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MACPAC Calls on Congress to Phase In Medicaid Safety-Net Hospital Cuts, Shine Sunlight on Supplemental Payments

March report also recommends revising safety-net hospital funding formula to target states with the greatest share of low-income residents

Washington, DC—The Medicaid and CHIP Payment and Access Commission (MACPAC) today released its March 2019 Report to Congress on Medicaid and CHIP, calling on Congress to make changes in how it implements pending cuts to disproportionate share hospital (DSH) allotments to mitigate the impact on safety-net hospitals and provide a stronger link between the distribution of those allotments and measures of hospital uncompensated care costs, and direct the Secretary to take steps to improve compliance with upper payment limits (UPL).

The March report zeroes in on the two largest types of supplemental Medicaid payments to hospitals: (1) DSH payments, which are intended to offset the cost of uncompensated care to the nation's hospital safety net, and (2) UPL payments, which actually provided more financial support to hospitals than DSH in FY 2017. Chapter 1 addresses the federal DSH allotment reductions that are scheduled to take effect October 1. The Patient Protection and Affordable Care Act (P.L. 111-148, as amended) established the reductions on the assumption that as the number of people with health insurance increased, declines in hospital uncompensated care would in turn temper the need for DSH payments.

"For several years, MACPAC's analyses have shown that the DSH allotment formula bears little resemblance to a state's need for DSH funding, since it's based on historical patterns of spending going back to the 1990s," said MACPAC Chair Penny Thompson. "If these reductions go into effect, we recommend that Congress take this opportunity to move toward a more equitable funding distribution."

If Congress chooses to proceed with DSH cuts, the Commission recommends phasing the reductions in gradually, to give states and hospitals more time to respond to the cuts, and applying cuts to unspent DSH funding first, to minimize their impact on providers. The Commission also recommends that Congress require the U.S. Department of Health and Human Services to develop a new DSH allotment methodology that

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gradually improves the relationship between the number of non-elderly low-income individuals in a state and its DSH allotment. This would provide a better measure of a state's relative need for DSH funding and reduce the wide variation in DSH allotments that is currently based on 1990s spending.

Chapter 2 examines UPL payments, which are intended to make up the difference between fee-for-service base rates and the amount that Medicare would have paid for the same service. MACPAC previously has pointed to the lack of data regarding these payments; new analyses in Chapter 2 raise new concerns regarding the discrepancy between reporting by states to show that they are complying with the UPL and the spending data they report to claim federal matching payments. The Commission recommends instituting better data and process controls to ensure that state reporting on compliance with UPL lines up with the amounts they are claiming, and existing limits are enforced. The Commission also recommends that CMS release hospital-specific UPL demonstration data in a standard format that provides the public with access to this information.

The final chapter updates MACPAC's annual statutorily required analysis of indicators of hospitals' need for DSH funds with previously unavailable data from DSH audits. The new analysis shows that while charity care and bad debt are declining, Medicaid shortfall—the difference between a hospital's Medicaid payments and its costs of providing services to Medicaid-enrolled patients—is growing. Medicaid shortfall, in fact, outpaced the decline in unpaid costs of care for uninsured patients in state plan rate years 2013 and 2014 for DSH hospitals.

Download the March 2019 *Report to Congress on Medicaid and CHIP* and each of its chapters—[Improving the Structure of Disproportionate Share Hospital Allotment Reductions](#), [Oversight of Upper Payment Limit Supplemental Payments to Hospitals](#), and [Annual Analysis of Disproportionate Share Hospital Allotments to States](#)—at macpac.gov.

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ABOUT MACPAC

The Medicaid and CHIP Payment and Access Commission is a non-partisan legislative branch agency that provides policy and data analysis and makes recommendations to Congress, the Secretary of the U.S. Department of Health and Human Services, and the states on a wide array of issues affecting Medicaid and the State Children's Health Insurance Program (CHIP). For more information, please visit www.macpac.gov.

