MACPAC

Preliminary Analysis of Policies to Improve the Targeting of DSH Payments

Medicaid and CHIP Payment and Access Commission
Robert Nelb

Overview

- Provider targeting approaches
  - Who should receive disproportionate share hospital (DSH) payments?
  - What should DSH funding pay for?
- State targeting approaches
  - How should pending DSH allotment reductions be distributed?
- Next steps
  - Is there interest in developing particular targeting policies into formal recommendations?
  - What information would help the Commission weigh particular policy options?

Previous Commission Findings

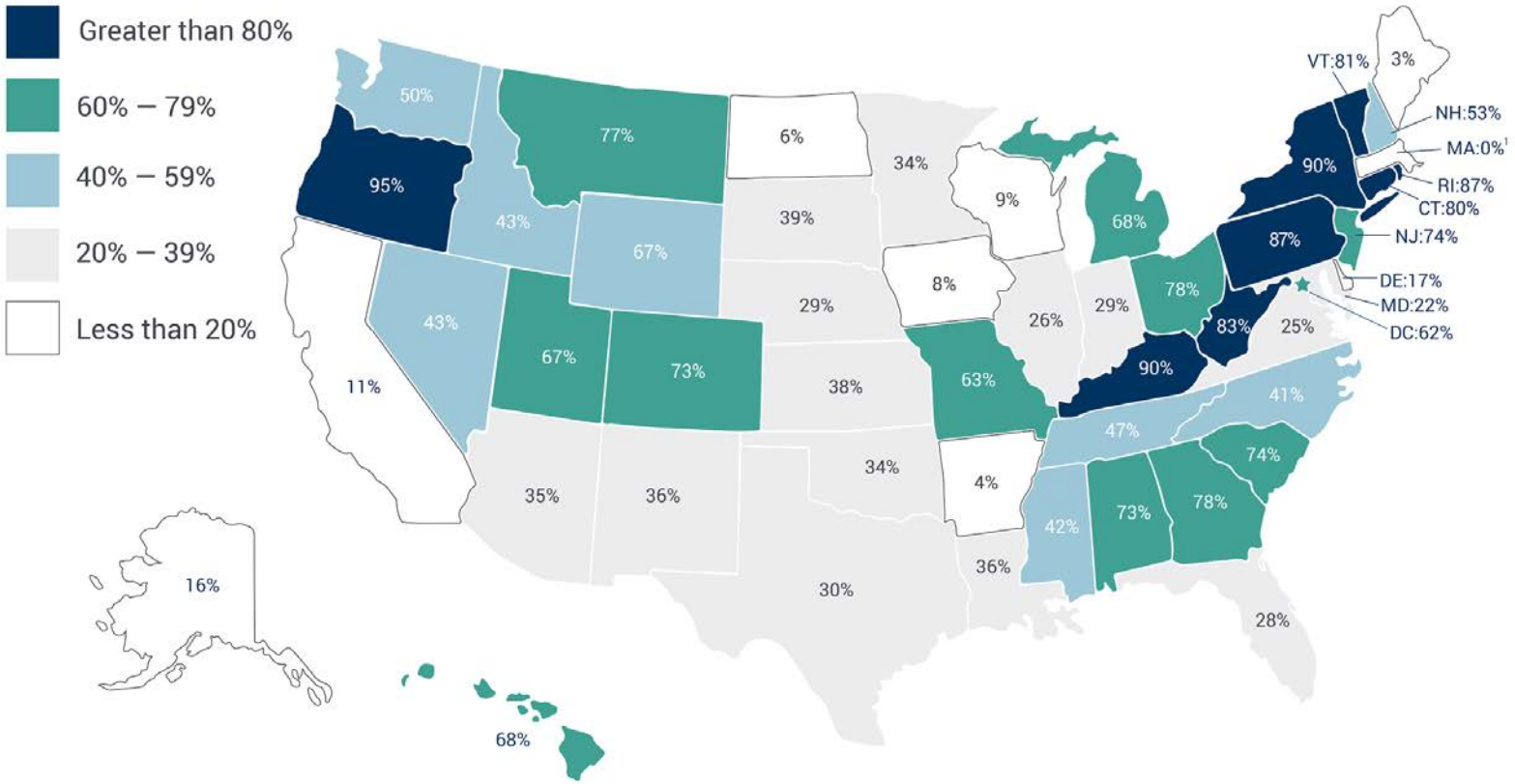
- MACPAC's first DSH report found little meaningful relationship between current DSH allotments and measures meant to identify those hospitals most in need
- The Commission concluded that DSH payments should be better targeted to the states and hospitals that both:
  - serve a disproportionate share of Medicaid and low-income patients, and
  - have disproportionate levels of uncompensated care

Provider Targeting Approaches

DSH Provider Eligibility Criteria

- Under current law, states can make DSH payments to any hospital that has a Medicaid inpatient utilization rate of at least 1 percent
- States are required to make DSH payments to hospitals that meet deemed DSH standards:
  - A Medicaid inpatient utilization rate one standard deviation above the average in their state; or
  - A low-income utilization rate above 25 percent
- DSH payments cannot exceed hospitals' uncompensated care costs for Medicaid and uninsured patients

Share of Hospitals Receiving DSH Payments by State, SPRY 2012



Notes: DSH is disproportionate share hospital. SPRY is state plan rate year.
[1] Massachusetts does not make DSH payments because its Section 1115 demonstration allows the state to use DSH funding for the state's safety-net care pool instead.
Source: MACPAC analysis of 2012 Medicare cost reports and 2012 as-filed Medicaid DSH audits

Provider Targeting Approaches

- Raising the minimum federal eligibility criteria for DSH from a 1 percent Medicaid utilization rate to a higher threshold:
  - Deemed DSH standard
  - Above average Medicaid or low-income utilization
- Expanding the DSH definition of uncompensated care to include all services that hospitals provide
- Narrowing the DSH definition of uncompensated care by excluding Medicaid shortfall

Characteristics of DSH Hospitals Meeting Various Utilization Standards, 2012

	Below average utilization Medicaid utilization below average or low-income utilization <10%	Above average utilization, not deemed Medicaid utilization above average or low-income utilization >10%	Deemed DSH hospitals Medicaid utilization 1 standard deviation above average or low-income utilization >25%	All DSH hospitals
Number of hospitals	781	1149	733	**2663**
Total DSH funding (billions)	$1.7	$4.0	$10.6	**$16.2**

Notes: DSH is disproportionate share hospital. Hospitals with missing Medicaid and low-income utilization rate data (n=191) are classified as having below average utilization. Numbers do not add due to rounding.
Source: MACPAC analysis of 2012 DSH audits and Medicare cost reports

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Expanding the DSH Definition of Uncompensated Care

- DSH payments only cover uncompensated care for inpatient and outpatient services (as defined for Medicaid purposes)
- Other services provided by hospitals accounted for about 23 percent of Medicaid fee-for-service payments to hospitals in 2012
  - Most of these services are physician and clinic services in the outpatient setting
- We estimate that an expanded uncompensated care definition could increase the maximum amount of DSH payments hospitals could receive by about 30 percent
- We are still gathering data about how particular types of DSH hospitals would be affected

Narrowing the DSH Definition of Uncompensated Care

- Two approaches for limiting DSH payments for Medicaid shortfall:
  - Excluding all Medicaid shortfall
  - Excluding Medicaid shortfall only for patients dually eligible for Medicaid and Medicare
- Medicare is the primary payer for hospital services and also makes separate DSH payments to hospitals
- If Medicaid shortfall were excluded from the DSH definition of uncompensated care, some hospitals would receive lower DSH payments

Share of Hospitals with DSH Payments Exceeding Narrower Definition of Uncompensated Care, 2012

Definition of uncompensated care	All DSH hospitals (n=2,678)	Deemed DSH hospitals (n=733)
Exclude all Medicaid shortfall	24%	28%
Exclude Medicaid shortfall only for patients dually eligible for Medicaid and Medicare	10%	13%

Notes: DSH is disproportionate share hospital. Shortfall for patients dually eligible for Medicaid and Medicare was estimated based on 2011 Medicare claims data and payment-to-cost ratios provided by the Medicare Payment and Access Commission (MedPAC).
Source: MACPAC analysis of Medicare cost reports, 2011 Medicaid claims data, and MedPAC 2016 databook

State Targeting Approaches

DSH Allotment Reductions

- Federal DSH allotments are scheduled to be reduced by $2 billion in FY 2018
- CMS initially proposed a model to distribute DSH allotment reductions based on three primary factors that are equally weighted:
  - the number of uninsured
  - the extent to which DSH payments are targeted to hospitals that serve a high share of Medicaid patients
  - the extent to which DSH payments are targeted to hospitals that have high levels of uncompensated care
- CMS is expected to update this model next year

State Targeting Approaches

- Applying DSH allotment reductions to unspent DSH funding first
  - About $1.3 billion in federal DSH funding is unspent
- Including both Medicaid and uninsured patients in the DSH allotment reduction formula
- Revising the uncompensated care factor used to distribute pending DSH allotment reductions

Federal DSH Reductions Including and Excluding Unspent Allotments

Fiscal year	Unreduced federal DSH allotments (billions)	Federal DSH allotment reductions (billions)		
		Initial ACA reductions	Current law	Excluding unspent DSH allotments
2014	$ 11.7	$ 0.5	$ -	$ -
2015	$ 11.9	$ 0.6	$ -	$ -
2016	$ 11.9	$ 0.6	$ -	$ -
2017	$ 12.1	$ 1.8	$ -	$ -
2018	$ 12.4	$ 5.0	$ 2.0	$ 0.7
2019	$ 12.7	$ 5.6	$ 3.0	$ 1.7
2020	$ 13.0	$ 4.0	$ 4.0	$ 2.7
2021	$ 13.3	$ -	$ 5.0	$ 3.7
2022	$ 13.6	$ -	$ 6.0	$ 4.7

Notes: DSH is disproportionate share hospital. ACA is the Patient Protection and Affordable Care Act.
Source: MACPAC analysis of CMS Financial Management Reports

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Including Medicaid and Uninsured Patients in Allotment Formula

- DSH offsets uncompensated care costs for both Medicaid and uninsured patients
  - The DSH allotment reduction formula only accounts for the number of uninsured in a state
- We examined the relationship between different factors and levels of uncompensated care for deemed DSH hospitals in 2012
  - The number of uninsured was better correlated with hospital uncompensated care for the uninsured
  - The number of Medicaid and uninsured patients was better correlated with hospital uncompensated care for both Medicaid and uninsured patients
- Including both Medicaid and uninsured patients minimizes the differential effect of DSH allotment reductions on states that have expanded Medicaid

Revising the Uncompensated Care Factor in Allotment Formula

- The initially proposed factor compares uncompensated care to hospital costs for Medicaid and uninsured patients only
  - These costs are readily available on Medicaid DSH audits, but only for DSH hospitals
- Commenters suggested revising the factor to include all hospital costs
  - These costs are available on Medicare cost reports for all hospitals, but data may not be as reliable
- Revising this factor would encourage states to target DSH funding to deemed DSH hospitals

Share of DSH Hospitals Meeting Various Uncompensated Care Thresholds, 2012

Uncompensated care threshold	DSH hospitals, not deemed (n=1,938)	Deemed DSH hospitals (n=733)
Initially proposed uncompensated care factor • Above average uncompensated care relative to total costs for Medicaid and uninsured patients only • Analysis limited to DSH hospitals only	49.3%	41.5%
Revised uncompensated care factor • Above average uncompensated care relative to total costs for all patients • Analysis includes all hospitals in the state	53.3%	62.6%

Notes: DSH is disproportionate share hospital.
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