and increasingly utilized lever for expanding training capacity, particularly in underserved communities and primary care.