MACPAC

Review of Draft Chapters on Disproportionate Share Hospital Payments

Medicaid and CHIP Payment and Access Commission
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Overview

- Statutory requirements
- Status of pending disproportionate share hospital (DSH) allotment reductions
- Draft March report chapters
  - Chapter 2: Analyzing DSH Allotments
  - Chapter 3: Improving the Targeting of DSH Payments to Providers
- Next steps

Statutory Requirements

- MACPAC must report annually in March on DSH allotments and their relationship to three factors:
  - changes in the number of uninsured individuals
  - the amount and sources of hospitals' uncompensated care costs (broadly defined)
  - hospitals with high levels of uncompensated care that also provide essential community services

Status of Pending DSH Allotment Reductions

- Federal DSH allotments are currently scheduled to be reduced by $2 billion in FY 2018
- DSH allotment reductions are premised on two assumptions:
  - ACA coverage expansions would reduce hospital uncompensated care costs
  - Lower uncompensated care costs would reduce hospitals' need for DSH payments

Status of Reductions (cont.)

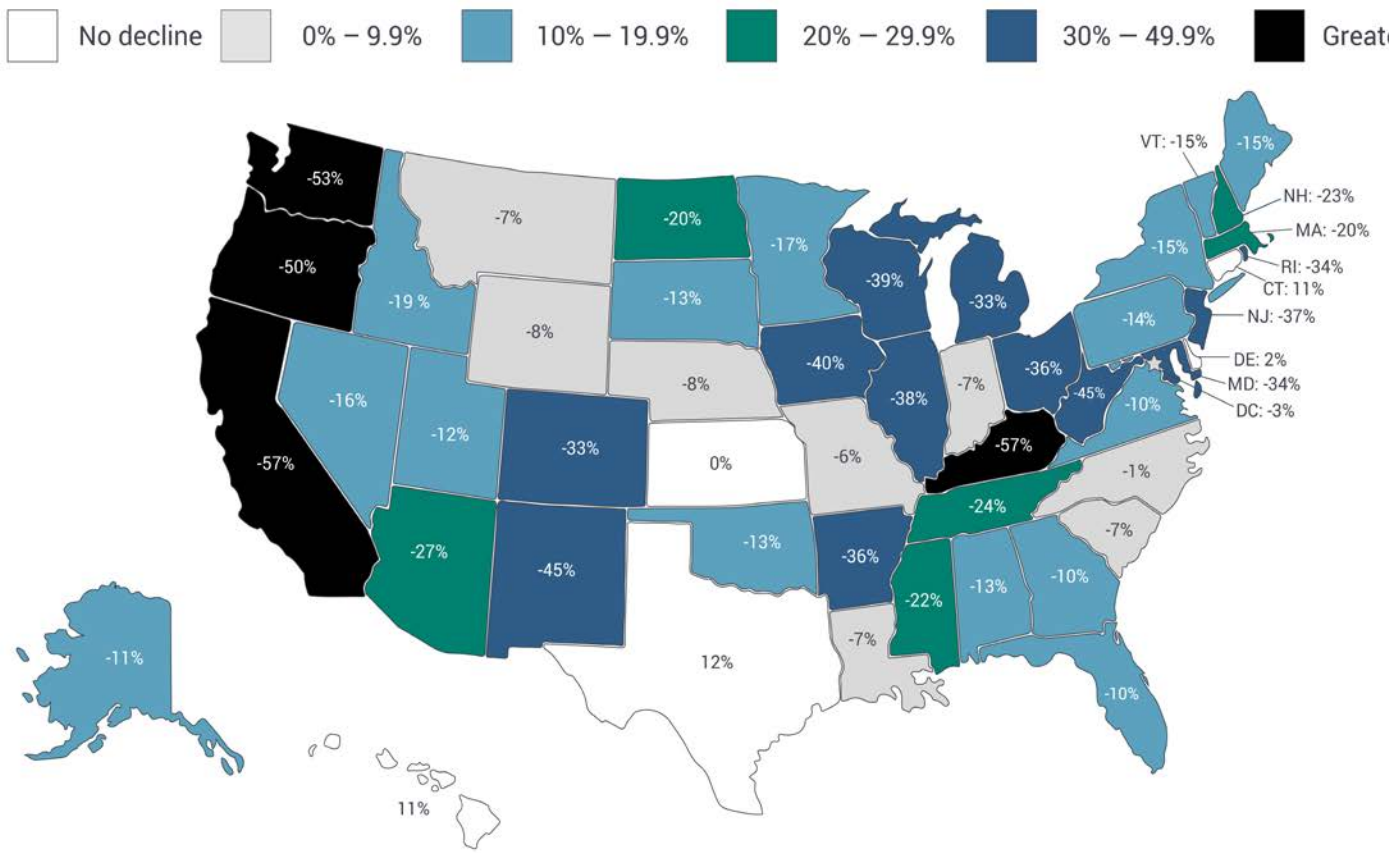
- In December, Commissioners raised concerns as to whether DSH allotment reductions would happen
- Prior proposals to repeal the ACA have included repeal of Medicaid DSH allotment reductions
- Specifics still not known
- Because of uncertainty, analyses in these draft chapters assume current law

Chapter 2: Analyzing DSH Allotments

Required Data Elements

- The number of uninsured continued to fall in 2015
- Overall hospital uncompensated care fell by about $4.6 billion between 2013 and 2014
  - Declines in bad debt and charity care ($5.5 billion) were larger than increases in Medicaid shortfall ($0.9 billion)
  - As a share of hospital operating costs, uncompensated care fell by 37 percent in states that expanded Medicaid during 2014, but only by 6 percent in states that did not
- Hospital margins improved overall, but deemed DSH hospitals continued to report negative operating margins before DSH payments

Decline in Uncompensated Care as a Share of Hospital Operating Expenses, 2013-2014

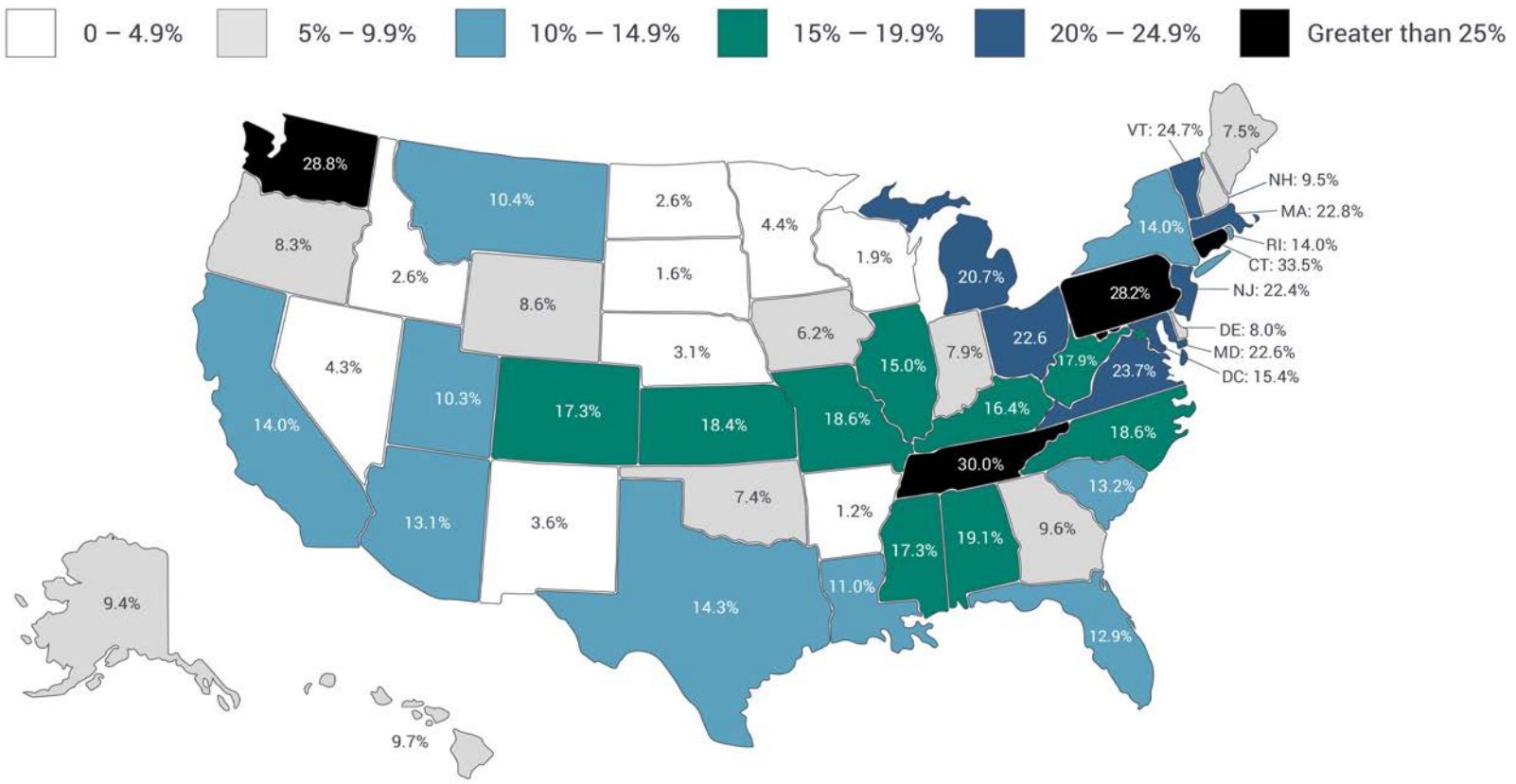


Notes: Analysis is based on Medicare cost reports, which define uncompensated care as charity care and bad debt and do not include reliable data on Medicaid shortfall.
Source: MACPAC analysis of Medicare cost reports

Projecting Pending DSH Allotment Reductions

- Federal DSH allotments are currently scheduled to be reduced by $2 billion in FY 2018
- In 2013, CMS proposed a methodology to distribute DSH allotment reductions based on three primary factors that are equally weighted:
  - the number of uninsured
  - the extent to which DSH payments are targeted to hospitals that serve a high share of Medicaid patients
  - the extent to which DSH payments are targeted to hospitals that have high levels of uncompensated care
- If DSH allotment reductions take effect, CMS will need to issue regulations to update this methodology

Projected Percentage Decrease in State DSH Allotments, FY 2018



Notes: DSH is disproportionate share hospital. FY is fiscal year.
Source: Dobson | DaVanzo and KNG Health analysis for MACPAC of Medicare cost reports, Medicaid DSH audits, and the U.S. Census Bureau 2015 American Community Survey

Chapter 3: Improving the Targeting of DSH Payments to Providers

Raising the Minimum Federal Eligibility Standards for DSH

- States can make DSH payments to any hospital that has a Medicaid utilization rate of 1 percent
- We analyzed the effects of raising the minimum federal eligibility standard to a higher threshold
  - Absolute thresholds
  - Relative standards
  - Deemed DSH standard
- Some hospitals with low utilization rates are reliant on DSH funding
  - In future reports, the Commission could explore different standards for different types of hospitals

Discussion of Other DSH Targeting Approaches

- Changing the DSH definition of uncompensated care, which changes the maximum amount of DSH funding a hospital can receive
  - Excluding Medicaid shortfall and bad debt
  - Including uncompensated care outside the hospital setting
- Value-based payment approaches, such as California's Global Payment Program
- Federalizing DSH payments
  - Combining Medicaid and Medicare DSH funding
  - Removing requirement for state matching funds

Next Steps

- This meeting is the Commission's last opportunity to weigh in on the contents of the March report
- The Commission can comment on DSH allotment reductions at any time
- If DSH allotment reductions take effect, CMS will need to update its methodology for distributing reductions between states

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