

September 15, 2022

# Countercyclical Disproportionate Share Hospital (DSH) Policies

---

Aaron M Pervin and Robert Nelb



Medicaid and CHIP Payment and Access Commission



[www.macpac.gov](http://www.macpac.gov)

# Overview

- Background
  - DSH allotments
  - Previous countercyclical recommendations
- DSH during economic recessions
- Countercyclical DSH policies
- Stakeholder perspectives on DSH during the pandemic
- Next steps

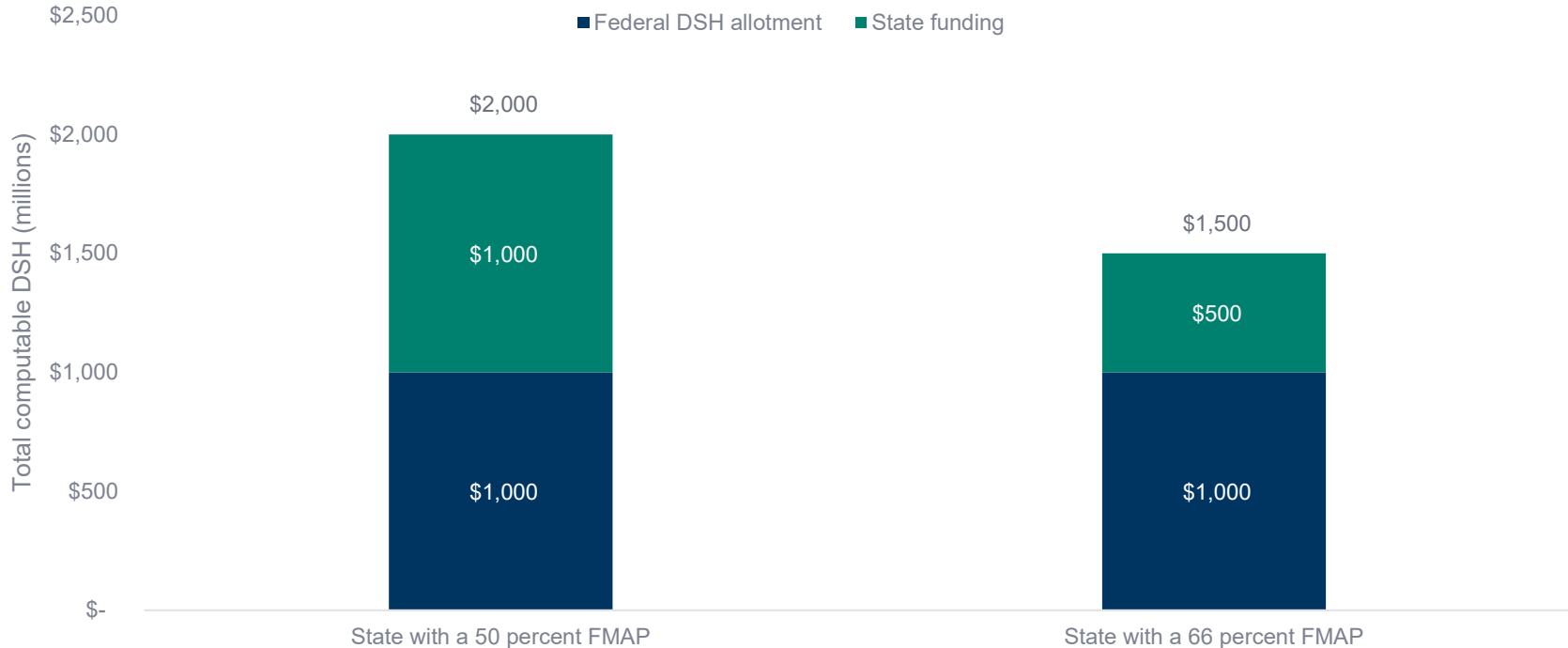
# Medicaid DSH Background

- DSH payments are intended to help offset hospital uncompensated care costs for Medicaid-enrolled and uninsured patients
- State DSH payments are limited by federal allotments
  - Allotments vary widely by state based on DSH spending in 1992
  - Little meaningful relationship between DSH allotments and measures of need for DSH funding
- In order to draw down federal DSH allotments, states must provide matching funds
  - Non-federal share amount is determined by the federal medical assistance percentage (FMAP), similar to other Medicaid expenditures
  - In 2018, 65 percent of DSH payments were financed by providers through provider taxes or intergovernmental transfers (IGTs) from public hospitals

# Economic Recessions and DSH

- During economic recessions, Medicaid enrollment and the number of uninsured individuals increases
  - Can result in higher Medicaid expenditures, higher levels of hospital uncompensated care
  - May also lower a state's tax base, making it difficult to finance the non-federal share of Medicaid payments
- In 2021, MACPAC recommended that Congress should implement a countercyclical financing mechanism
  - Automatically increase FMAP during a period of high unemployment without further congressional action
  - Mechanism would provide additional federal funding to states as a stimulus
- Recommendation excluded DSH because it is capped by a federal allotment
  - Higher FMAP results in states drawing down the federal allotment faster
  - Once the federal allotment is exhausted, states cannot contribute any more state share
  - Results in lower overall DSH spending in the state

# A Higher FMAP Results in Lower Total DSH Funding



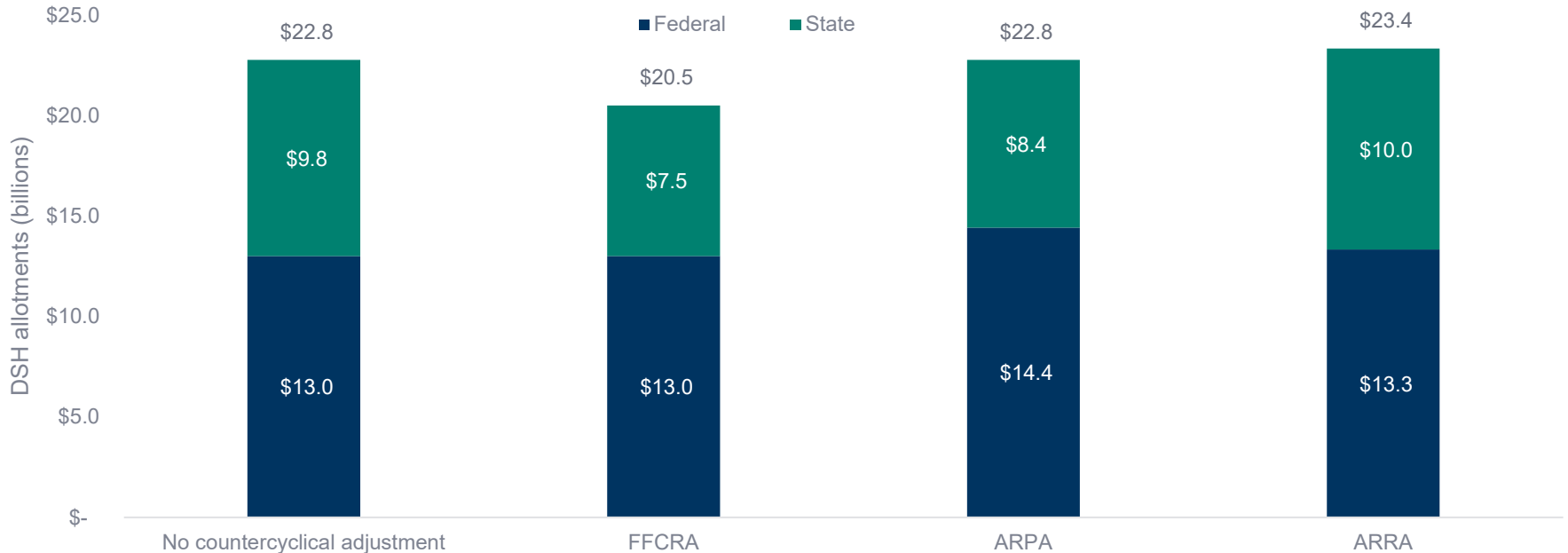
**Notes:** DSH is disproportionate share hospital, FMAP is the federal medical assistance percentage. Total computable DSH shows the combined federal and state DSH funding amount. Chart shows a hypothetical state with a \$1 billion federal DSH allotment with two different FMAPs.

# Countercyclical DSH Policies

# Previous Countercyclical DSH Policies

- 2009: American Recovery and Reinvestment Act (ARRA)
  - Provided no enhanced FMAP for DSH payments, other Medicaid payments received enhanced FMAP
  - Increased federal DSH allotments by a fixed amount
- 2020: Families First and Coronavirus Response Act (FFCRA)
  - Provided an enhanced FMAP for DSH payments
  - No change in federal DSH allotments
- 2021: American Rescue Plan Act (ARPA)
  - Provided an enhanced FMAP for DSH payments
  - Increased federal DSH allotments so that total state and federal funding was the same as it would have been without the countercyclical policy

# Total DSH Allotments Under Various Countercyclical Policy Scenarios, FY 2021



countercyclical adjustment assumes no change to DSH allotments or the Federal Matching Assistance Percentage from the baseline before the COVID-19 pandemic. Totals do not sum due to rounding.

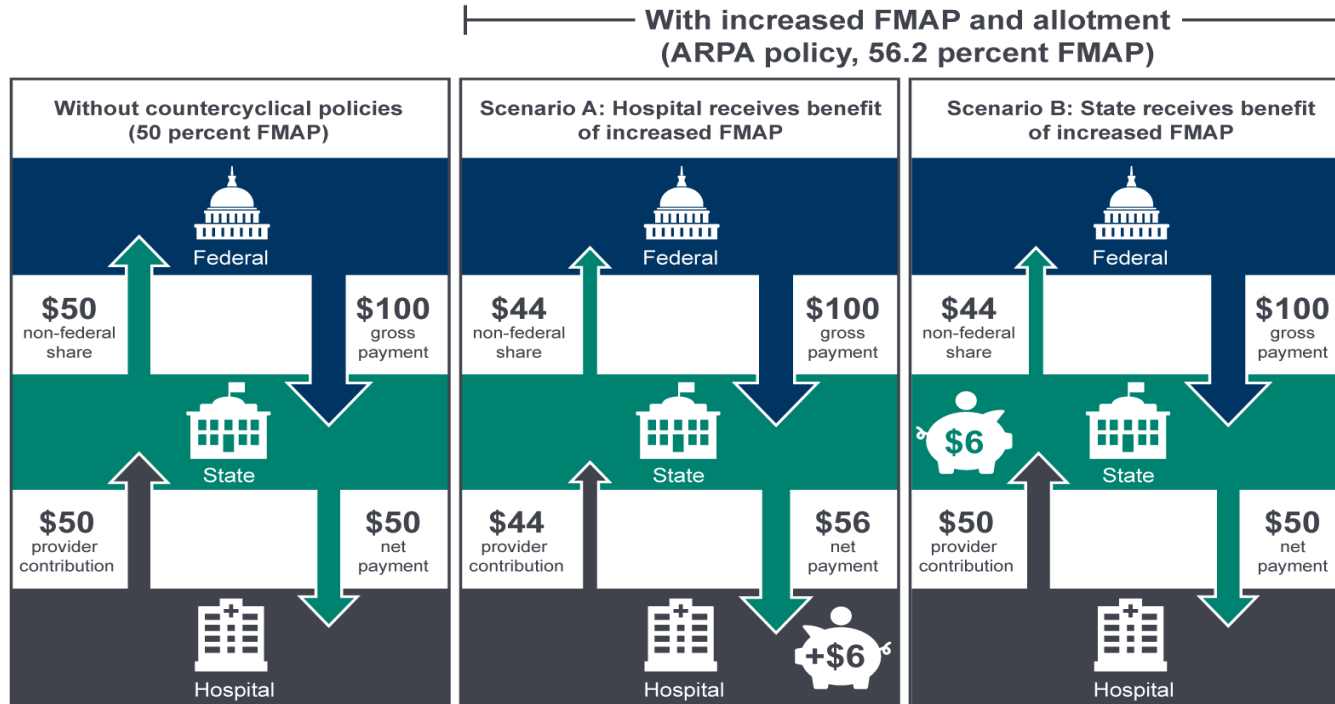
Source: MACPAC, 2022, analysis of Medicaid Budget and Expenditure System



# Potential Effects on DSH Payments

- It is not clear how states would change DSH payments to providers in response to changes in DSH allotments
- States with unspent DSH funding may not be affected by a countercyclical DSH policy
  - A total of \$1.4 billion in 2019 DSH allotments (13 percent) were unspent as of 2022
  - Almost half of states had unspent DSH funding in 2018 that was greater than the amount of the reduction in total available DSH funding under FFCRA
- Providers that finance the non-federal share of DSH payments could potentially have higher net payments if the FMAP increases, depending on state policy choices

# Countercyclical FMAP Policies Could Increase Net DSH Payments to Providers



**Notes:** ARPA is the American Rescue Plan Act, FMAP is the Federal Medical Assistance Percentage. Without countercyclical adjustment assumes no change to DSH allotments or the Federal Matching Assistance Percentage from the baseline before the COVID-19 pandemic. ARPA policy increased federal allotments and applied an enhanced FMAP. Provider contributions can be in the form of a provider tax or an intergovernmental transfer from a public hospital.

# Stakeholder Perspectives

- State officials and hospital associations in five states provided insights on how countercyclical DSH policies worked in practice during the COVID pandemic
- Key themes:
  - The COVID pandemic has been different than previous economic recessions and the full effects of the pandemic on uncompensated care are still unknown
  - States and hospitals were concerned about lower total DSH funding under FFCRA and supported the ARPA increase of total DSH funding
  - The benefits of an increased FMAP did not always benefit providers, particularly in states that financed DSH with provider taxes and state general funds
  - Delays in CMS and congressional action affected states' ability to spend their full DSH allotment in a timely manner

# Summary of Policy Issues

Countercyclical DSH policy	Support for hospital uncompensated care	Support for states	Administrative simplicity of setting DSH allotments
<b>Increased FMAP, but no increased allotment (FFCRA policy)</b>	Reduces total DSH funding	Yes	Same as FMAP
<b>No increased FMAP, increased allotment (ARRA policy)</b>	Increases total DSH funding	No	Would require consideration of factors other than FMAP
<b>Increased FMAP and increased allotment (ARPA policy)</b>	Same total DSH funding, likely more net payments for public hospitals	Yes	Same as FMAP

# Discussion Questions

- Is there Commissioner interest in making a countercyclical DSH recommendation?
- Are there policy options that should be removed from consideration?
- Are there policy issues that have been not been considered or addressed?

## Next Steps

- Staff can return with potential recommendations and design considerations at a future meeting
  - An FFCRA or ARPA approach could be implemented within the Commission's current countercyclical financing recommendation
  - An ARRA approach would require a separate determination of how much to increase DSH allotments during a recession
- Statutorily required analyses of DSH allotments will be presented at the December meeting and included in the March 2023 report

September 15, 2022

# Countercyclical Disproportionate Share Hospital (DSH) Policies

---

Aaron M Pervin and Robert Nelb



Medicaid and CHIP Payment and Access Commission



[www.macpac.gov](http://www.macpac.gov)