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# Additional Analyses of Potential Recommendations for Countercyclical Disproportionate Share Hospital (DSH) Allotments

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Aaron M Pervin and Rob Nelb



Medicaid and CHIP Payment and Access Commission



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# Overview

- Background
  - Relationship of DSH allotments to the federal matching assistance percentage (FMAP)
  - Rationale for countercyclical DSH policies during economic recessions
- Additional analysis of applying a similar policy during periods of normal economic growth
  - State effects
  - Relationship to measures of need for DSH payments
  - Application of policy to other FMAP changes
- Assessment of policy options in relation to policy goals
- Next steps



# Background

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- State DSH funding is limited by federal allotments
  - Allotments vary widely by state and have little meaningful relationship to measure of need for DSH payments
  - Federal allotments increase annually based on inflation
  - A higher FMAP results in lower total available state and federal DSH funding
- Each year, state FMAPs change based on state per capita income
  - FMAPs increase for states with declining per capita income and decrease for states with increasing per capita income relative to other states
  - Year-to-year changes are relatively small but they can grow over time
  - 15 states have FMAPs at the statutory minimum (50 percent) and so their FMAP can only go up if state per capita income decreases

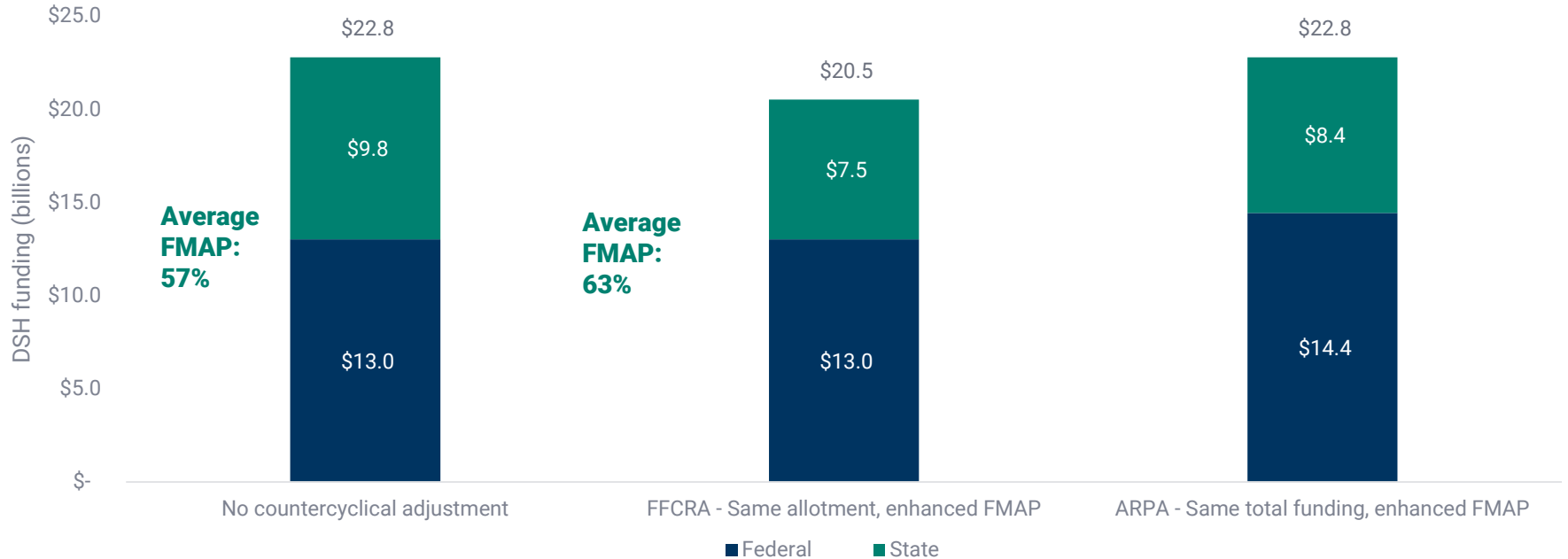
# Previous DSH Allotment Recommendations

- In 2019 the Commission made recommendations on how to structure DSH allotment reductions if they took effect
- Commission made two recommendations to minimize disruptions to safety-net hospitals that rely on DSH payments:
  - Phasing in reductions gradually
  - Applying reductions to unspent allotments first
- Commission also recommended that the reduction formula should improve the relationship between allotments and measures of need
  - DSH allotments currently have no meaningful relationship to measures of need
  - Commission decided to use number of non-elderly low-income individuals as a measure of need because it is related to hospital uncompensated care and is not affected by state policy choices about whether to expand Medicaid

# Countercyclical DSH Policies

- During economic recessions, Congress often increases the FMAP to help offset declining state revenue and increased Medicaid enrollment
- However, applying an increased FMAP to DSH results in lower total state and federal DSH funding
- The American Rescue Plan Act (ARPA) addressed this issue by temporarily increasing DSH allotments so that total DSH funding is the same as it would have been without the increased FMAP
- Stakeholders that we interviewed preferred the ARPA approach to other previous countercyclical DSH policies because it preserves funding for hospitals, supports states, and is administratively simple

# 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, 2023, analysis of Medicaid Budget and Expenditure System

# Recap of Prior Discussion

- In the October meeting there was Commissioner consensus that there should be an ARPA-like policy in future recessions
  - During economic recessions there is a higher need for DSH payments because of increased uncompensated care and decreased state revenue to finance DSH
  - Temporary FMAP increases during recessions are typically larger than annual FMAP changes during periods of normal economic growth and so they are more disruptive to DSH funding
  - Relative to the status quo, this policy would only increase federal DSH allotments for all states
- There was also Commissioner consensus on making a conforming change to our countercyclical FMAP recommendation and a technical change to streamline allotment calculations



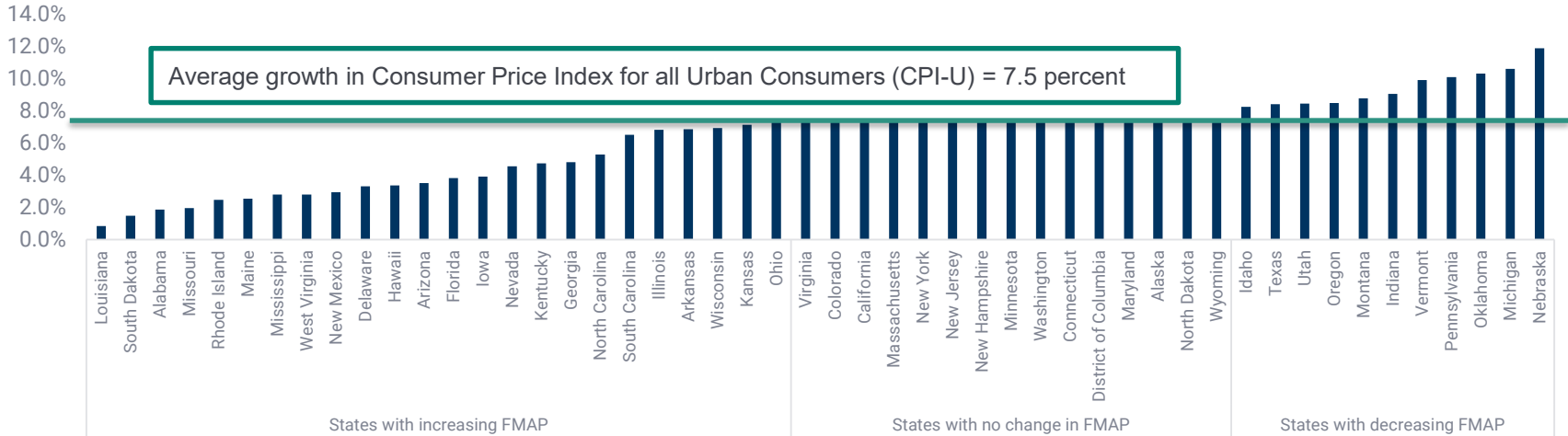
# Remaining Questions for Discussion Today

- Should an ARPA-like policy apply during periods of normal economic growth?
  - Option A: Temporary policy only during recessions
  - Option B: Permanent policy that also applies during periods of normal economic growth
- Which policy option is most consistent with the principles that have guided MACPAC's previous DSH recommendations?
  - Avoiding disruptions in funding for DSH hospitals
  - Improving the relationship between DSH allotments and measures of need

# **Additional Analysis of ARPA-like Policy During Periods of Normal Economic Growth**

# The Status Quo Results in Less Total DSH Funding for States with Increasing FMAPs

## Percent Change in Total DSH Funding, FYs 2014–2019



**Notes:** DSH is disproportionate share hospital. FMAP is federal medical assistance percentage. Chart shows state and federal combined DSH funding percent growth between FY 2014 and 2019. Chart shows that states with increasing FMAPs between 2014 and 2019 had less total DSH funding growth when compared to states with decreasing FMAPs. The green line shows the rate inflation and total DSH funding growth under a permanent ARPA-like adjustment to DSH allotments between FY 2014 and 2019.

**Source:** MACPAC, 2023, analysis of Medicaid Budget and Expenditure System



# An ARPA-like Adjustment Would Apply the Same Increase in Total DSH Funding to All States

## Changes in DSH Funding Under Different Policies, FYs 2014–2019

Change in state FMAP	Number of states	Average percent change in federal DSH allotment		Average percent change in total available state and federal DSH funding	
		Without adjustment	With ARPA-like adjustment	Without adjustment	With ARPA-like adjustment
Increased FMAP	24	7.5%	11.3%	3.9%	7.5%
Decreased FMAP	11	7.5%	5.8%	9.3%	7.5%
No change to FMAP	16	7.5%	7.5%	7.5%	7.5%

**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). Under current law there is no adjustment during periods of normal economic growth and federal DSH allotments increase based on inflation, and in the ARPA-like policy option, total available DSH funding increases based on inflation. Under either policy option, 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, 2023, analysis of the Medicaid Budget Expenditure System.

# Summary of State Effects

- The status quo and a permanent ARPA-like policy both result in disruptions to total DSH funding based on FMAP changes
- The permanent ARPA-like policy benefits states with increasing FMAPs, which have declining per capita incomes and more non-elderly low-income individuals (a measure of need for DSH)
- Relative to the status quo, a permanent ARPA-like policy results in less funding for states with decreasing FMAPs and increasing per capita income
- States with no change in their FMAP, including most states with FMAPs at the statutory minimum (50 percent), are not affected

# Effects on Federal Spending

- During economic recessions, an ARPA-like policy would increase federal spending commensurate with the FMAP increase
- During periods of normal economic growth, an ARPA-like policy would likely have no net effect on federal spending
  - Federal spending would increase for states with increasing FMAPs and decrease for states with decreasing FMAPs
  - We are still waiting for an official score from the Congressional Budget Office

# Application of Policy to Other FMAP Changes

- Permanent ARPA-like policy would also prevent reductions in total DSH funding when the FMAP increases for non-economic reasons
- Some past FMAP increases were not related to national recessions
  - 1998 increase for Alaska and DC
  - 2006 increase for states affected by Hurricane Katrina refugees (i.e., Texas)
  - 2011 increase for states affected by natural disasters (i.e., Louisiana)
- It is unclear if an ARPA-like policy should apply to the increased FMAP during the unwinding of the continuous coverage requirements
  - ARPA policy is expected to expire in FY 2023 after end of public health emergency
  - A 1.5 percentage point FMAP increase is scheduled for the first quarter of FY 2024 that would reduce total DSH payments a state could make in that quarter
  - The increased FMAP during the unwinding period is contingent on state compliance with new reporting requirements
  - An ARPA-like policy would increase federal DSH allotments in FY 2024 unless CMS lowers a state's FMAP is penalized for non-compliance with reporting requirements



# Assessing Policy Options

## Pros and Cons of Policy Options Relative to Policy Goals

Policy option	Pros	Cons
<b>A.</b> Temporary ARPA-like adjustment during economic recessions	<ul style="list-style-type: none"> <li>• <b>Avoiding disruption:</b> Avoids reductions in total DSH funding for all states during economic recessions when there is typically a larger FMAP change. Would only increase DSH allotments relative to status quo.</li> </ul>	
<b>B.</b> Permanent ARPA-like adjustment that also applies during periods of normal economic growth	<ul style="list-style-type: none"> <li>• <b>Avoiding disruption:</b> Avoids reductions in total DSH funding for all states during economic recessions and other changes in FMAPs. Also avoids reductions for states with increasing FMAPs during periods of normal economic growth.</li> <li>• <b>Alignment with measures of need:</b> Benefits states with increasing FMAPs, which have declining per capita incomes</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Avoiding disruption:</b> Compared to the status quo, would reduce funding for states with decreasing FMAPs during periods of normal economic growth</li> </ul>

# Relationship With Previous Recommendations if DSH Allotment Reductions Take Effect

## Temporary ARPA-like policy

Increase federal allotments based on inflation

Apply reductions to DSH allotments to improve the relationship between federal DSH funding and measures of need

During a recession, adjust allotments to ensure total DSH funding is the same as it would be without the increased FMAP

## Permanent ARPA-like policy

Increase total DSH funding based on inflation

Apply FMAP to determine federal DSH allotments

Apply reductions to DSH allotments to improve relationship between total DSH funding and measures of need

**Notes:** DSH is disproportionate share hospital. FMAP is federal medical assistance percentage. ARPA is the American Rescue Plan Act of 2021 (P.L. 117-2). Total DSH funding refers to the state and federal combined DSH amount. The ARPA-like policy refers to the increased DSH allotments that were implemented under the American Rescue Plan Act. Under either policy option, states must provide non-federal funding in order to spend all available state and federal DSH funds.

# Relationship with Previous Countercyclical FMAP Recommendation

- In 2021, the Commission recommended the Congress establish a countercyclical FMAP based on a prototype developed by the Government Accountability Office (GAO)
  - The FMAP would be increased when unemployment increases in two consecutive fiscal quarters for a majority of states
- If Congress implements this recommendation:
  - A temporary ARPA-like adjustment would apply when the countercyclical FMAP is triggered at any point within a fiscal year
- If Congress does not implement this recommendation:
  - A temporary ARPA-like adjustment could also apply to other increases to the FMAP that Congress makes during an economic recession, even if they are not based on the GAO prototype

# Recommendation Policy Options

## A. Temporary

*Congress should amend Section 1923 of the Social Security Act to increase federal DSH allotments during economic recessions so that total available state and federal DSH funding is the same as it would have been without the application of a countercyclical FMAP. If Congress makes future changes to improve the relationship between state DSH allotments and measures of need for DSH payments, this countercyclical adjustment should be applied after making these changes.*

## B. Permanent

*Congress should amend Section 1923 of the Social Security Act to adjust federal DSH allotments so that total state and federal DSH funding is not affected by changes in the FMAP. If Congress makes future changes to improve the relationship between state DSH allotments and measures of need for DSH payments, the methodology should be based on total state and federal DSH funding.*

## Next Steps

- Staff would appreciate feedback on which policy option we should bring back for a vote at the April meeting, how the recommendation is worded, and points we should highlight in the rationale
- Staff will return in April with a draft chapter which will also include the following recommendations discussed at the October meeting:
  - Conforming language for the countercyclical FMAP recommendation which would include DSH allotments within the automatic countercyclical financing adjustment
  - Technical change to streamline annual DSH allotment calculations

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