MACPAC

Targeting Disproportionate Share Hospital Payment: Further Analysis

Medicaid and CHIP Payment and Access Commission
Robert Nelb

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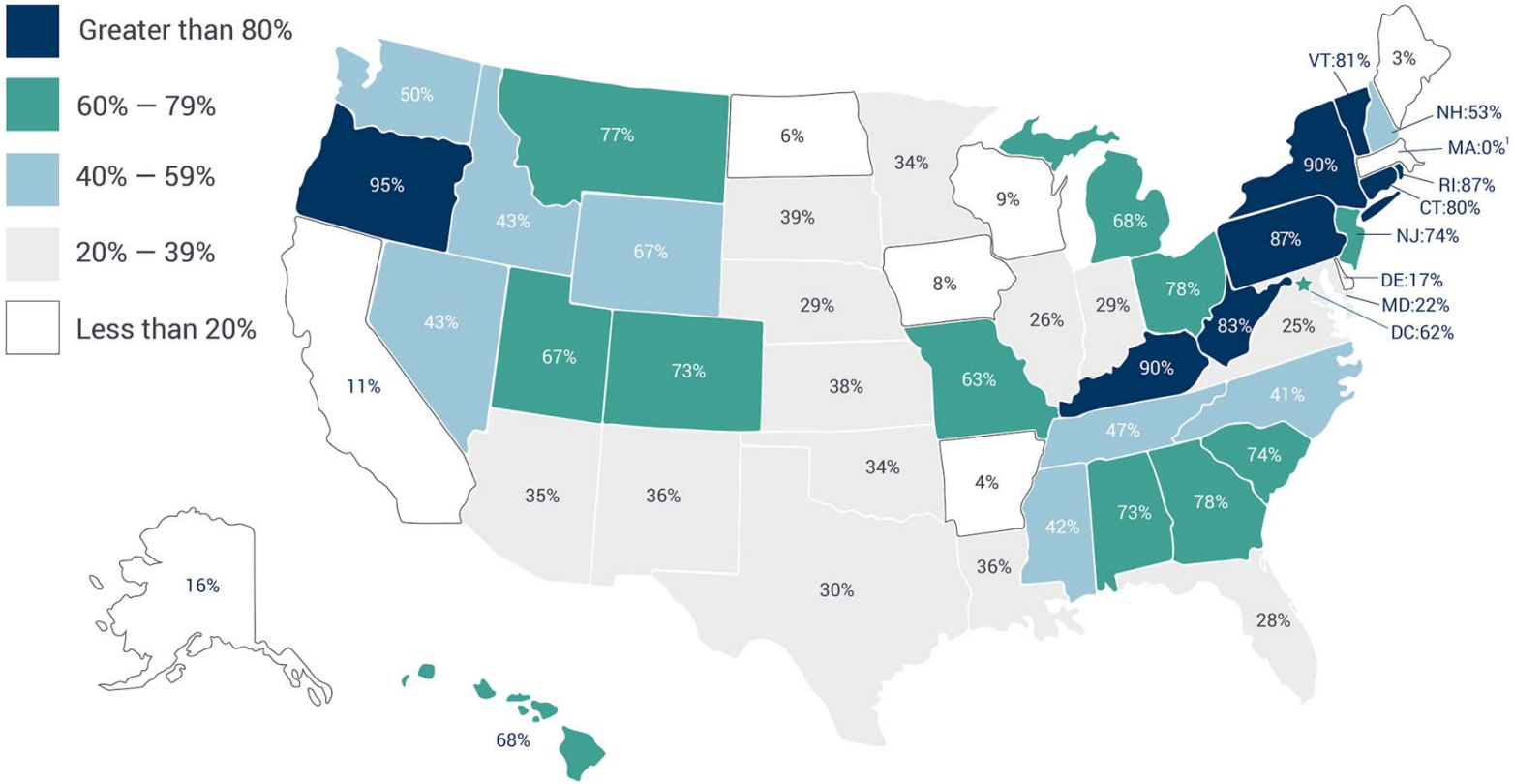
Overview

- Further analysis of options to change which hospitals are eligible for disproportionate share hospital (DSH) payments
  - Current provider eligibility criteria
  - Alternative utilization-based thresholds
  - Hospital and state effects
- Next steps

Current DSH Eligibility Criteria

- Virtually all hospitals meet the current minimum federal DSH eligibility requirements
  - Medicaid inpatient utilization rate of at least 1 percent
- States can establish their own DSH eligibility standards based on state-defined criteria
  - Hospital type
  - Ownership
  - Teaching status
- 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

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
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Alternative Eligibility Thresholds

- Absolute utilization thresholds
  - 5 percent Medicaid utilization rate
  - 10 percent Medicaid utilization rate
  - 15 percent Medicaid utilization rate
- Relative utilization thresholds
  - Average Medicaid utilization rate
  - Average low-income utilization rate
  - Average Medicaid or low-income utilization rate
- Deemed DSH standard
  - Medicaid utilization rate one standard deviation above average or a low-income utilization rate above 25 percent

Summary Statistics of DSH Hospitals By Various Targeting Thresholds

	Absolute utilization standards			Relative utilization standards			Deemed DSH standard
	5% Medicaid utilization rate	10% Medicaid utilization rate	15% Medicaid utilization rate	Average Medicaid utilization rate	Average low-income utilization rate	Average Medicaid or low-income utilization rate	
Number of DSH hospitals below threshold (n=2278)	121	356	704	985	952	603	1644
Share of DSH hospitals	5%	16%	31%	43%	42%	26%	72%
DSH payments to hospitals below threshold, billions (n=$12.6)	$0.1	$0.3	$1.0	$1.9	$3.2	$1.2	$4.4
Share of DSH payments	1%	3%	8%	15%	25%	10%	35%

Notes: Analysis limited to short-term and critical access hospitals that received DSH payments in 2012 and reported complete Medicaid and low-income utilization data in 2014 (n=2,278).
Source: MACPAC analysis of 2012 DSH audits and 2014 Medicare cost reports

Hospital Effects

- Some hospitals affected by higher utilization thresholds are highly reliant on DSH payments and in poor financial condition
  - Above average DSH payments (more than 3.5 percent of operating revenue)
  - Operating margins before DSH payments below the median for all hospitals (negative 1 percent)
- Many DSH hospitals with low Medicaid utilization rates are critical access hospitals
- DSH hospital margins are not clearly related to Medicaid or low-income utilization rates

State-By-State Effects

- At least one hospital in more than half of states would be affected by even a small change in the minimum DSH eligibility threshold
  - The amount of DSH funding affected in most states is small
- Hospitals in states that distribute DSH payments more broadly are more likely to be affected by higher utilization thresholds
- Variations in state-specific DSH targeting criteria also affect the impact of higher thresholds

Next Steps

- MACPAC is statutorily required to report on DSH in its March 2017 report
- The report must include state-specific analyses on the relationship of DSH allotments to:
  - changes in the number of uninsured individuals
  - the amount and sources of hospitals' uncompensated care costs
  - hospitals with high levels of uncompensated care that also provide essential community services
- The report can also include analyses of potential DSH targeting options

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