

Vermont Legislative Joint Fiscal Office

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Reductions in Medicaid DSH payments: Preliminary estimates on the Impact to Vermont Hospitals

Prepared for the Senate Committee on Finance

Brief Background

Established by Congress in 1981, the disproportionate share hospital (DSH) program was created with the intention to help compensate hospitals for care provided to indigent patients. The program is a federal-state partnership intended to reimburse hospitals for costs of Medicaid or underinsured patients who leave providers uncompensated for some portion of their care.

States have flexibility in creating their own eligibility criteria to determine how funds are distributed to hospitals. However, federal rules define criteria for identifying DSH hospitals:

- At a minimum, states must provide DSH payments to all hospitals with (1) a Medicaid inpatient utilization rate in excess of one standard deviation above the mean rate or (2) a low-income utilization rate of 25%.
- All DSH hospitals must retain at least two Obstetricians with state privileges willing to serve Medicaid patients
- A hospital cannot be identified as a DSH hospital if its Medicaid utilization rate is below 1%.

DSH and the ACA

Federal lawmakers made an assumption that the Affordable Care Act (ACA) would increase coverage, therefore reducing the need for uncompensated care costs. As such the ACA called for a reduction in federal Medicaid DSH allotments. The reductions were supposed to take effect in 2014 and end in 2020, but were delayed. As of now, they will take effect from 2016 through 2023.

The following are preliminary estimates on the impact to Vermont hospitals:

DSH Allotment Reductions					
Year	U.S.	VT est.	Year	U.S.	VT est.
2017	\$1.8B	\$3.66M	2021	\$4.8B	\$9.75M
2018	\$4.7B	\$9.55M	2022	\$5.0B	\$10.16M
2019	\$4.7B	\$9.55M	2023	\$5.0B	\$10.16M
2020	\$4.7B	\$9.55M	2024	\$4.4B	\$8.94M

* Estimates subject to change

References

Medicaid Disproportionate Share Hospital Payments. Alison, Mitchell, Congressional Research Service, December 2, 2013

<https://www.fas.org/sgp/crs/misc/R42865.pdf>

Primer: The Disproportionate Share Hospital (DSH) Program. By Brittany LaCouture, August 21, 2014.

<http://americanactionforum.org/research/primer-the-disproportionate-share-hospital-dsh-program>