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Overview of Medicaid Disproportionate Share Hospital Allotment Reductions

CMS released a proposed rule requiring aggregate reductions to state Medicaid disproportionate share hospital (DSH) allotments. The rule, required by the Affordable Care Act (ACA), sets forth aggregate reductions to state Medicaid DSH allotments annually from FY14 through FY20. The proposed rule also delineates the DSH health reform methodology (DHRM) to implement the annual reductions for FY14 and FY15, and proposes to add additional DSH reporting requirements for use in implementing the DHRM.

Background

As a result of the ACA, millions of Americans will have access to health insurance coverage through qualified health plans offered through health insurance exchanges or through the Medicaid program. This increase in the number of individuals having access to health insurance is expected to significantly reduce levels of uncompensated care provided by hospitals. On the assumption that the number of uninsured people will fall sharply beginning in 2014, the statute reforms an existing initiative under the Medicaid program to address the situation of hospitals that serve a disproportionate share of low income patients, and therefore, may have uncompensated care costs.

The ACA provides for aggregate reductions in federal funding under the Medicaid program for DSH payments for the 50 states and the District of Columbia. This reform of the DSH payments is in line with the reduction of uncompensated care costs (particularly those associated with the uninsured) expected to result from the expansion of coverage under the statute. The HHS Secretary must implement the aggregate reductions in DSH payments through reductions in annual state allotments for DSH payments, and accompanying reductions in payments to each state.

Federal financial participation (FFP) for total statewide DSH payments made to eligible hospitals in each federal fiscal year is limited to the amount specified in an annual DSH allotment for each state. Although there have been some special rules for calculating DSH allotments for particular years or sets of years, a general rule establishes that state DSH allotments be calculated on an annual basis in an amount equal to the DSH allotment for the preceding fiscal year increased by the percentage change in the consumer price index for all urban consumers for the previous fiscal year. The annual allotment, after the consumer price index increase, is limited to the greater of the DSH allotment for the previous year or twelve percent of the total amount of Medicaid expenditures under the state plan during the fiscal year. FFP is not available for DSH payments that exceed the hospital's uncompensated cost of providing inpatient and outpatient services to Medicaid patients and the uninsured, minus payments received by the hospital by or on the behalf of those patients.

The annual aggregate reductions in federal DSH funding from FY14 through FY20 are:

- $500,000,000 for FTY14
- $600,000,000 for FY15
- $600,000,000 for FY16
- $1,800,000,000 for FY17
- $5,000,000,000 for FY18
- $5,600,000,000 for FY19
- $4,000,000,000 for FY20

To implement these annual reductions, the statute requires that the HHS Secretary reduce annual state DSH allotments, and payments to states, based on a DHRM. The proposed DHRM relies on five factors collectively to determine a state-specific DSH allotment reduction amount.

- ***Factor 1 - Low DSH Adjustment Factor***
  The first factor considered in the proposed DHRM is the Low DSH Adjustment Factor (LDF), which requires that the DHRM impose a smaller percentage reduction on ‘‘low DSH states’’ that meet the criterion described in section 1923(f)(5)(B) of the Act in 2003. CMS proposes to apply the LDF by imposing a greater proportion of the annual DSH funding reduction on non-low DSH states.

- ***Factor 2 - Uninsured Percentage Factor***
  The second factor considered in the proposed DHRM is the Uninsured Percentage Factor (UPF), which requires that the DHRM impose larger percentage DSH allotment reductions on states that have the lowest percentages of uninsured individuals. The statute also requires that the percentage of uninsured individuals is determined on the basis of data from the Census Bureau, audited hospital cost reports, and other information likely to yield accurate data, during the most recent year for which such data are available.

- ***Factor 3 - High Volume of Medicaid Inpatients Factor***
  The third factor considered in the proposed DHRM is the High Volume of Medicaid Inpatients Factor (HMF), which requires that the DHRM impose larger percentage DSH allotment reductions on states that do not target DSH payments to hospitals with the highest volumes of Medicaid inpatients. The proposed HMF is a state-specific percentage that is calculated separately for each state group (low DSH and non-low DSH).

- ***Factor 4 - High Level of Uncompensated Care Factor***
  The fourth factor considered in the DHRM is the High Level of Uncompensated Care Factor (HUF), which requires that the DHRM impose larger percentage DSH allotment reductions on states that do not target DSH payments on hospitals with high levels of uncompensated care. CMS is proposing to rely on the existing statutory definition of uncompensated care cost used in determining the hospital specific limit on FFP for DSH payments.

- ***Factor 5 - Section 1115 Budget Neutrality Factor***
  The statute requires that CMS take into account the extent to which a state's DSH allotment was included in the budget neutrality calculation for a coverage expansion that was approved under section 1115 as of July 31, 2009 (the Budget Neutrality Factor, or BNF). Prior to the implementation of this proposed rule, these states possess full annual DSH allotments. Under an approved section 1115 demonstration, however, the states may have limited authority to make DSH payments under section 1923 of the Social Security Act (the Act) because all or a portion of their DSH allotment was included in the budget expansion under an approved section 1115 demonstration or to fund uncompensated care pools and/or safety net care pools. Consistent with the statute, for states that include DSH allotment in budget neutrality calculations for coverage expansion under an approved section 1115 demonstration as of July 31, 2009, CMS proposes to exclude from DSH allotment reduction, for the HMF and the HUF factors, the amount of DSH allotment that each state currently continues to divert specifically for coverage expansion in the budget neutrality calculation.

The Impact of a State's Decision to Adopt the New Low-Income Adult Coverage Group

The statute provides significant federal financial support for states to extend coverage to low-income adults. For a state that implements the new adult coverage group, the state and its hospitals will receive full Medicaid reimbursement for many previously uninsured patients. Thus, CMS believes both hospitals and states stand to benefit greatly from expanding Medicaid. Because states that implement the new coverage group would have lower rates of uninsurance, the reduction in DSH funding may be greater for such states compared to states that do not implement the new coverage group.

Consequently, hospitals in states implementing the new coverage group that serve Medicaid patients may experience a deeper reduction in DSH payments than they would if all states were to implement the new coverage group. Given the statutory reductions in the funding for Medicaid DSH in the ACA, CMS intends to account for the different circumstances among states in the formula in future rulemaking. Currently, CMS says it does not have sufficient information on the relative impacts that would result from state decisions to implement the new coverage group, and thus proposes a DHRM only for the first two years during which the DSH funding reductions are in effect. The data that the reductions are based on for these two years will not reflect differential decisions to implement the new coverage group. Data reflecting the effects of the decision to implement the new coverage group may not be available to consider the impact of such a decision until 2016. Therefore, CMS intends to continue evaluating potential implications for accounting for coverage expansion in the DHRM. While CMS is interested in feedback on this issue, it intends to address this issue more completely in separate rulemaking for DSH allotment reductions for FY16 and thereafter.

Accordingly, CMS is proposing to establish a DHRM that would be in effect for FY14 and FY15, but is not including a method to account for differential coverage expansions in Medicaid for these years. CMS would calculate an unreduced DSH allotment for each state prior to the beginning of each fiscal year, as it currently does. This unreduced allotment is calculated prior to the application of the DHRM. The unreduced allotment would serve as the base amount for each

state to which the state-specific DSH allotment reduction amount would apply annually. CMS proposes to apply the DHRM to the unreduced DSH allotment amount for FY14 and FY15. Under the DHRM, CMS would consider the five factors identified in the statute to determine each state's state-specific annual DSH allotment reduction amount. Limitations on the availability of data relating to some of the five factors affect the calculation and, therefore, CMS seeks comments regarding readily available data sources that may be useful.

The table below and the values contained therein are provided only for purposes of illustrating the application of the DHRM and the associated DSH reduction factors described in the proposed rule to determine each state's DSH allotment reduction for FY14. Note that these values do not represent the final DSH reduction amounts for FY14.

TABLE 1:

*FOR ILLUSTRATION PURPOSES ONLY - FY 2014 DSH HEALTH REFORM METHODOLOGY							
		ILLUSTRATIVE DSH Reduction Factor Weighting Allocation*					
	Total Reduction:	Uninsured Factor UPF	Hi Volume Factor HMF	High Level Factor HUF	TOTAL		
		33.3%	33.3%	33.3%	100.0%		
	Total Reg. DSH Reduction:	$164,588,883	$164,588,883	$164,588,883	$493,766,649		
LOW DSH Adj. Factor	Total Low DSH Reduction:	$2,077,784	$2,077,784	$2,077,784	$6,233,351		
27.97%	TOTAL:	$166,666,667	$166,666,667	$166,666,667	$500,000,000		
A	B	C	D	E	F	G	H
STATE	Unreduced FY 2014 DSH Allotment (Estimate)*	Reduction Based on UPF Uninsured Factor*	Reduction Based on HMF High Volume Factor*	Reduction Based On HUF High Level Factor*	Total Reduction*	Reduction Amount As Percentage of Unreduced DSH Allotment*	FY 2014 Reduced Allotment*
		Col J, UPF WS	Col O , HMF WS	Col O, HUC WS	C + D + E	F/B	B - F
Alabama	$327,306,706	$4,450,693	$6,450,832	$5,965,703	$16,867,229	5.15%	$310,439,477
Arkansas	$107,771,720	$1,225,578	$2,320,621	$4,144,131	$7,690,330	7.14%	$100,081,389
California	$1,166,861,709	$12,496,019	$19,339,288	$787,771	$32,623,078	2.80%	$1,134,238,632
Colorado	$98,458,114	$1,227,835	$953,242	$3,262,103	$5,443,181	5.53%	$93,014,933
Connecticut	$212,882,410	$4,646,855	$4,209,148	$4,474,769	$13,330,772	6.26%	$199,551,638
District of Columbia /1	$65,195,237	$1,703,076	$463,119	$844,089	$3,010,283	4.62%	$62,184,954
Florida	$212,882,410	$1,987,539	$2,887,967	$5,215,949	$10,091,455	4.74%	$202,790,954
Georgia	$286,060,738	$2,882,526	$3,130,957	$5,060,927	$11,074,410	3.87%	$274,986,328
Illinois	$228,848,590	$3,298,528	$3,645,082	$3,899,617	$10,843,227	4.74%	$218,005,363
Indiana	$227,518,076	$3,045,530	$3,282,746	$1,280,446	$7,608,722	3.34%	$219,909,354
Kansas	$43,906,997	$627,702	$922,471	$683,318	$2,233,492	5.09%	$41,673,505
Kentucky	$154,339,747	$2,009,128	$2,429,559	$2,068,748	$6,507,436	4.22%	$147,832,311
Louisiana	$731,960,000	$8,157,359	$12,281,637	$4,906,454	$25,345,450	3.46%	$706,614,550

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LOW DSH Adj. Factor	Total Low DSH Reduction:	$2,077,784	$2,077,784	$2,077,784	$6,233,351
27.97%	TOTAL:	$166,666,667	$166,666,667	$166,666,667	$500,000,000

A	B	C	D	E	F	G	H
STATE	Unreduced FY 2014 DSH Allotment (Estimate)*	Reduction Based on UPF Uninsured Factor* Col J, UPF WS	Reduction Based on HMF High Volume Factor* Col O , HMF WS	Reduction Based On HUF High Level Factor* Col O, HUC WS	Total Reduction* C + D + E	Reduction Amount As Percentage of Unreduced DSH Allotment* F/B	FY 2014 Reduced Allotment* B - F
Maine /1	$111,763,265	$2,189,425	$1,324,174	$2,413,463	$5,927,063	5.30%	$105,836,203
Maryland	$81,161,419	$1,430,089	$1,639,479	$1,726,902	$4,796,470	5.91%	$76,364,948
Massachusetts /1	$324,645,675	$14,612,915	$1,031,865	$1,076,550	$16,721,329	5.15%	$307,924,346
Michigan	$282,069,193	$4,528,369	$3,256,081	$5,661,017	$13,445,466	4.77%	$268,623,727
Mississippi	$162,322,837	$1,771,408	$1,928,694	$715,775	$4,415,876	2.72%	$157,906,961
Missouri	$504,265,209	$7,606,111	$7,179,807	$11,117,502	$25,903,421	5.14%	$478,361,788
Nevada	$49,229,057	$432,077	$226,353	$258,039	$916,469	1.86%	$48,312,588
New Hampshire	$170,410,795	$3,039,010	$2,714,290	$2,903,827	$8,657,127	5.08%	$161,753,668
New Jersey	$685,215,257	$10,273,222	$9,989,871	$9,086,087	$29,349,180	4.28%	$655,866,077
New York	$1,709,711,855	$28,517,869	$17,330,775	$19,682,882	$65,531,526	3.83%	$1,644,180,330
North Carolina	$314,001,555	$3,717,078	$6,628,232	$3,952,052	$14,297,361	4.55%	$299,704,194
Ohio	$432,417,395	$6,970,234	$6,496,637	$9,942,522	$23,409,393	5.41%	$409,008,002
Pennsylvania	$597,401,262	$11,667,972	$9,874,704	$12,323,972	$33,866,647	5.67%	$563,534,615
Rhode Island	$69,186,783	$1,128,516	$1,332,369	$1,002,242	$3,463,128	5.01%	$65,723,655
South Carolina	$348,594,946	$3,947,977	$5,769,094	$3,995,248	$13,712,319	3.93%	$334,882,628

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		Col J, UPF WS	Col O , HMF WS	Col O, HUC WS	C + D + E	F/B	B - F
Tennessee	$54,007,000	$746,901	$860,219	$920,288	$2,527,408	4.68%	$51,479,592
Texas	$1,017,844,022	$8,522,124	$18,255,733	$29,359,012	$56,136,869	5.52%	$961,707,154
Vermont	$23,949,271	$590,875	$434,558	$276,383	$1,301,816	5.44%	$22,647,455
Virginia	$93,250,559	$1,416,841	$1,718,425	$1,230,356	$4,365,622	4.68%	$88,884,936
Washington	$196,916,230	$2,744,350	$3,136,466	$3,355,484	$9,236,300	4.69%	$187,679,929
West Virginia	$71,847,813	$977,152	$1,144,386	$995,254	$3,116,792	4.34%	$68,731,021
Total Regular DSH States	**$11,164,203,854**	**$164,588,883**	**$164,588,883**	**$164,588,883**	**$493,766,649**	**4.42%**	**$10,670,437,205**
LOW DSH STATES							
Alaska	$21,681,747	$51,937	$173,996	$87,475	$313,408	1.45%	$21,368,340
Arizona	$45,916,375	$129,368	$129,235	$42,155	$300,758	0.66%	$45,615,618
Delaware	$9,636,331	$47,282	$0	$0	$47,282	0.49%	$9,589,049
Hawaii	$10,393,800	$62,676	$70,765	$104,311	$237,752	2.29%	$10,156,048
Idaho	$17,496,274	$46,880	$111,960	$50,217	$209,057	1.19%	$17,287,217

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		Col J, UPF WS	Col O , HMF WS	Col O, HUC WS	C + D + E	F/B	B - F
Iowa	$41,917,760	$214,084	$75,590	$115,863	$405,536	0.97%	$41,512,224
Minnesota	$79,499,739	$416,944	$257,348	$623,061	$1,297,353	1.63%	$78,202,386
Montana	$12,081,903	$33,172	$68,731	$89,562	$191,465	1.58%	$11,890,437
Nebraska	$30,120,968	$124,314	$238,785	$249,312	$612,411	2.03%	$29,508,557
New Mexico	$21,681,747	$52,589	$168,797	$52,617	$274,003	1.26%	$21,407,744
North Dakota	$10,167,243	$49,497	$60,321	$13,300	$123,117	1.21%	$10,044,126
Oklahoma	$38,545,326	$97,193	$110,492	$391,760	$599,445	1.56%	$37,945,882
Oregon	$48,181,658	$133,619	$381,129	$9,220	$523,968	1.09%	$47,657,690
South Dakota	$11,756,055	$45,126	$70,228	$36,545	$151,899	1.29%	$11,604,156
Utah	$20,881,618	$64,735	$159,292	$211,938	$435,965	2.09%	$20,445,653
Wisconsin /1	$100,621,875	$507,599	$0	$0	$507,599	0.50%	$100,114,275
Wyoming	$240,907	$768	$1,115	$448	$2,331	0.97%	$238,576
Total Low DSH States	**$520,821,329**	**$2,077,784**	**$2,077,784**	**$2,077,784**	**$6,233,351**	**1.20%**	**$514,587,978**

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STATE	Unreduced FY 2014 DSH Allotment (Estimate)*	Reduction Based on UPF Uninsured Factor*	Reduction Based on HMF High Volume Factor*	Reduction Based On HUF High Level Factor*	Total Reduction*	Reduction Amount As Percentage of Unreduced DSH Allotment*	FY 2014 Reduced Allotment*
		Col J, UPF WS	Col O , HMF WS	Col O, HUC WS	C + D + E	F/B	B - F
National Total	**$11,685,025,183**	**$166,666,667**	**$166,666,667**	**$166,666,667**	**$500,000,000**	**4.28%**	**$11,185,025,183**

Notes:
*All of the values on this chart are only for purposes of illustrating the DSH Health Reform Methodology (DHRM)
/1 Potential DSH Diversion State

More Information
Comments on the proposal are due July 12, 2013.

Read the proposed rule, published in the May 15, 2013, *Federal Register*.