



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) 2024 totaled \$15.6 billion, including \$802 million for Pennsylvania.¹

Like regular Medicaid payments, states must provide local matching funds. The federal portion of that payment is based on the Federal Medical Assistance Percentage (FMAP). The FMAP, which varies by state, is 58 percent for Pennsylvania. 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 FY 2014 through FY 2020 but have been legislatively delayed and restructured several times. Most recently, the Medicaid DSH reductions were amended in the Consolidated Appropriations Act, 2024 (P.L. 118-42) through CY 2024. The amount of reductions for the remainder of FY 2025 through FY 2028 are scheduled to be \$8 billion annually (\$24 billion in total), which leaves approximately 50 percent in unreduced allotments for each of the three years.²

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.



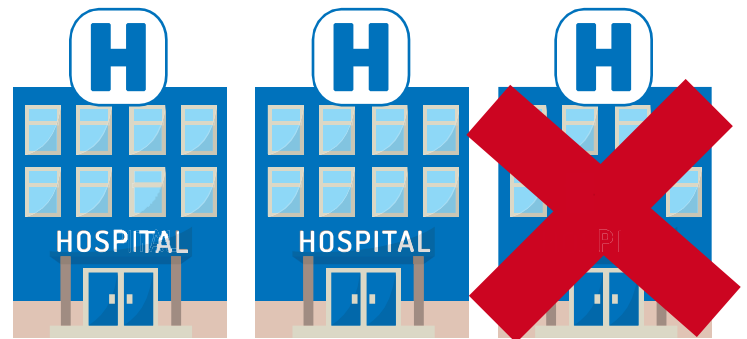
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IMPLICATIONS

Under CMS' 2019 The Disproportionate Share Hospital (DSH) Health Reform Reduction Methodology, Pennsylvania's federal Medicaid DSH allotment would be reduced by 60.5 percent, from \$842 million to \$333 million during FY 2026.³

Pennsylvania's hospitals cannot sustain cuts of this magnitude, especially considering the cuts to Medicare DSH that were also contained in the ACA. Since enactment, that cut has cost \$973 million for Pennsylvania hospitals.⁴

During FY 2021, 51 percent of Pennsylvania's general acute care hospitals posted a negative operating margin, and 15 percent posted an operating margin between 0 percent and 4 percent.⁵ The Medicaid DSH scheduled to go into effect will reduce health care services or even close their doors for good.



HAP POSITION

HAP strongly urges Congress to prevent 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. 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.

¹ MACPAC. [Annual Analysis of Medicaid Disproportionate Share Hospital Allotments to States \(Chapter 3\)](#). March 15, 2024. See page 86. Accessed: 08/06/2024.

² Congressional Research Service. [Medicaid Disproportionate Share Hospital \(DSH\) Reductions](#). May 10, 2024. See page 1. Accessed: 08/06/2024.

³ MACPAC. [Annual Analysis of Medicaid Disproportionate Share Hospital Allotments to States \(Chapter 3\)](#). March 15, 2024. See page 88. Accessed: 08/06/2024.

⁴ DataGEN's 2024 Medicare Enacted Cuts analysis of Medicare payment data 2021-2024 (CMS).

⁵ Pennsylvania Health Care Cost Containment Council. [Financial Analysis 2023 – Volume One – Summary and Highlights](#). June 27, 2024. Accessed: 08/06/2024.