December 08, 2022

Required Annual Analysis of Disproportionate Share Hospital (DSH) Allotments

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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
- Key points and 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 allotments were temporarily increased during the COVID-19 public health emergency (PHE) under the American Rescue Plan Act (ARPA)
- DSH payments to individual hospitals cannot exceed hospital uncompensated care costs for Medicaid and uninsured individuals
- Federal DSH allotments to states are scheduled to be reduced in FY 2024, which begins October 1, 2023

Statutorily Required Analyses

Number of Uninsured Individuals

- 27 million individuals were uninsured in 2021 according to the Census bureau
  - 8.3 percent of the U.S. population
  - Uninsured rate significantly decreased by 0.3 percentage points from 2020
- Uninsured rate was highest for non-elderly adults, individuals of Hispanic origin, and individuals with incomes below the federal poverty level
- The PHE's continuous coverage requirement increased Medicaid enrollment while decreasing the uninsured rate
  - U.S. Department of Health and Human Services (HHS) estimates that 15 million Medicaid beneficiaries could lose coverage when the PHE ends

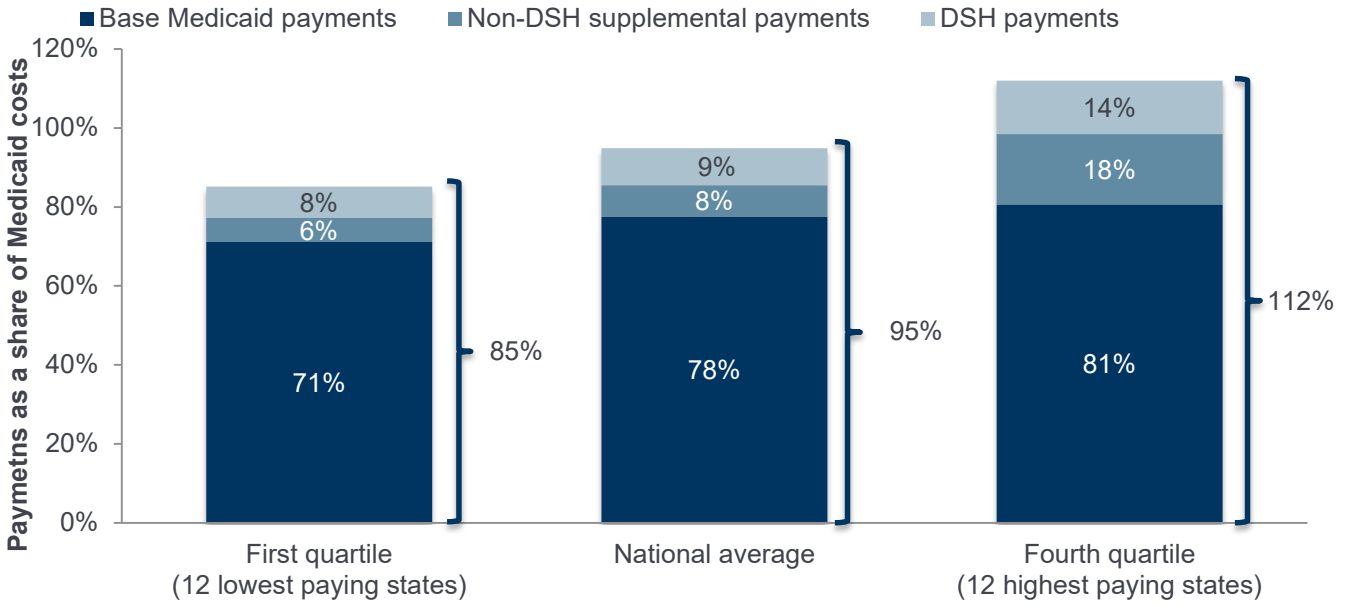
Unpaid Costs of Care for Uninsured Individuals

- In FY 2020, hospitals reported $42 billion in charity care and bad debt
  - 4.1 percent of operating expenses
  - 51 percent ($22 billion) on charity care for uninsured individuals
  - 16 percent ($7 billion) on charity care for insured individuals
  - 34 percent ($14 billion) on bad debt expenses for both insured and uninsured individuals
- Hospitals in expansion states reported half of charity care and bad debt compared to non-expansion states (2.7 versus 7.3 percent) in FY 2020

Medicaid Shortfall

- In 2020, Medicaid shortfall for all hospitals was $25 billion according to the American Hospital Association annual survey
  - Aggregate Medicaid payment-to-cost ratio of 88 percent
- In 2018, DSH hospitals reported $21 billion in Medicaid shortfall on Medicaid DSH audits
  - Medicaid base rates paid 78 percent of costs, non-DSH supplemental payments paid 8 percent of costs, and DSH payments paid 9 percent of costs among DSH hospitals
  - 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 2018



Notes: DSH is disproportionate share hospital. SPRY is state plan rate year. A total of 2,342 DSH hospitals were used in this analysis. This analysis excludes DSH hospitals that did not submit a fiscal year 2020 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 2017-2018 as-filed Medicaid DSH audits.

Hospital Margins During COVID-19

- 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 -4 percent, deemed DSH were -7.4 percent
  - Total margins: deemed DSH and all hospitals were close to 7 percent
- MACPAC and other stakeholders previously raised concerns that initial PRF distributions did not adequately target safety-net hospitals
  - Some subsequent PRF payments did target safety-net hospitals, but there's been a lack of consensus among stakeholders of how safety-net providers should be defined

Hospitals that Provide Essential Community Services

- MACPAC is statutorily required to identify hospitals that provide essential community services
  - Essential community services is not defined, MACPAC defined this based the services suggested in statue (e.g. inpatient psychiatric, burn services, etc.)
- The number of providers meeting MACPAC's definition of essential community services is largely unchanged
  - 749 hospitals met criteria for deemed DSH in 2018
  - 93 percent of these hospitals provided at least one service
  - 56 percent provided three or more services compared to 34 percent of non-deemed DSH

DSH Allotment Reductions

Upcoming DSH Allotment Reductions

- DSH allotment reductions are scheduled to begin October 1, 2023:
  - $8 billion each year reduction in FYs 2024 – 2027
  - Reductions affect states differently, estimated reductions range from 6.1 to 90 percent of unreduced allotment amounts in FY 2024
- If the COVID-19 PHE ends in FY 2023:
  - Increased federal allotments provided to states under ARPA will expire on October 1, 2023
  - FY 2024 federal allotments will decline by an estimated additional $1.2 billion compared to FY 2023
- MACPAC continues to find that DSH allotments share no relationship with measures of need before or after reductions

Next Steps

- Chapter will be published in the MACPAC March 2023 report
- Staff will continue to monitor congressional action on DSH
- Staff will come back with recommendations on a countercyclical adjustment to DSH allotments in a future meeting
- MACPAC's last statutorily required report for DSH allotments will be the next report cycle (March 2024 Report)

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