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Potential Recommendations for Countercyclical DSH Allotments

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Overview

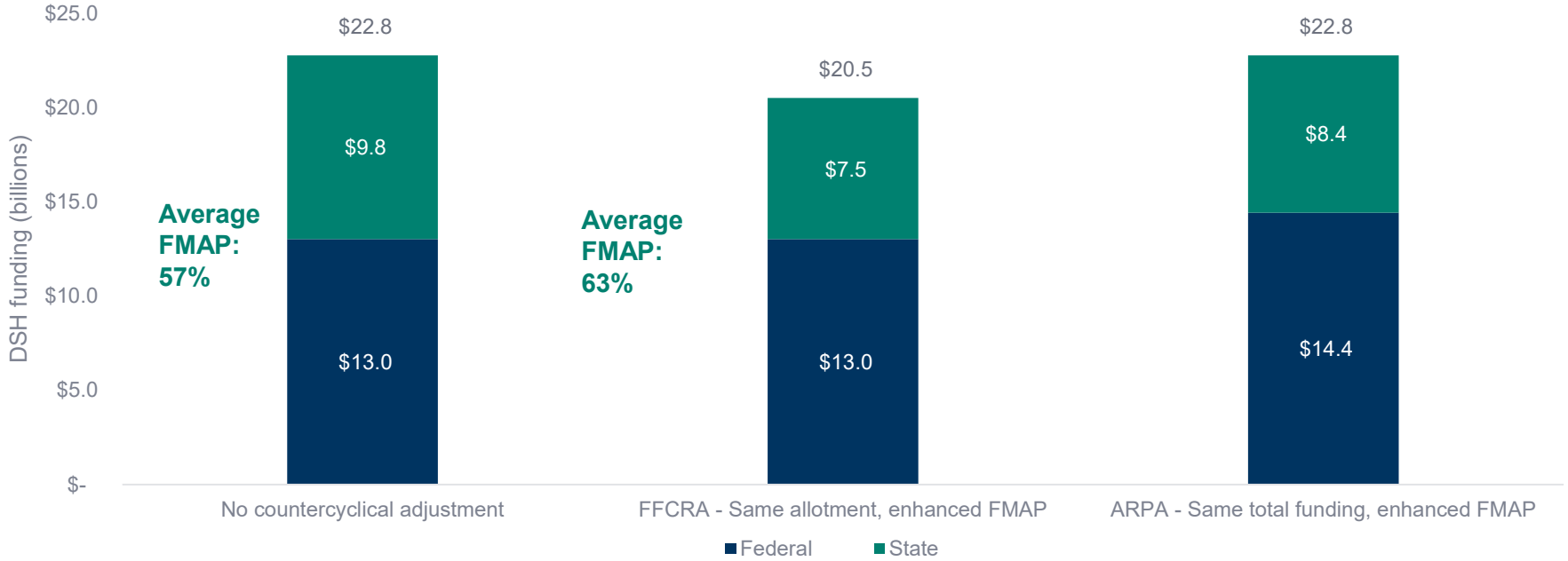
- 1. Disproportionate share hospital (DSH) allotment policy options
  - 1A. Temporary adjustment
  - 1B. Permanent adjustment
- 2. Adjusting prior countercyclical financing recommendation
- 3. Technical correction to streamline annual allotment calculations
- Next steps

1. DSH Allotment Policy Options

Background

- State DSH funding is limited by federal allotments
  - A higher federal matching assistance percentage (FMAP) results in lower total state and federal DSH funding
- The need for DSH funding is countercyclical. During economic recessions:
  - Hospital uncompensated care likely increases
  - State tax revenue decreases
- American Rescue Plan Act (ARPA) addressed these issues during the COVID public health emergency (PHE)
  - Congress previously increased the FMAP for DSH and other Medicaid expenditures
  - ARPA increased federal DSH allotments so that total DSH funding is the same as it would have been without the increased FMAP
- At the September public meeting, Commissioners reviewed a variety of approaches for adjusting DSH allotments and preferred the ARPA approach

Total DSH Allotments Under Various Countercyclical Policy Scenarios, FY 2021



Notes: ARPA is the American Rescue Plan Act of 2021 (P.L. 117-2). FFCRA is Families First and Coronavirus Response Act of 2020 (P.L. 116-127). FMAP is federal medical assistance percentage. Average FMAP is the national average FMAP provided to states for federal DSH funding. No countercyclical adjustment assumes no change to DSH allotments or FMAP 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

Decision Point: Extend Policy After PHE Ends?

- Although the Commission's discussion has focused on economic recessions, Commissioners may want to consider applying a similar policy to other FMAP changes during periods of normal growth
  - FMAP adjusts annually based on state per capita income
  - States with lower income likely have more need for DSH payments
- To inform discussion of this issue, we examined
  - Changes in total federal spending
  - State-by-state effects

Recommendation Options

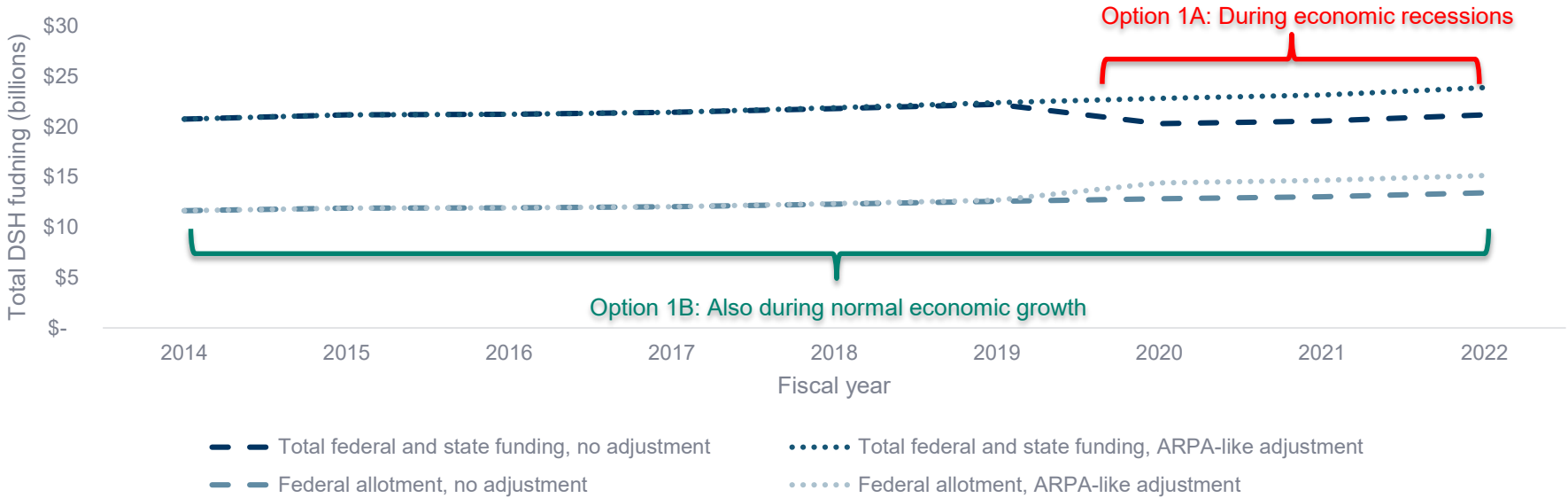
1A. Temporary

In order to preserve total DSH funding when the FMAP increases during national economic recessions, Congress should amend Section 1923 of the Social Security Act to temporarily increase federal DSH allotments so that total available state and federal DSH funding is the same as it would have been without an increased FMAP during the period.

1B. Permanent

In order to preserve total DSH funding when the FMAP changes, Congress should amend Section 1923 of the Social Security Act to permanently calculate federal DSH allotments so that total available state and federal DSH funding does not vary based on changes in a state's FMAP.

National DSH Funding With and Without an ARPA-like Adjustment, FYs 2014–2022



Notes: DSH is disproportionate share hospital. ARPA is the American Rescue Plan Act of 2021 (P.L. 117-2). Beginning in fiscal year (FY) 2020, states received a 6.2 percentage point increase in their federal matching assistance percentage (FMAP) under the Families First and Coronavirus Response Act of 2020 (FFCRA, P.L. 116-127). The no adjustment scenario assumes that federal DSH allotments increase annually based on inflation without an FMAP adjustment. The ARPA-like adjustment assumes that total available DSH funding increases annually based on inflation beginning in FY 2014, regardless of changes in a state's FMAP. Option 1A refers to a temporary ARPA-like adjustment. Option 1B refers to a permanent ARPA-like adjustment. Under policy option 1A or 1B, states must provide non-federal funding in order to spend all available state and federal DSH funds.
Source: MACPAC, 2022, analysis of Medicaid Budget and Expenditure System

State Effects With and Without an ARPA-like Adjustment During Economic Recessions and Normal Economic Growth

Change in state FMAP	Number of states	Average percentage point change in FMAP	Average percent change in federal DSH allotment compared to the prior year		Average percent change in total available state and federal DSH funding compared to the prior year	
			Without ARPA-like adjustment	With ARPA-like adjustment	Without ARPA-like adjustment	With ARPA-like adjustment
Economic recession (FYs 2019–2020): Option 1A and 1B						
Increased FMAP	51	6.4	1.9%	13.0%	-8.1%	1.9%
Normal economic growth (FYs 2018–2019): Option 1B only						
Increased FMAP	23	0.8	2.4%	3.8%	0.8%	2.4%
Decreased FMAP	13	-0.6	2.4%	1.5%	3.3%	2.4%
No change to FMAP	15	0.0	2.4%	2.4%	2.4%	2.4%

Notes: FY is fiscal year. DSH is disproportionate share hospital. FMAP is federal matching assistance percentage. ARPA is the American Rescue Plan Act of 2021 (P.L. 117-2). Without an ARPA-like adjustment means federal DSH allotments increase based on inflation. With an ARPA-like adjustment means total available DSH funding increases based on inflation. Option 1A refers to a temporary ARPA-like adjustment. Option 1B refers to a permanent ARPA-like adjustment. Under policy option 1A or 1B, states must provide non-federal funding in order to spend all available state and federal DSH funds. Number of states includes the District of Columbia.
Source: MACPAC, 2022, analysis of Medicaid Budget Expenditure System

Implications of Recommendation Options

Stakeholders	1A. Temporary	1B. Permanent
Federal government	Increase in federal spending commensurate with increased FMAP	May also result in minimal changes in federal DSH spending during periods of normal growth
States	All states would receive increased allotment during economic recessions	State-by-state effects would vary during periods of normal growth
Providers	Preserve total DSH funding available during economic recessions	Also preserve total DSH funding during periods of normal growth
Enrollees	No direct effect on enrollees; may indirectly help patients served by DSH hospitals maintain access to care	

2. Adjusting Prior Countercyclical Financing Recommendation

Background

- In 2021, MACPAC recommended that Congress adopt a countercyclical financing mechanism modeled on the prototype model developed by the Government Accountability Office (GAO)
  - GAO model uses objective and timely indicators of an economic downturn which would have been triggered during the last four recessions
  - Excluded DSH from a countercyclical FMAP increase because of concerns that total available funding would decline if the federal allotment were unchanged
- If the Commission adopts an ARPA-like change to DSH allotments (draft recommendations 1A or 1B), the Commission could also revise its prior countercyclical financing recommendation to include DSH
  - Would benefit states during economic recessions without negatively affecting providers
  - Would also reaffirm MACPAC's prior recommendation

Recommendation 2: Draft Language

- *Congress should amend the Social Security Act to provide an automatic Medicaid countercyclical financing model, using the prototype developed by the U.S. Government Accountability Office as the basis. The Commission recommends this policy change should also include:*
  - *An eligibility maintenance of effort requirement for the period covered by an automatic countercyclical financing adjustment;*
  - *An upper bound of 100 percent on adjusted matching rates;*
  - *A temporary increase in federal disproportionate share hospital (DSH) allotments so that total available DSH funding does not change as a result of changes to the federal matching assistance percentage (FMAP); and*
  - *An exclusion of the countercyclical FMAP from non-DSH spending that is otherwise capped or have allotments (e.g., territories) and other services and populations that receive special matching rates (e.g., for the new adult group).*

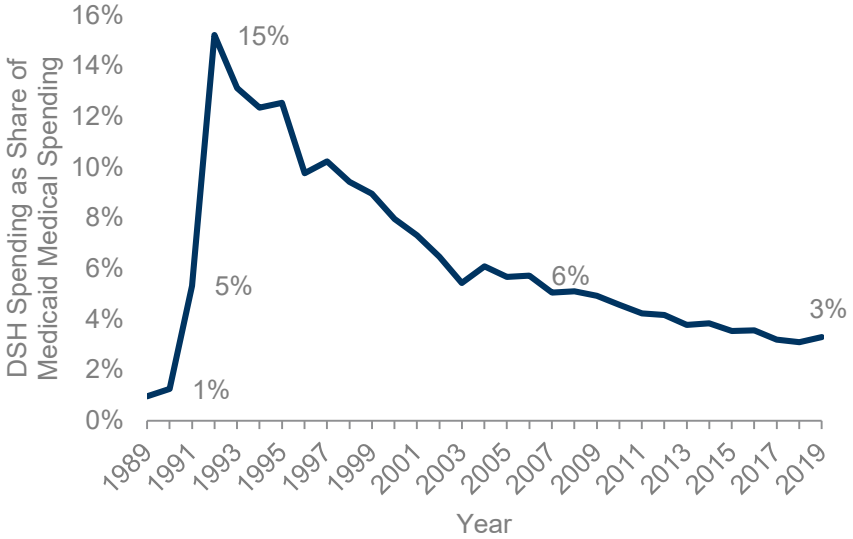
3. Technical Correction to Streamline Annual Allotment Calculations

Background

- Delays in finalizing DSH allotments affected states' ability to spend all available DSH funds in a timely manner early in the pandemic
  - For example, FY 2018 DSH allotments were not finalized until March 2022
  - Timely access to DSH funds may be even more important in future recessions when other federal provider relief funds may not be available
- The statutory requirement that CMS compare DSH allotments to total state medical spending is the main reason for this delay
  - Federal allotments cannot exceed 12 percent of total medical spending
  - It takes at least two years to finalize data needed for these calculations
  - This limit no longer has any practical effect on DSH spending

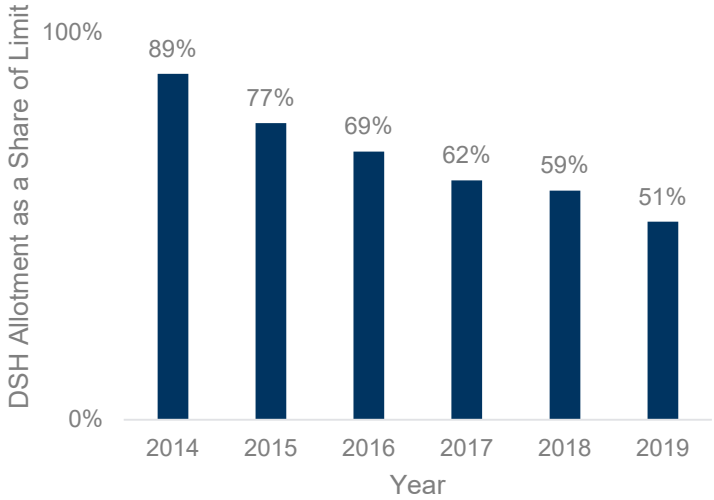
12 Percent Limit No Longer Has Any Effect

DSH Expenditures as a Share of Medicaid Medical Expenditures



Notes: DSH is disproportionate share hospital. DSH expenditures include both state and federal funds. Medicaid medical expenditures includes both state and federal funds but does not include administrative spending.
Source: MACPAC, 2022, analysis of Medicaid Budget and Expenditure System

State with the Highest DSH Allotment as a Share of Limit



Notes: DSH is disproportionate share hospital. Limit refers to the provision in Section 1923(f)(3)(B) of the Social Security Act that limits federal DSH allotments to no more than 12 percent of total Medicaid medical assistance spending in the state.
Source: MACPAC, 2022, analysis of final FY 2014-2019 DSH allotments published in the *Federal Register*

Recommendation 3: Draft Language

- *To provide states and hospitals with greater certainty about available disproportionate share hospital (DSH) allotments in a timely manner, Congress should amend section 1923 of the Social Security Act to remove the requirement that the Centers for Medicare and Medicaid Services (CMS) compare DSH allotments to total state Medicaid medical assistance expenditures in a given year before finalizing DSH allotments for that year.*

Next Steps

- Staff would appreciate feedback on which (if any) recommendations to make and which points to highlight in the rationale
- If Commissioners like to move forward with recommendations:
  - Staff will reach out to the Congressional Budget Office for an official score
  - Staff will bring back a draft chapter and final recommendation language for a vote at a future meeting
- At the December public meeting, we plan to present a draft of MACPAC's statutorily required report on DSH, which will be included in the March 2023 report

Summary of Policy Options

- 1. Making an ARPA-like adjustment to DSH allotments
  - 1A. Temporary adjustment: Only during economic recessions
  - 1B. Permanent adjustment: Also during annual FMAP changes
- 2. Adjusting prior countercyclical financing recommendation to include an enhanced FMAP for DSH during economic recessions
- 3. Removing requirement that CMS compare DSH allotments to Medicaid spending before finalizing allotments

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