Vermont Association of Hospitals and Health Systems

Disproportionate Share Payments

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- VAHHS's Position Proposed DSH Cuts
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Vermont Healthcare Indicators of Success

- **Quality Ratings:**
  - ✓ Common Wealth Fund – State Health System Ranking VT#1 http://www.commonwealthfund.org/~/media/files/publications/fund-report/2015/dec/2015_scorecard_v5.pdf
  - ✓ Agency for Healthcare Research and Quality (AHRQ) - Ranks Vermont in top 10 of states

- **Financial Outcomes:**
  - ✓ Margin from Operations – FY 2017 budget 2.8%
  - ✓ Fiscal year (FY) 2017 hospital budgets produced historically low average annual increase in hospital rates of 1.8%. Well below estimates of medical inflation.
  - ✓ Health insurance rate increases for consumers purchasing insurance plans through Vermont Health Connect (VHC) increased an average of 5% in Vermont, compared to average annual increases of 24% nationally
- **Medicare Spending:**

Medicare Spending Per Enrollee, Northeast		
Vermont	$	8,719
New Hampshire	$	8,763
Maine	$	8,821
Rhode Island	$	10,121
Connecticut	$	11,086
Massachusetts	$	11,277
Source: The Henry kaiser Family Foundation, 2009		

Defining Disproportionate Share Hospital (DSH)

Disproportionate Share Hospital (DSH) – State payments to eligible hospitals that serve a significantly disproportionate number of low-income patients; eligible hospitals are referred to as DSH hospitals.

Federal:

- Established in the Omnibus Budget Reconciliation Act of 1981 (OBRA 1981;P.L. 97 -35).
- Federal law requires that state Medicaid programs make Disproportionate Share Hospital (DSH) payments to qualifying hospitals.
- DSH payments are a shared expense between federal and state governments. The federal government matches stated dollars based on Federal Medical Assistance Percentages (FMAP).

On the Horizon: The ACA calls for reductions in DSH payments, originally scheduled to begin in 2014 but delayed until 2018. Reductions will amount to $43 billion between 2018 and 2025; reductions start at $2 billion in FY 2018 and increase to $8 billion by FY 2025.

Defining DSH (Cont.)

<u>State</u>

- DVHA has the flexibility in establishing DSH payment formula, but must adhere to Federal rules which includes an annual audit.

- The Medicaid DSH payment has remained at $37.4m from SFY 2011 – SFY 2016

- All Vermont hospitals are eligible to receive DSH payments. Two eligible hospitals do not receive payments Brattleboro Retreat and Grace Cottage because they do not meet the requirements.

- The distribution of DSH payments can vary significantly from year to year. See the table on next slide for historic DSH payments by hospital and the reduction by hospital if the 10% cut had been enacted in SFY 17. The final column shows just how volatile these payments can be on an annual basis.

Impact of Proposed 10% DSH Cut (Source DVHA)

	Estimated Impact of Proposed 10% DSH Reduction			
	DSH FFY 2016	DSH FFY 2017	DSH Impact of 10% Cut	FFY 17 Compare FFY 16
Brattleboro Memorial Hospital	$ 895,517	$ 983,812	$ (98,381)	$ 88,295
Central Vermont Medical Center	$ 3,247,134	$ 1,606,925	$ (160,693)	$ (1,640,209)
Copley Hospital	$ 502,588	$ 988,678	$ (98,868)	$ 486,090
Gifford Medical Center	$ 982,684	$ 858,641	$ (85,864)	$ (124,043)
Grace Cottage Hospital			$ -	$ -
Mt. Ascutney Hospital	$ 187,766	$ 541,427	$ (54,143)	$ 353,661
North Country Hospital	$ 1,825,088	$ 1,463,567	$ (146,357)	$ (361,521)
Northeastern Vermont Hospital	$ 1,472,395	$ 1,742,622	$ (174,262)	$ 270,227
Northwestern Medical Center	$ 1,455,325	$ 1,897,969	$ (189,797)	$ 442,644
Porter Medical Center	$ 505,159	$ 443,503	$ (44,350)	$ (61,656)
Retreat Health Care			$ -	$ -
Rutland Regional Medical Center	$ 4,200,184	$ 5,693,662	$ (569,366)	$ 1,493,478
Southwestern Vermont Hospital	$ 1,927,505	$ 727,154	$ (72,715)	$ (1,200,352)
Springfield Hospital	$ 1,523,045	$ 1,776,430	$ (177,643)	$ 253,386
University of Vermont Medical Ctr	$18,724,391	$18,724,391	$(1,872,439)	$ -
Totals	$37,448,781	$37,448,781	$(3,744,878)	$ -

Hospital Accounting of DSH Payments

<u>**Net Patient Revenues**</u>

Gross Patient Revenues (what providers charge for services regardless of payer)

- Bad Debt (unpaid patient bills)
- Free Care (provided under charitable care policy)
- Deductions from Gross Revenues (payers discount off gross charges)

+ ***Disproportionate Share Payments (DSH)*** *
+ <u>Graduate Medical Education Payments (academic medical centers only)</u>

= **Net Patient Revenue** (What hospitals are paid for patient care services)

****DSH is one payment source that contributes to net patient service revenue; net patient service revenues are used to pay for operating expenses.***

Hospital Accounting of DSH Payments (Cont.)

Hydraulics of Net Patient Service Revenue:

- Sources of net patient revenues are not viewed as separate or distinct dollars; they are the total funds available to pay operating expenses.

- When a revenue source is decreased either expenses need to be cut or these revenues need to be replaced from another payer source.

- Hospital are required, through the GMCB regulatory process, to account for declining uncompensated care expenses:
    - Hospitals have made mid-year commercial rate adjustments and have factored these variables into rate increases.

Uncompensated Care Cost Trends and DSH Payments

Estimated Uncompensated Care Costs Trends vs DSH Payments

$70,000,000
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$-

2013
2014
2015
2016 (Draft)

Bad Debt
Free Care
Total Uncompensated Care
DSH Payment

Source: GMCB reported Bad Debt/Free Care
The estimated cost based on the system ratio of operating expense to gross charges or 48%.

VAHHS Position on Proposed DSH Cut:

- There remains significant uncertainty related to the ACA, impact to benefits are in question.
  - Uninsured rate could rise from the current 4% to upwards of 10%.

- Even with declining uncompensated care, DSH payments do not cover the cost of the care.

- DSH payments are one source of funding that support operating expenses and therefore a necessary part of revenues that help support patient care delivery in the communities we serve.

Questions?