Medicaid DSH: What's in the Proposed Rule and What it Means for Your Hospital

National Association of Public Hospitals and Health Systems

May 28, 2013

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Overview

- History of Medicaid DSH Program
- ACA Medicaid DSH Cuts
- CMS' Proposal
- Next Steps for NAPH Members

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History of the Program

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Origins of DSH

Congress, 1981: Hospitals serving a disproportionate number of low income patients—

> *"are often multi-faceted health care institutions, which provide many public health and social services to all residents of their area. … The Committee intends States to recognize that facilities providing teaching services or other specialized tertiary care services may have operating costs which exceed those of a community hospital."*

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Origins of DSH

Social Security Act, Section 1902(a)(13): Medicaid hospital rates must:

"take into account ... the situation of hospitals which serve a disproportionate number of low income patients."

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Medicaid DSH Program

- Payments are subject to two limits:
- Federal support to states not to exceed state-specific allotments
- State payment to hospitals not to exceed hospital-specific DSH caps
  - DSH audit and reporting requirement

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Medicaid DSH Eligible Hospitals

- Hospitals that meet federal eligibility requirements
  - MIUR at least one standard deviation above mean
  - LIUR greater than 25 percent
- Hospitals that states designate as DSH hospitals in state plans
  - E.g., state teaching hospitals, hospitals providing trauma or perinatal services

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Medicaid DSH in the ACA

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Medicaid DSH Reductions in the ACA

Reduction	Year
$500 million	**2014**
$600 million	**2015**
$600 million	**2016**
$1.8 billion	**2017**
$5 billion	**2018**
$5.6 billion	**2019**
$4 billion	**2020**

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What's in the ACA regarding Medicaid DSH?

- Secretary is required to impose the largest reductions in Medicaid DSH allotments on states
  - (1) with the lowest percentage of **uninsured individuals** *or*
  - (2) that do not target their payments on hospitals with high volumes of **Medicaid inpatients** *and* hospitals that have high levels of **uncompensated care**

  - Smaller percentage reductions for **low DSH states**
  - DSH funds folded into **coverage expansion waivers** must be "taken into account"

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What's Not in the ACA?

- How states should distribute Medicaid DSH to hospitals within their states
- What data source will be used to define the percentage of uninsured individuals
- How uncompensated care (UC) will be defined

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CMS' Proposal

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Overview of CMS' Proposal

- Applies to FYs 2014 and 2015 only
- Intends to revise methodology through separate rulemaking for cuts in FY 2016 and later
- No details on timeframe or process for recouping allotment reduction amounts

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CMS' Stated Goals for its Proposed Methodology

- To lessen the impact on states that have targeted DSH payments to hospitals that have high volumes of Medicaid inpatients and to hospitals that have high levels of UC

- To incentivize states to target current and future DSH payments to hospitals that have higher volumes of Medicaid inpatients and to hospitals that have higher levels of UC

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Overview of CMS' Proposal

- Step 1: determine state allotments without regard to ACA
- Step 2: determine allotment reduction amount for each state using DSH health reform methodology

- State-specific reduced allotments = step 1 minus step 2

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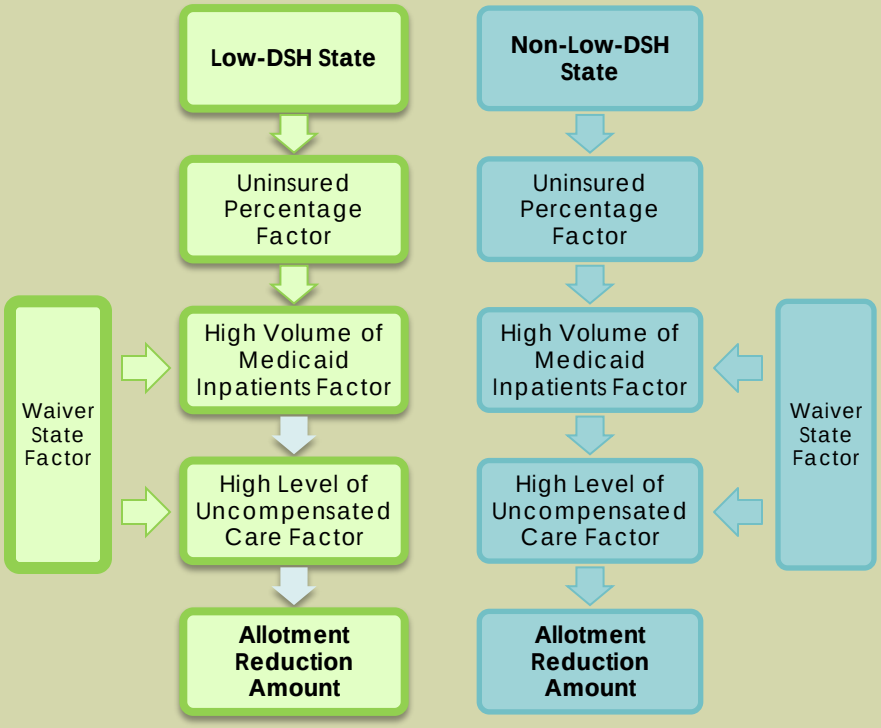
Proposed DSH Health Reform Methodology



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The Three Factors: UPF, HMF, and HUF

- The three factors are given equal weight
  - I.e., within each group, one-third of the aggregate allotment reduction amount will be allocated among states using each of the three factors
- When viewed as a whole, the uninsured rate accounts for one-third and targeting accounts for two-thirds of the total weight

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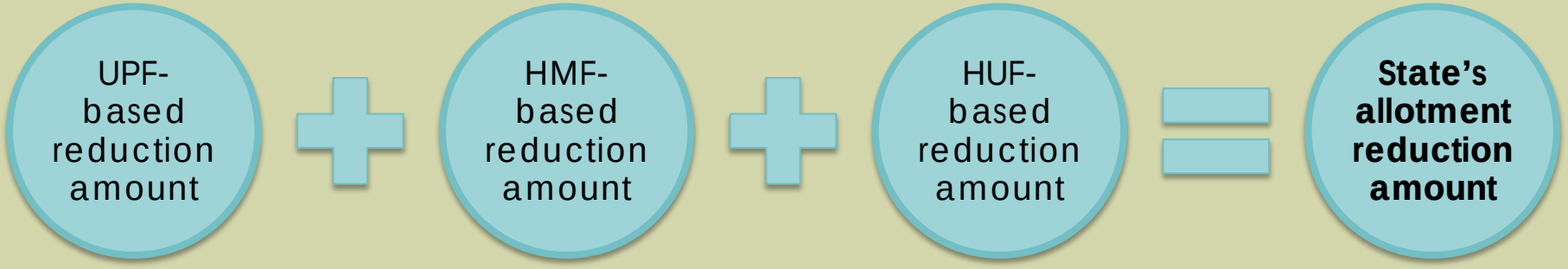
The Three Factors: UPF, HMF, and HUF

- Each factor will produce a factor-based allotment reduction amount for a state
- The sum of the three factor-based amounts equals a state's allotment reduction amount



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Key Terms to Remember

- **LDF**: low-DSH state factor
- **UPF**: uninsured percentage factor
- **HMF**: high volume of Medicaid inpatients factor
- **HUF**: high level of uncompensated care factor
- **WSF**: waiver state factor

- **MIUR**: Medicaid inpatient utilization rate
- **UC**: uncompensated care

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DSH Health Reform Methodology in Detail

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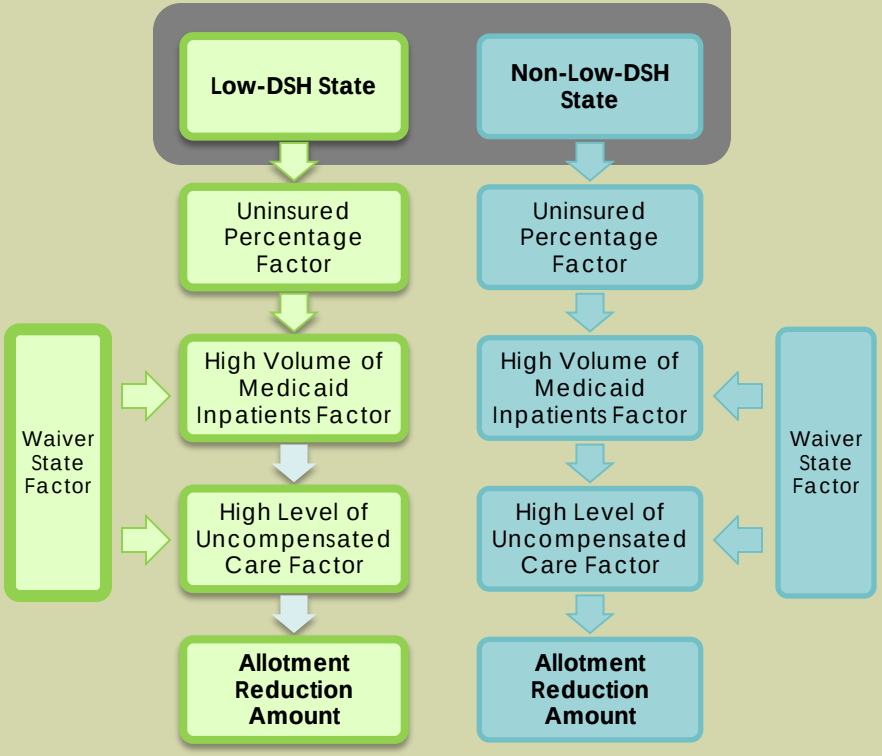
Proposed DSH Health Reform Methodology



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Treatment of Low-DSH States

- Must impose smaller percentage reductions on 17 low-DSH states
- Proposes to apply the LDF to accomplish this ACA requirement
- Effectively shifts a portion of the low-DSH state's proportional share of ACA's total cuts to the non-low-DSH states

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How the Low-DSH State Factor Works

- Application of the LDF produces an aggregate allotment reduction amount for the low-DSH group and the non-low-DSH group

- From this point forward, the two groups of states are kept separate, with states in each group absorbing a portion of that group's aggregate allotment reduction amount

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Application of the Three Factors

- Within each group, one-third of the aggregate allotment reduction amount will be allocated among states using each of the three factors (UPF, HMF*, and HUF*)

*WSF only comes into play for certain qualifying states

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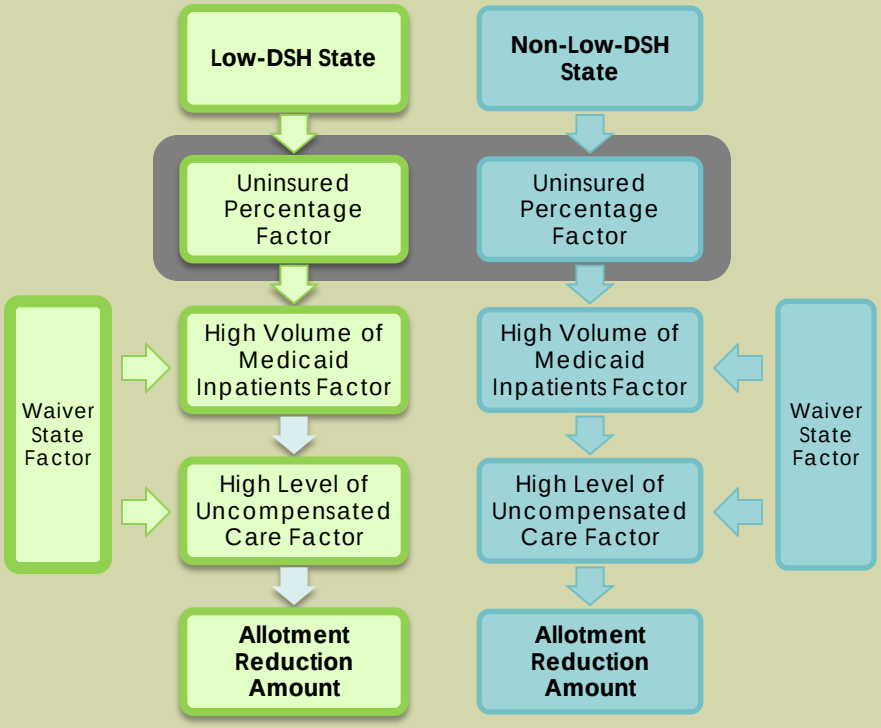
Uninsured Percentage Factor



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How the Uninsured Percentage Factor Works

- Imposes larger percentage reductions on states with the lowest uninsured rates

- Uses most recently available 1-year estimates from ACS
- Includes undocumented immigrants

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How the Uninsured Percentage Factor Works

$$\frac{\text{Total state population}}{\text{Number of uninsured in state}} = \text{State-specific uninsured value}$$

$$\frac{\text{State-specific uninsured value}}{\text{Sum of all state uninsured values in group}} = \text{State-specific uninsured allocation component}$$

$$\frac{\text{State's unreduced allotment}}{\text{Sum of all unreduced allotments in group}} = \text{Allotment-based weighting}$$

Uninsured Allocation Component x **Allotment-based weighting** = **UPF**

Fewer uninsured = higher UPF = greater the share of 1/3 of reduction

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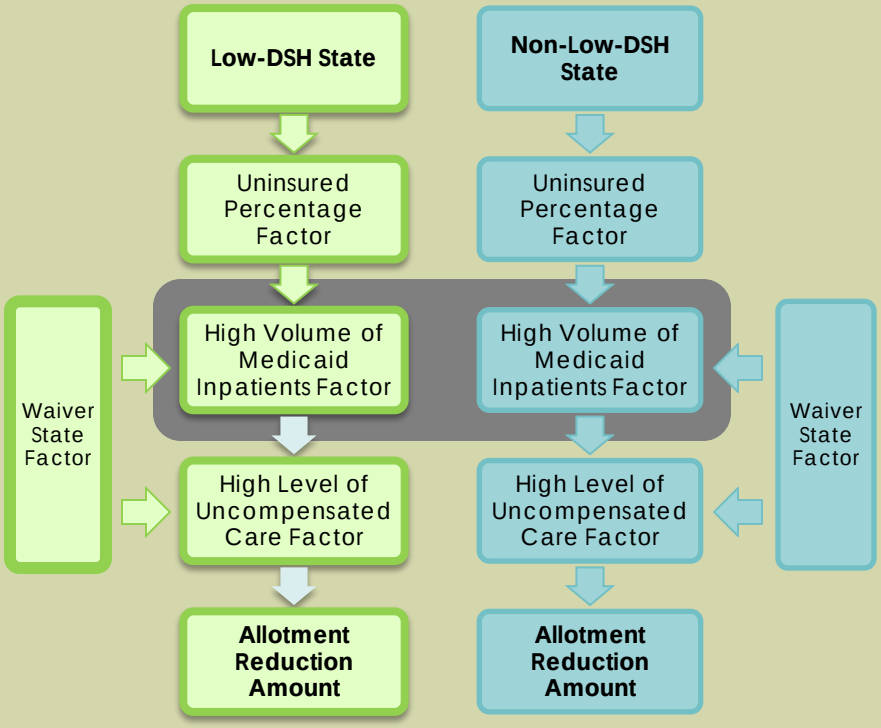
High Volume of Medicaid Inpatients Factor



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How the High Volume of Medicaid Inpatients Factor Works

- Imposes larger percentage reductions on states that do not target payments to hospitals with the highest volumes of Medicaid inpatients

- Hospitals with MIUR at least one standard deviation above the state mean are high Medicaid volume hospitals

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How the High Volume of Medicaid Inpatients Factor Works

$$\text{HMF} = \frac{\text{State's DSH payments to non-high Medicaid volume hospitals}}{\text{Sum of DSH payments to non-high Medicaid volume hospitals for all states in group}}$$

Less targeted = higher HMF = greater share of 1/3 of reduction

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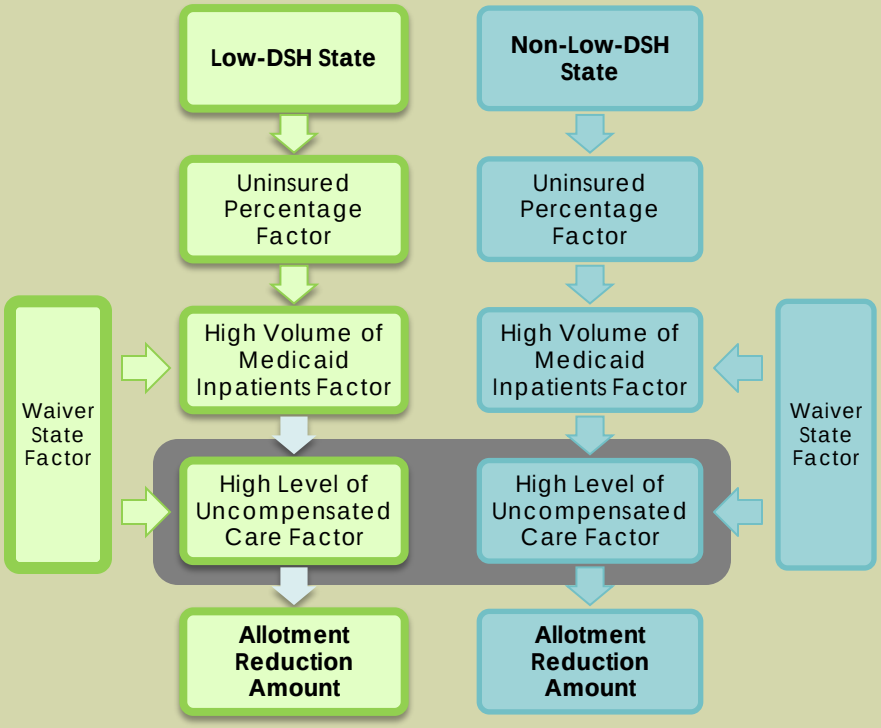
High Level of Uncompensated Care Factor



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How the High Level of Uncompensated Care Factor Works

- Imposes larger percentage reductions on state that do not target DSH payments at hospitals with the highest level of UC
- Defines UC to include both Medicaid shortfalls and uninsured UC costs

$$\text{UC level} = \frac{\text{Uncompensated DSH-Eligible Costs}}{\text{Medicaid Costs} + \text{Uninsured Costs}}$$

- Hospitals ≥ average UC level for the state are high UC hospitals

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How the High Level of Uncompensated Care Factor Works

$$\text{HUF} = \frac{\text{State's DSH payments to non-high UC hospitals}}{\text{Sum of DSH payments to non-high UC hospitals for all states in group}}$$

Less targeted = higher HUF = greater share of 1/3 of reduction

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Medicaid and Uninsured Costs v. Total Costs

Mean UC level for state: **50%**

Hospital A

- Total costs $20m
- DSH eligible costs $11m
- UC Costs $5m

UC level=($5m/$11m)=**45%**

Not high UC hospital

Hospital B

- Total Costs $50m
- DSH eligible costs $2m
- UC costs $1m

UC level=($1m/$2m)= **50%**

High UC hospital

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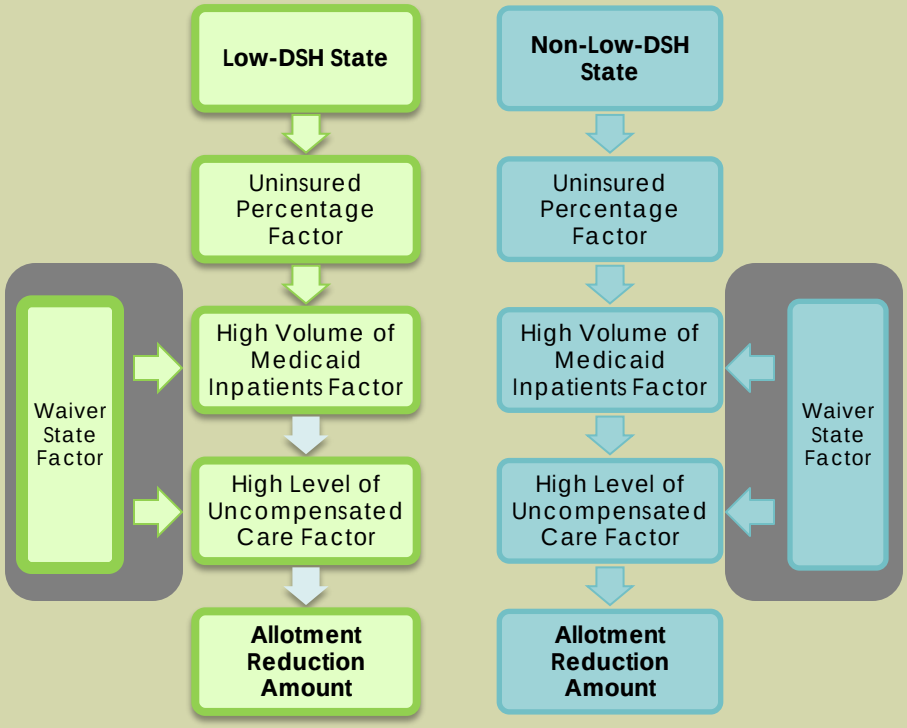
Waiver State Factor



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How the Waiver State Factor Works

- Applies to allotment that was included in the budget neutrality calculation for a section 1115 coverage expansion waiver approved as of July 31, 2009
- Qualifying portion of allotment excluded from HMF and HUF
- Portion not used for coverage expansion will be included in HMF and HUF based on average HMF and HUF for group

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How the Waiver State Factor Works

- Which states?
  - States preliminarily identified by CMS: DC, Maine, Mass., Wisconsin
- How will CMS identify portion not used for coverage expansion?
- What about coverage expansion waivers approved after July 31, 2009?
  - Included in HMF and HUF based on average HMF and HUF for the group

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Lingering Issues

- How state-level allotment reductions will impact payments to individual hospitals
- How CMS will implement the allotment reductions
- How CMS' proposal treats DSH payments to IMDs
- How CMS plans to recoup reduction amount as an overpayment

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Next Steps for Members

- Share insight on proposal and alternatives with NAPH
- Attend annual conference session on June 20
- Comments due to CMS on July 12

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Questions?

- Xiaoyi Huang

Assistant Vice President for Policy
(202) 585-0127
xhuang@naph.org

- Sarah Mutinsky

Deputy General Counsel
(202) 567-6202
smutinsky@eymanlaw.com