



MEDICAID DSH PAYMENTS

ISSUE: The Medicaid Disproportionate Share Hospital (DSH) program provides payments to hospitals that serve a high proportion of Medicaid beneficiaries and uninsured patients. The payments are essential for hospitals to offset their uncompensated care costs from treating low-income patients.

The amount of federal DSH funds a state can receive is limited by state-specific allotments established by the Balanced Budget Act (BBA) of 1997, which are updated annually by the Bureau of Labor Statistics' Consumer Price Index. Federal DSH allotments during fiscal year (FY) 2018 totaled \$12.3 billion, including \$630 million for Pennsylvania.

Like regular Medicaid payments, states must provide local matching funds (the percentages vary by state). States have flexibility to determine the distribution of DSH funding to individual hospitals, but the federal government caps the amount of DSH that a hospital can receive at their losses from treating Medicaid patients and the uninsured, or the hospital "DSH cap."

BACKGROUND: MEDICAID DSH CUTS

The Affordable Care Act (ACA) reduced federal funding for Medicaid DSH based on the assumption that the ACA insurance expansions would reduce hospital uncompensated care and, therefore, the need for DSH funding. The ACA's Medicaid DSH reductions originally were scheduled for FYs 2014 through 2020, but have been legislatively delayed and restructured several times. The cuts currently are scheduled for FYs 2020 through 2025, beginning with a \$4 billion reduction in 2020, and increasing to \$8 billion per year in FYs 2021-2025. The cuts expire after FY 2025.

The ACA requires the Centers for Medicare & Medicaid Services (CMS) to develop a methodology to reduce federal Medicaid DSH allocations by the above-specified amount each year. The largest reductions are to be imposed on the states with the lowest percentage of uninsured individuals, and those that do not target their DSH payments to hospitals with high volumes of Medicaid patients and uncompensated care. Smaller reductions are to be imposed on low-DSH states (defined as states with total DSH payments of between zero and 3 percent of total Medicaid spending).

Congress should **delay Medicaid DSH cuts** that would have a devastating impact on Pennsylvania hospitals that provide critical community services.

IMPLICATIONS: Under a 2017 CMS proposed rule methodology, Pennsylvania's Medicaid DSH allotment would be reduced by approximately \$242 million during FY 2020, with the reductions expected to increase to \$484 million per year in FYs 2021-2025.

Pennsylvania's hospitals cannot sustain cuts of this magnitude, especially considering CMS' changes to Medicare DSH that have also resulted in cuts for Pennsylvania hospitals.

Fifty-seven, or 34 percent of hospitals posted a negative total margin in FY 2017, and the Medicaid DSH cuts could force some of them to reduce services or even close their doors for good.



HAP POSITION

HAP strongly urges Congress to delay the Medicaid DSH cuts. The Medicaid DSH program remains an important tool in providing essential financial assistance to hospitals that care for our state's most vulnerable populations, particularly given that coverage rates envisioned under the ACA have never been fully realized. This issue is compounded by years of Medicaid underpayment, which in and of itself poses significant financial challenges for Pennsylvania hospitals.

The proposed cuts would have a devastating impact on Pennsylvania's hospitals that provide crucial community services such as trauma and burn care, high-risk neonatal care, and disaster preparedness resources.