STRATEGIC HEALTH CARE

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KEY PROVIDER ISSUES IN HEALTH CARE REFORM

April 2010

MEDICARE DISPROPORTIONATE SHARE PAYMENTS (SEC. 10316)

The disproportionate share hospital payment program was implemented following the adoption of Medicare's inpatient hospital prospective payment system as a mechanism to support hospitals serving a high share of Medicaid and SSI-eligible patients. Policymakers believed that the per-patient cost of caring for these patients was above average, and the DSH adjustment was intended to increase hospitals' Medicare payments to offset their higher cost of care. Over time, DSH payments have become a proxy for uncompensated care subsidies. As part of paying for the expanded coverage, the reform bill will reduce the Medicare and Medicaid DSH subsidies beginning in 2014 as coverage is expanded to include an additional 30 million Americans.

In addition to Medicare payments, states have been required to "take into account" the circumstances of hospitals serving a "disproportionate number" of low-income patients when setting payment rates for inpatient hospital services under Medicaid. Because each state administers their Medicaid DSH program, the hospital-specific impact of Medicaid DSH adjustments cannot be estimated at this time.

The new reform bill will slowly reduce the size of each hospital's DSH adjustment starting in 2014 as the percent of uninsured people decline. The legislation establishes a new DSH base amount equal to a fraction of current payments. Hospitals then receive payments in addition to the base amount depending on hospital-specific characteristics and changes in the uninsured population. The table below describes how CMS will calculate each hospital's DSH payment.

Base amount	Factor 1	Factor 2	Factor 3
25% of the hospital's DSH amount under current law	75% of current DSH payments (i.e., the difference between current rates and the new base amount)	**For 2014-2017** 1 minus the % change in uninsured of the under 65 population, minus an additional 0.1 in 2014 or minus 0.2 in 2015-2017 **For 2018 and 2019** 1 minus the % change in uninsured population, minus 0.2 **For 2020 and beyond** 1 minus the % change in uninsured	For each hospital, an amount equal to the hospital's expenditures on uncompensated care divided by total spending on uncompensated care

For example, in the absence of health reform, Hospital ABC expected to receive $400,000 in DSH subsidies in 2014. There was a 4 percent reduction in the uninsured between the time reform legislation passes and the most recent measurement period, and the hospital had $1.5M in uncompensated care costs compared to a national expenditure on uncompensated care of $2B.

$$(\$400{,}000 \times 25\%) + [(400{,}000 \times 75\%)(1 - 0.04 - 0.01)] + \left(\frac{1{,}500{,}000}{2{,}000{,}000{,}000}\right) = \$385{,}000$$

New Base Amount **Factor 1** **Factor 2** **Factor 3** **2014 DSH Payment**

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