The Hospital + Healthsystem Association of Pennsylvania

Leading for Better Health

MEDICAID DSH PAYMENTS

September 2017

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 in fiscal year (FY) 2017 totaled $12.1 billion, including $616 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."

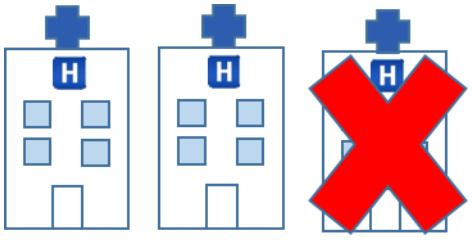
Congress should **delay Medicaid DSH cuts** that would have a devastating impact on Pennsylvania hospitals that provide crucial community services.

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 2018 through 2025, beginning with a $2 billion reduction, and increasing by $1 billion each year until they reach $8 billion during FY 2024. 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).

IMPLICATIONS: Under a recent CMS proposed rule, Pennsylvania's Medicaid DSH allotment would be reduced by approximately $121 million during FY 2018, with the reductions expected to increase each year until they reach nearly $500 million by 2024.



Pennsylvania's hospitals cannot sustain cuts of this magnitude, especially considering recent CMS changes to Medicare DSH that will also result in cuts for Pennsylvania hospitals. Forty-nine, or **29 percent of hospitals posted a negative total margin in FY 2016, 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 provides essential financial assistance to hospitals that care for our nation's most vulnerable populations. The proposed cuts would have a devastating impact on Pennsylvania hospitals that provide crucial community services such as trauma and burn care, high-risk neonatal care, and disaster preparedness resources.