MACPAC

Review of Draft March Chapter and DSH Allotment Recommendations

Medicaid and CHIP Payment and Access Commission

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Overview

- Review draft chapter
  - Current structure of disproportionate share hospital (DSH) allotment reductions
  - Policy goals
  - State effects
- Review and discuss draft recommendations
  - Recap discussion from December meeting
  - Review changes to recommendation language
- Next steps

Background

- Medicaid DSH payments are limited by annual federal allotments
  - Allotments vary widely by state based on state DSH spending in 1992
  - The ACA included reductions to DSH allotments under the assumption that increased coverage would reduce hospital uncompensated care costs
- Current reduction amounts
  - $4 billion in fiscal year (FY) 2020
  - $8 billion per year in FYs 2021–2025
  - No reduction in FY 2026 and subsequent years

Policy Goals

- We limited our analyses to changes that would be budget neutral for the federal government
- MACPAC examined approaches to change the structure of DSH allotment reductions to advance the following goals:
  - Improving the relationship between DSH allotments and measures related to hospital uncompensated care costs
  - Applying reductions to states independent of state policy choices
  - Phasing in changes in an orderly way

State Effects

- The chapter reviews the effects of the recommended policy on DSH payments and total hospital spending
  - Some states may be able to offset some of the effects of cuts by increasing other types of Medicaid payments to hospitals
  - Doing so may be difficult for states if they have to change the source of non-federal share
- Different parameters would change the effects of reductions on particular states

Draft Recommendation Package

December Recap and Changes to Recommendations

- Most Commissioners expressed support for the proposed recommendations
- Commissioner suggestions were incorporated
  - Expanded discussion of the Commission's decision-making process in the rationale
  - Additional clarification about the data used for the geographic cost adjustment
  - Additional clarification about how reductions to unspent DSH funds would be applied

Draft Recommendation 1

- In order to phase in disproportionate share hospital (DSH) allotment reductions more gradually without increasing federal spending, Congress should revise Section 1923 of the Social Security Act to change the schedule of DSH allotment reductions to $2 billion in FY 2020, $4 billion in FY 2021, $6 billion in FY 2022, and $8 billion a year in FYs 2023–2029

Recommendation 1: Rationale

- Mitigate disruption for DSH hospitals
- Time for states to adjust other Medicaid hospital payment policies if they so choose
- Amounts are intended to match the level of spending assumed under current law
  - The Congressional Budget Office (CBO) does not assume dollar-for-dollar savings
  - CBO's final estimate of proposed legislation can be used to calibrate reduction amounts to further minimize changes in federal spending

Draft Recommendation 2

- In order to minimize the effects of disproportionate share hospital (DSH) allotment reductions on hospitals that currently receive DSH payments, Congress should revise Section 1923 of the Social Security Act to require the Secretary of the U.S. Department of Health and Human Services to apply reductions to states with DSH allotments that are projected to be unspent before applying reductions to other states

Recommendation 2: Rationale

- Minimizes amount of reductions to DSH funds that are currently paid to providers
  - In FY 2016, $1.2 billion in federal DSH allotments were unspent
  - The amount of unspent funds has been relatively consistent over the past several years
- Implemented by changing the methodology used to distribute reductions rather than by changing the amount of reductions

Draft Recommendation 3

- In order to reduce the wide variation in state disproportionate share hospital (DSH) allotments based on historical DSH spending, Congress should revise Section 1923 of the Social Security Act to require the Secretary of the U.S. Department of Health and Human Services to develop a methodology to distribute reductions in a way that gradually improves the relationship between DSH allotments and the number of non-elderly, low-income individuals in a state, after adjusting for differences in hospital costs in different geographic areas

Recommendation 3: Rationale

- The number of low-income individuals in a state relates to hospital uncompensated care costs and is independent of state policy choices
- Other measures the Commission considered did not have reliable data sources or were highly affected by state policy choices
- Geographic variations in hospital costs affect uncompensated care costs
- Phasing in changes gradually provides states and hospitals time to respond before the full amount of reductions takes effect

Estimated Impact

- Federal government
  - Modest federal budget savings over 10 years
- States
  - Larger reductions for states with unspent funds
  - Smaller reductions for states with low DSH allotments per low-income individual
- Providers and enrollees
  - Effects vary by state and by how states respond to allotment reductions

Next Steps

- Chapter and recommendations will be included in the March report, along with the Commission's required DSH analyses
- Separate discussion tomorrow about accounting for third-party payments in the DSH definition of Medicaid shortfall

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