

## The Issue

**The Medicaid Disproportionate Share Hospital (DSH) program provides essential financial assistance to hospitals that care for our nation's most vulnerable populations – children, the poor, the disabled and the elderly.** These hospitals also provide critical community services, such as trauma and burn care, high-risk neonatal care and disaster preparedness resources. Congress cut Medicaid DSH payments in the Affordable Care Act (ACA), reasoning that hospitals would care for fewer uninsured patients as health coverage expanded. However, the projected increase in coverage has not been fully realized due to some states not expanding Medicaid, as well as lower-than-anticipated enrollment in coverage through the Health Insurance Marketplaces.

The Medicaid DSH payment reductions, which the AHA helped to delay, are scheduled to take effect fiscal year (FY) 2018. In July, the Centers for Medicare & Medicaid Services (CMS) released a proposed rule to implement the ACA DSH reductions that would modify the DSH allotment reduction methodology the agency developed in 2013 by incorporating new and updated data sources.

## AHA Position

Congress should stop the Medicaid DSH cuts, and, in the meantime, CMS should delay implementing the FY 2018 DSH allotment reductions due to significant concerns regarding the underlying data CMS proposes to use.

## Why?

- **The Medicaid DSH program, since its inception in the early 1980s, has provided vital financial support to hospitals that serve the nation's most vulnerable populations.** This includes low-income patients, the uninsured and those with health care coverage that is insufficient to meet their health care needs (the “underinsured”).
- **Even with this critical supplemental funding, hospital costs for providing care to vulnerable populations are not fully met.** Medicaid, on average, covers only 90 cents of every dollar spent treating Medicaid patients. And in 2015, hospitals provided \$35.7 billion of uncompensated care.
- **The need for DSH payments continues.** While the rate of uninsured is at historically-low levels, tens of millions of Americans do not have health insurance coverage.
- **CMS's proposed DSH payment rule falls short in terms of transparency.** None of the data sources CMS plans to use to determine the Medicaid DSH allotment reductions are publicly available, hampering efforts by states and stakeholders to assess how they will be impacted by the FY 2018 cuts.

## Key Facts

- **The ACA requires that CMS, when making DSH allocation decisions, impose a smaller percentage reduction on low-DSH states (states with small DSH programs).** It also requires that CMS make the largest percentage reductions to states that have the lowest levels of uninsured individuals, as well as states that do not target their DSH payments to hospitals with high volumes of Medicaid patients and states that do not target DSH payments to hospitals with high levels of uncompensated care.

- **CMS's proposed rule modifies the methodology outlined in the 2013 rule, including proposing updated data sources.** Three significant modifications to the methodology would: 1) reduce the impact of the DSH reduction for states with high-uninsurance rates; 2) include a cap on the overall reduction to a state's allotment so that no state would be in jeopardy of having its entire DSH allotment eliminated; and 3) change the calculation for the hospital uncompensated care measure to a comparison of the hospital's uncompensated care level to its total hospital costs.
- **According to CMS's own analysis in the proposed rule, the average reduction in federal funds for most states would be more than 17 percent in the first year of cuts.** Low-DSH states with smaller programs would face an average reduction of nearly 5 percent.
- **The ACA Medicaid DSH cut for FY 2018 is \$2 billion and increases to \$8 billion by FY 2025.** The Congressional Budget Office projects that there will be 28 million individuals uninsured by 2026. The need for DSH supplemental funding remains as hospitals continue their mission to treat all patients, regardless of ability to pay.