December 14, 2023

Required Annual Analysis of Disproportionate Share Hospital (DSH) Allotments

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MACPAC

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Overview

- Background
- Statutorily required analyses
  - Changes in the number of uninsured individuals
  - Amounts and sources of uncompensated care
  - Hospitals that provide essential community services
- FY 2024 DSH allotment reductions
- Future work
- Next steps

Background

- DSH payments are statutorily required payments to offset uncompensated care for Medicaid-enrolled and uninsured individuals
- State DSH payments are limited by federal allotments that vary widely by state
  - DSH allotments are based on fiscal year (FY) 1992 DSH spending
- DSH payments to individual hospitals cannot exceed hospital uncompensated care costs for Medicaid and uninsured individuals
- FY 2024 federal DSH allotments are scheduled to be reduced on January 20, 2024

Statutorily Required Analyses

Number of Uninsured Individuals

- 26 million individuals were uninsured in 2022 according to the Census bureau
  - 7.9 percent of the U.S. population
  - Uninsured rate significantly decreased by 0.4 percentage points from 2021
- Uninsured rate was highest for non-elderly adults, individuals of Hispanic origin, and individuals with incomes below the federal poverty level
- Following the end of the continuous coverage requirement, states have begun and will continue Medicaid eligibility redeterminations in the coming year
  - Medicaid enrollment is expected to decline and the number of uninsured individuals is likely to increase
  - By October 2023, over 9 million Medicaid enrollees have been disenrolled

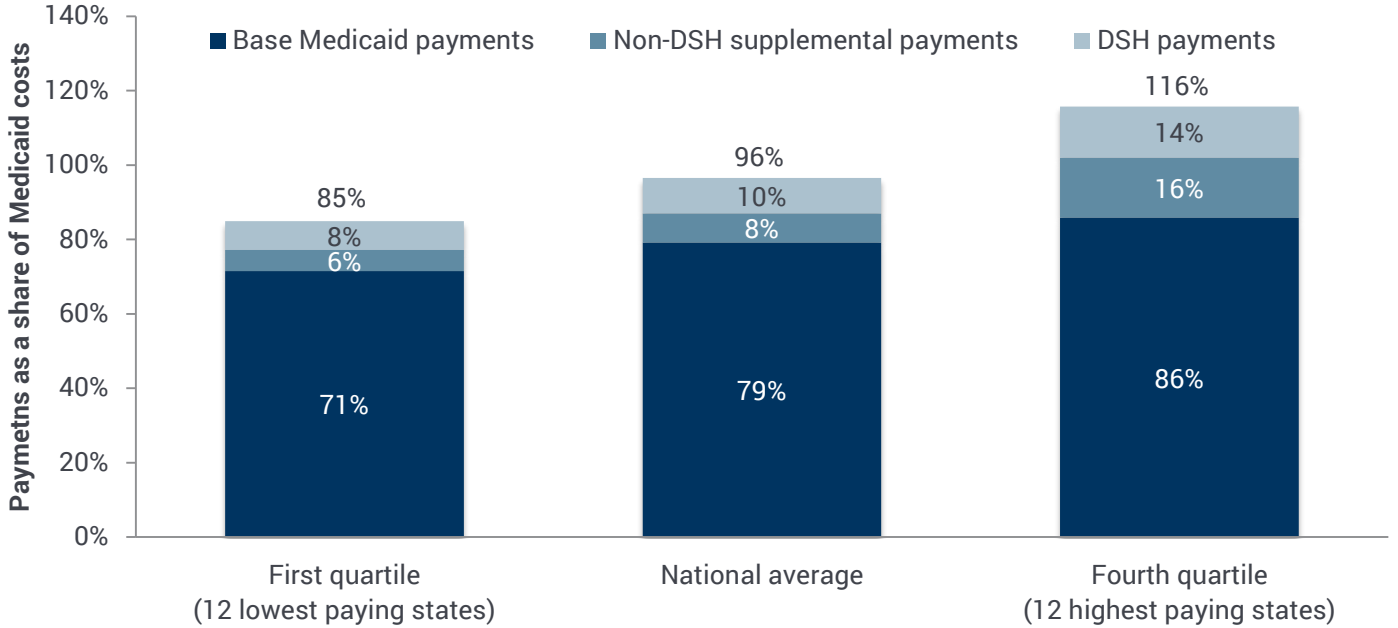
Unpaid Costs of Care for Uninsured Individuals

- In FY 2021, hospitals reported $39 billion in charity care and bad debt
  - 3.6 percent of operating expenses
  - 57 percent ($22 billion) on charity care for uninsured individuals
  - 12 percent ($5 billion) on charity care for insured individuals
  - 31 percent ($12 billion) on bad debt expenses for both insured and uninsured individuals

Medicaid Shortfall

- The American Hospital Association (AHA) survey has reported information about Medicaid shortfall in prior years but has not reported 2021 Medicaid shortfall information
  - In 2020, AHA calculated Medicaid shortfall for all hospitals was $25 billion and the aggregate Medicaid payment-to-cost ratio was 88 percent
- In 2019, DSH hospitals reported $21 billion in Medicaid shortfall on Medicaid DSH audits
  - DSH hospitals had a Medicaid payment-to-cost ratio of 87 percent before accounting for DSH payments
  - This varied by state with many states paying over 100 percent of Medicaid costs for DSH hospitals

Medicaid Payments to DSH Hospitals as a Percentage of Medicaid Costs, by National Average and Selected Quartiles, SPRY 2019



Notes: DSH is disproportionate share hospital. SPRY is state plan rate year. A total of 2,312 DSH hospitals were used in this analysis. This analysis excludes DSH hospitals that did not submit a fiscal year 2021 Medicare cost report, DSH hospitals that were identified as being out of state, and DSH hospitals that are considered an institution for mental disease. Base Medicaid payments include fee-for-service as well as managed care payments for services. Non-DSH supplemental payments include upper payment limit payments in fee-for-service Medicaid, graduate medical education payments, and supplemental payments authorized under Section 1115 demonstrations. Payments shown do not account for provider contributions to the non-federal share; these contributions may reduce net payments. Numbers may not sum due to rounding.
Source: MACPAC, 2023, analysis of SPRY 2018-2019 as-filed Medicaid DSH audits.

Hospital Margins

- Two ways to measure hospital finances
  - Operating margins: revenue and costs related to patient care
  - Total margins: includes other income (e.g., COVID-19 provider relief funding (PRF))
- Operating margins were negative after DSH payments, positive total margins after PRF
  - Operating margins: all hospitals were -0.8 percent, deemed DSH were -4.6 percent
  - Total margins: all hospitals were 10 percent, deemed DSH were 9 percent

Hospitals that Provide Essential Community Services

- MACPAC is statutorily required to identify hospitals that provide essential community services
  - MACPAC defined essential community services based on the services suggested in statute (e.g. inpatient psychiatric, burn services, etc.)
- Number of providers meeting MACPAC's definition of essential community services is largely unchanged
  - 694 hospitals met criteria for deemed DSH in 2019
  - 92 percent of these hospitals provided at least one service
  - 55 percent provided three or more services compared to 38 percent of non-deemed DSH

DSH Allotment Reductions

Upcoming DSH Allotment Reductions

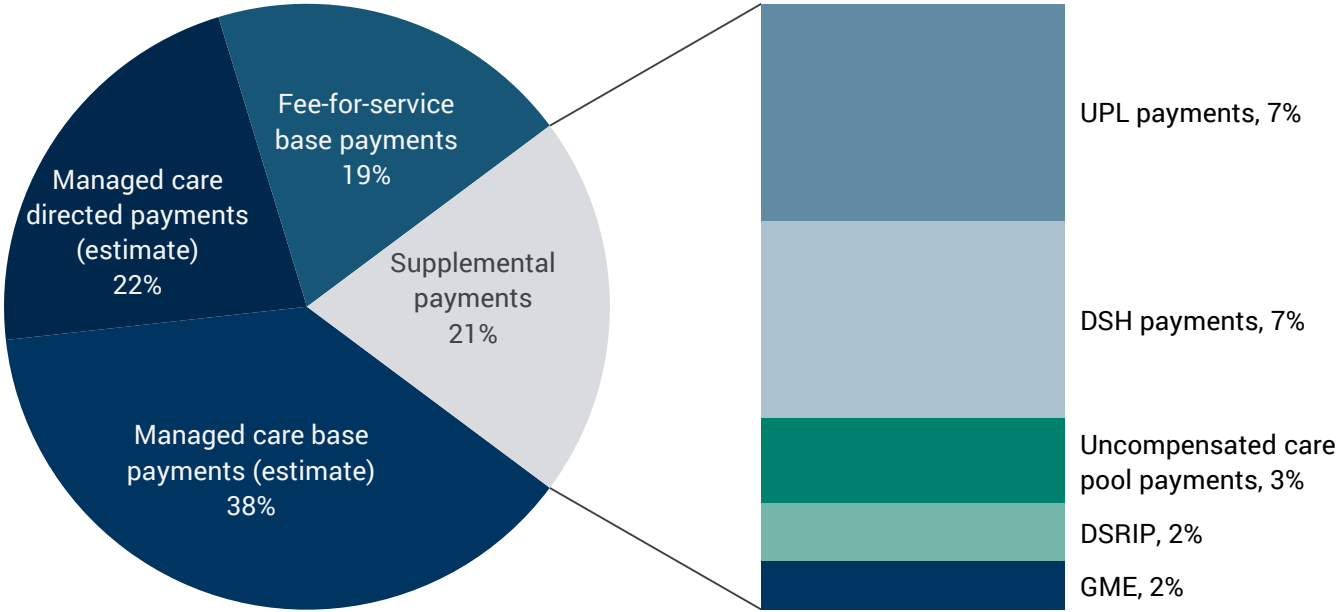
- DSH allotment reductions are scheduled to begin January 20, 2024
  - $8 billion each year reduction in FYs 2024 – 2027
  - Reductions affect states differently, estimated reductions range from 5.1 to 90.0 percent of unreduced allotment amounts in FY 2024
- MACPAC continues to find that DSH allotments share no relationship with measures of need before or after reductions
- MACPAC will continue to monitor Congressional action on DSH allotments and will update our estimates should Congress decide to delay the DSH reductions

Future Work

Supplemental Payment Background

- Commission has long held that DSH policy should be assessed in context of all other payments a hospital receives, including:
  - Base payments (fee-for-service and managed care)
  - Upper payment limit (UPL) supplemental payments
  - Managed care directed payments
- In recent years, some states have begun substituting managed care directed payments for DSH payments
  - Directed payments can pay up to the average commercial rate for Medicaid services and reduce the amount of DSH payments a hospital can receive
  - The average commercial rate is substantially higher than Medicaid costs and can result in a Medicaid surplus that is greater than costs of care for uninsured

Base and Supplemental Payments as a Share of Total Medicaid Payments to Hospitals, FY 2021



Notes: These findings are confidential, and are not available for attribution or dissemination. FY is fiscal year. DSH is disproportionate share hospital. UPL is upper payment limit. DSRIP is delivery system reform incentive payment. GME is graduate medical education. DSRIP and uncompensated care pool payments must be authorized under Section 1115 waivers. Managed care payments to hospitals are estimated based on total managed care spending reported by states. Directed payment spending is estimated based on projections from the most recently approved preprints.
Source: MACPAC 2023, analysis of CMS-64 net expenditure data and directed payment preprints approved as of February 1, 2023.

Future Work

- Commission is engaging in a long-term work plan to further examine newly available data on all types of supplemental payments
  - Documenting supplemental payment methods and goals
  - Analyzing supplemental payment targeting
  - Developing a hospital payment index to examine overall Medicaid payment rates
- We will consider how different types of Medicaid payments to hospitals work on their own and their interactions
  - Are policies consistent with efficiency, economy, quality, and access?
  - Are payments appropriately targeted based on measures of need?
  - What is the value of paying hospitals more than their costs of care for Medicaid patients or what Medicare would have paid?

Next Steps

- Chapter will be published in the MACPAC March 2024 report
- Staff will continue to monitor congressional action on DSH

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