MACPAC

# Review of Draft Chapter and Proposed Medicaid Shortfall Recommendation

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**Medicaid and CHIP Payment and Access Commission**

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## Overview

- Background on the disproportionate share hospital (DSH) definition of Medicaid shortfall
- Recap of March discussion
- Analysis of policy options in relation to policy goals
- Proposed recommendation
- Expected impact
- Action steps

# Background

- DSH payments to an individual hospital cannot exceed a hospital's uncompensated care costs for Medicaid and uninsured patients
- Medicaid shortfall is the difference between
  - the cost of providing care to Medicaid-eligible patients, and
  - payments received for those services
- Recent court rulings have changed how Medicaid shortfall is calculated for Medicaid-eligible patients with third-party coverage



# March Meeting Recap

- Commissioners agreed that Congress should change the statute to reverse the effects of the court ruling so that DSH payments do not pay for costs that are paid for by other payers
- Lack of consensus about whether Congress should make additional changes

# Policy Options

| Policy option | Medicaid-eligible patients included in Medicaid shortfall definition | | |
|---|---|---|---|
| | Medicaid-only patients | Medicare patients | Privately insured patients |
| **CMS 2010 policy** | X | X | X |
| **Hybrid option** | X | X | |
| **Medicaid-only option** | X | | |

**Note:** CMS 2010 policy is the policy described in CMS's 2010 sub-regulatory guidance on counting third-party payments in the calculation of Medicaid shortfall.



# Policy Goals

- Making more DSH funds available to safety-net hospitals
- Not creating disincentives for hospitals to serve Medicaid-eligible patients with third-party coverage
- Promoting administrative simplicity

## Distribution of DSH Payments

- Reverting to CMS's 2010 policy would return to the status quo before the court ruling
  - In state plan rate year 2014, 70 percent of DSH payments were made to deemed DSH hospitals
  - State DSH targeting policies vary widely
- The hybrid option would increase DSH funding for hospitals with neonatal intensive care units
- The Medicaid-only option could also increase DSH payments to safety-net hospitals
  - Deemed DSH hospitals have less Medicare shortfall than other hospitals



## Hospital Incentives

- We do not have any evidence that CMS's 2010 policy affected hospital behavior
- The hybrid option would eliminate the disincentive for hospitals to help privately insured patients enroll into Medicaid
- The Medicaid-only option may also create a disincentive for hospitals to serve patients dually eligible for Medicare and Medicaid
  - But Medicare makes several special payments to safety-net hospitals that likely rebalance these incentives

## Administrative Simplicity

- CMS's 2010 policy requires auditors to collect information about third-party payments from hospitals
- The hybrid option would not require information about private insurance payments, which are the most difficult for auditors to collect
- The Medicaid-only option is the simplest and would not require any information about third-party payments



## Proposed Recommendation

- To avoid Medicaid making disproportionate share hospital (DSH) payments to cover costs that are paid for by other payers, Congress should change the definition of Medicaid shortfall in Section 1923 of the Social Security Act to exclude costs and payments for all Medicaid-eligible patients for whom Medicaid is not the primary payer

# Expected Impact

- Federal spending
  - The Congressional Budget Office estimates that this policy will have an insignificant effect on federal spending
- States
  - No change to state DSH allotments
  - May affect spending in states with unspent DSH funds
- Providers
  - May increase DSH payments for hospitals that serve a high share of Medicaid-only and uninsured patients
- Enrollees
  - Effects on enrollees depend on how states and hospitals respond



# Action Steps

- Commissioner comments on draft chapter
- Vote on recommendation scheduled for the afternoon