MACPAC

Implications of ACA Coverage Expansions for Medicaid DSH Policy

Medicaid and CHIP Payment and Access Commission
Robert Nelb

Overview

- Preliminary findings on the effects of the Patient Protection and Affordable Care Act (ACA) on hospital uncompensated care
- Relationship between uncompensated care and pending disproportionate share hospital (DSH) allotment reductions
- Implications for the targeting of DSH payments at the state and provider level
  - Should state Medicaid expansion decisions affect the targeting of DSH payments? If so, how?

Background

- Medicaid DSH payments help offset hospital uncompensated care costs for Medicaid and uninsured patients
- States are statutorily required to make DSH payments to hospitals that serve a high share of Medicaid or low-income patients
- DSH payments are limited by federal DSH allotments, which are scheduled to be reduced beginning in fiscal year 2018

Medicaid vs. Medicare DSH

- Medicare also makes DSH payments based on hospital's Medicaid and Supplemental Security Income (SSI) patient days
- Beginning in 2014, three-quarters of Medicare DSH funding was allocated to a new uncompensated care pool that is tied to the number of uninsured nationally
- Medicare DSH cuts have taken effect as scheduled under the ACA
  - Medicare DSH uncompensated care payments fell from $9.4 billion in 2014 to $6.4 billion in 2016

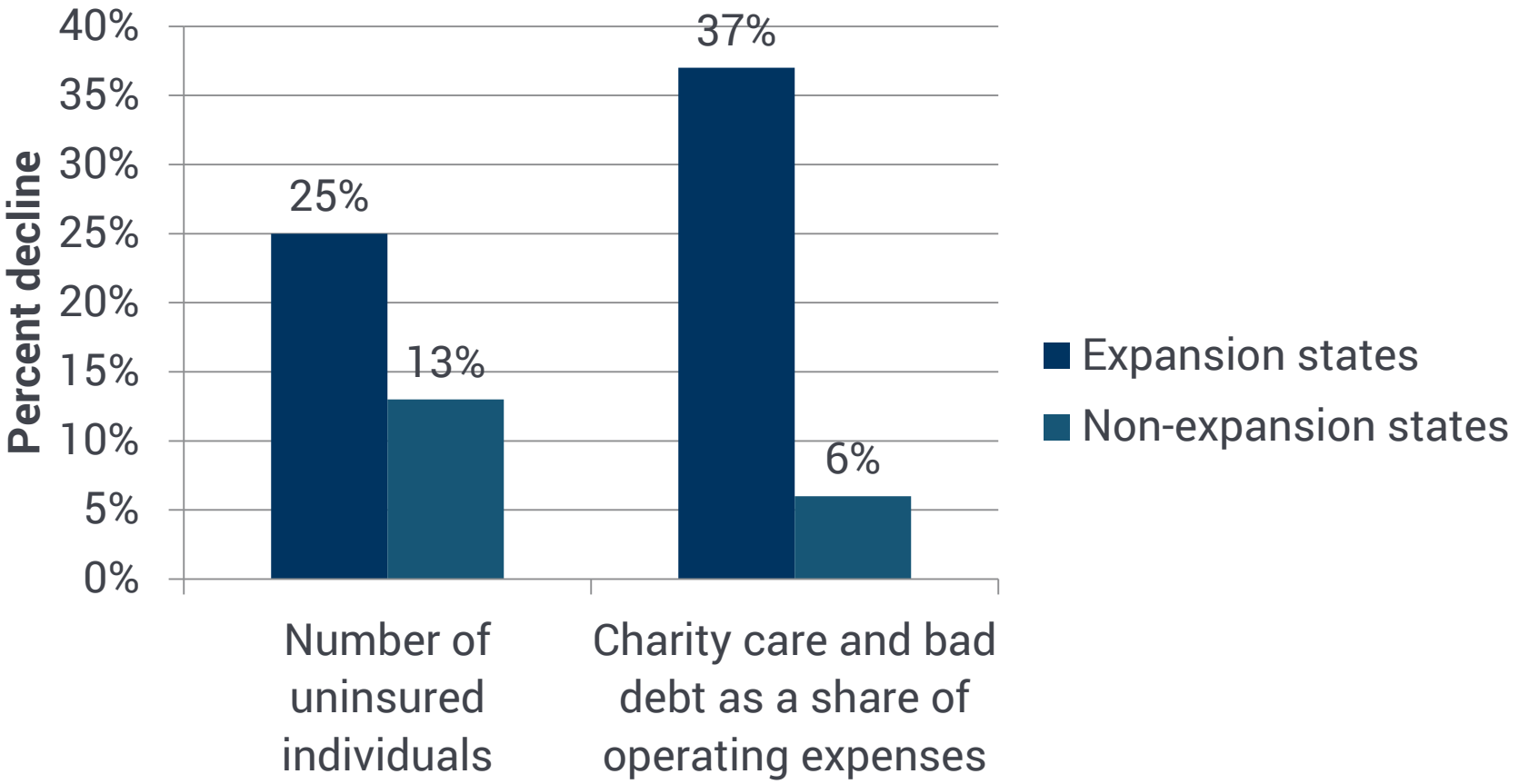
Statutory Requirements

- MACPAC must report annually on DSH allotments and their relationship to three factors:
  - changes in the number of uninsured individuals
  - The amount and sources of hospitals' uncompensated care costs (broadly defined)
  - hospitals with high levels of uncompensated care that also provide essential community services
- In 2017, these data will be included in MACPAC's March report to Congress

Effects of the ACA on Hospital Uncompensated Care

- Between 2013 and 2014, uncompensated care fell by about $4.9 billion in states that have expanded Medicaid
  - $5.8 billion reduction in charity care and bad debt
  - $0.9 billion increase in Medicaid shortfall
- During the same period, uncompensated care increased slightly ($0.3 billion) in states that have not expanded Medicaid
- Hospital operating margins are still negative for deemed DSH hospitals in expansion and non-expansion states

Percent Decline in the Number of Uninsured and Levels of Uncompensated Care, 2013 - 2014

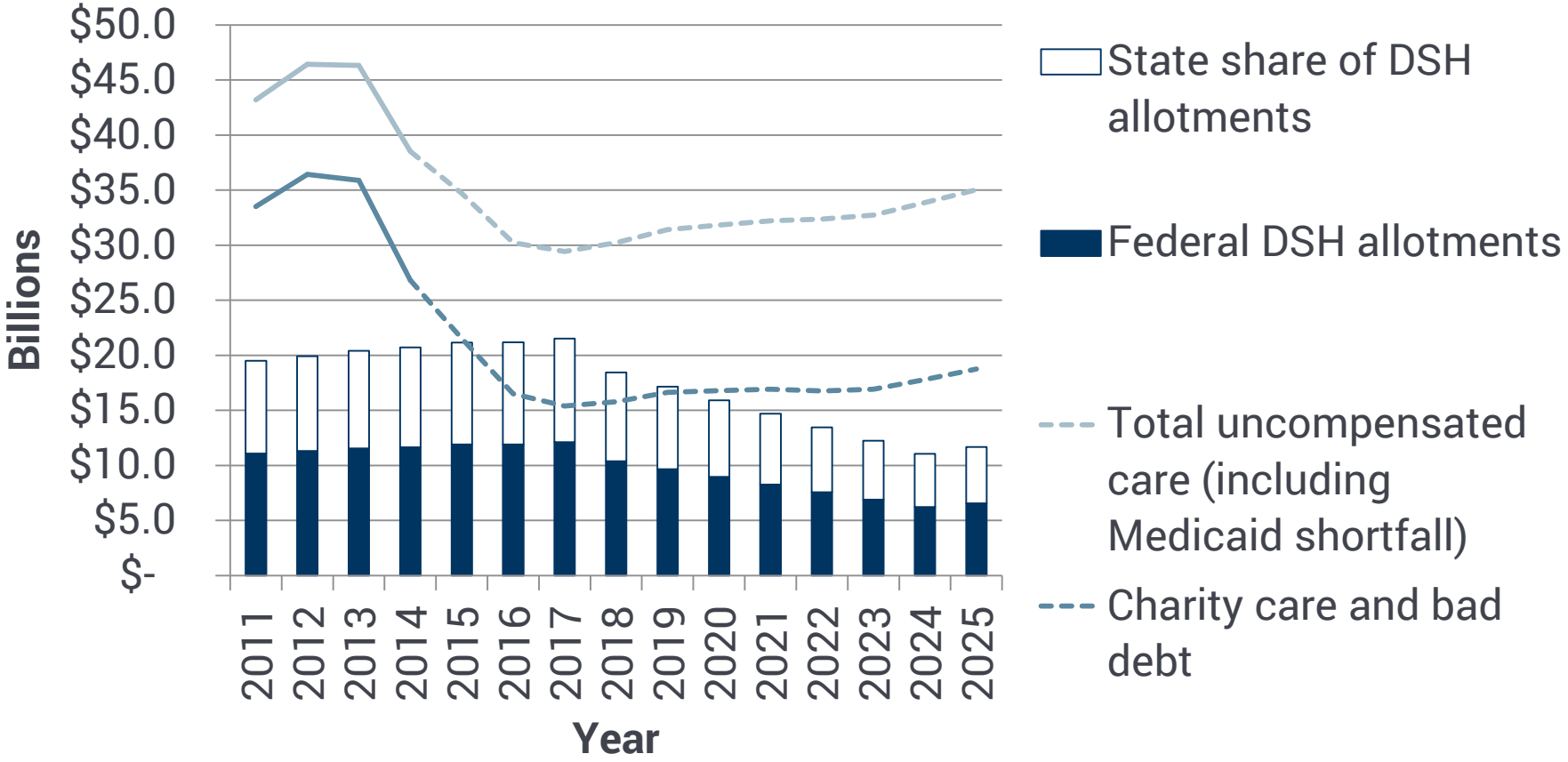


Note: In this figure, expansion states are states that expanded Medicaid coverage to non-elderly adults at or below 138 percent of the federal poverty level during 2014.
Source: MACPAC analysis of the American Community Survey and Medicare cost reports

Projected Hospital Uncompensated Care and DSH Allotments

- Pending DSH allotment reductions are premised on the assumption that ACA coverage expansions would reduce hospital uncompensated care
- To examine these assumptions, we developed a model to project hospital uncompensated care in relation to pending DSH allotment reductions
- Our preliminary estimates suggest that hospital uncompensated care in 2025 will be about $21.7 billion lower than it would have been without the ACA

Projected Hospital Uncompensated Care and DSH Allotments



Note: Actual uncompensated care amounts are displayed for years 2011 – 2014 and projected uncompensated care amounts are displayed for years 2015 – 2025.
Source: Dobson | Davanzo and KNG Health preliminary analysis for MACPAC

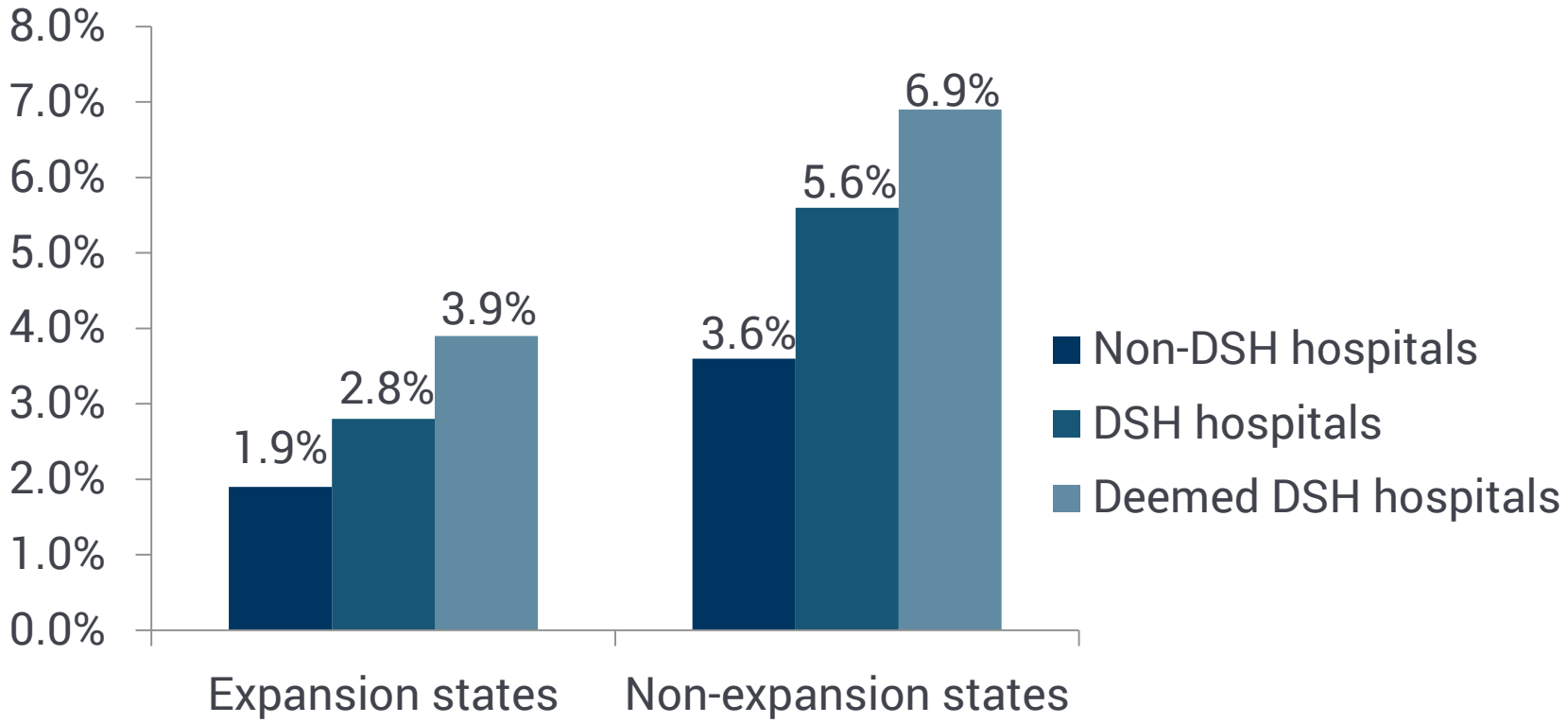
State Targeting Implications

- The current DSH allotment reduction formula will apply larger reductions to states that have expanded Medicaid
  - One-third of reductions are based on the number of uninsured in the state
- This raises the question of whether and how state Medicaid expansion decisions should affect state DSH allotments

Provider Targeting Implications

- Hospitals in states that have expanded Medicaid have higher Medicaid utilization rates and lower levels of uncompensated care
- Compared to other hospitals in their state, deemed DSH hospitals still serve a high-share of low-income patients and have high levels of uncompensated care
- Low-income utilization rates (which account for both Medicaid and the uninsured) are less affected by state Medicaid expansion decisions

Charity Care and Bad Debt as a Share of Operating Expenses, 2014



Note: Deemed DSH hospitals are statutorily required to receive DSH funding because they serve a high share of Medicaid and low-income patients. In this figure, expansion states are states that expanded Medicaid coverage to non-elderly adults at or below 138 percent of the federal poverty level during 2014.
Source: MACPAC analysis of 2012 as-filed DSH audits and the 2014 Medicare cost reports

Policy Questions

- Should state Medicaid expansion decisions affect state DSH allotments?
- Should the same targeting thresholds be applied to all hospitals, regardless of whether their state expanded Medicaid?
- What is the role of DSH funding in states with low levels of hospital uncompensated care?

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