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Medicaid

Disproportionate Share Hospital (DSH) Reform

The Disproportionate Share Hospital (DSH) program is a component of the Medicaid program. Under the DSH program, states make special payments to hospitals that serve a disproportionate number of uninsured and Medicaid patients. These payments are matched by the Federal government. This program is intended to provide supplemental support to hospitals that have high amounts uncompensated care and low Medicaid reimbursement.

During the late 1980s and early 1990s, some states used provider taxes and donations to "borrow" money from providers receiving Medicaid payments to use as the state share of the program. This occurred because states could give back to providers the "borrowed" money in the form of DSH payments. By doing this, the states were able to generate Federal payments with little to no state contribution and few strings on the use of the money. As a result, DSH payments grew at extraordinary rates during this period, driving total Medicaid cost growth to over 20 percent per year. In 1991, laws were passed restricting the sources and uses of DSH funding. Consequently, DSH spending growth in the last several years has moderated.

Today, the Federal government pays about $10 billion in DSH payments. Its funding accounts for about 9 percent of total Medicaid spending. This funding is distributed unevenly across states, with five states spending half of the total program funding in 1994.

In the future, it is expected that DSH payments will grow at lower rates than in the past. The Congressional Budget Office projects its growth at about 4.3 percent per year (December 1995 baseline), the Administration projects its growth about 3.5 percent between 1995 and 2002 (February 1996 baseline).

Reform:
The Medicaid reform proposals under consideration take different approaches to DSH spending. All of the proposals keep DSH funding in the Medicaid program. However, they change both the amount of the financing and the use of the funds.

- **Financing**: All of the proposals place limits on the growth in Federal DSH payments to states, consistent with current law. However, the tightness of these caps varies. The President's plan places the most stringent limit on DSH spending, since its goal is to retarget the funding to state and providers who need the money. It thus removes some of the excess funding built into the base due to the provider taxes and donations schemes of the early 1990s. The MediGrant II proposal, in contrast, does not explicitly reduce DSH spending. In fact, by allowing it to both stay in the base and be grown at the general MediGrant II rates, it allows DSH funding to increase. This benefits states with large DSH programs. The Governor's proposal is most similar to current law. It freezes the growth in Federal DSH payments for high-DSH states, and allows DSH in states with low spending to grow at the medical assistance rates. As a consequence, it does not produce much savings relative to current law.

- **Uses of DSH Funds:** Under current law, funding for DSH is based on the actual payments to hospitals, within the state allotments. The President's plan narrows the definition of eligible hospitals further, targeting the funding to truly needy hospital. However, under the MediGrant II and the Governors' plan, DSH funding is disconnected from actual payments to hospitals. Instead, the funding that had gone to these hospitals is kept in the overall state allotment, but can be used by states for general medical assistance payments.

Proposal	Financing (billions for FY 1996-2002)	Uses
Baseline	*Federal spending:* $87 billion Uncapped *State spending:* Federal allotments for states frozen if DSH payments exceed 12% of total spending.	Payments to hospitals with at least 1% Medicaid utilization
President's Plan	*Federal spending:* $47 billion ($40 billion in gross savings) Capped *State spending:* Current Federal payments for states phased out and new, targeted program phased in. New program allotments based on states' share of nation's low-income utilization days.	Payments to hospitals that meet minimum requirements plus other hospitals as designated by the states
MediGrant II	*Federal spending:* $95 billion ($8 billion new spending) Capped *State spending:* Current Federal payments for states included in their general grant growth.	Not specified: medical assistance or payments to hospitals
Governors' Plan	*Federal spending:* If inflation adjuster is: 5.2% (7%, 6%, 5% ...) $98 billion ($11 billion in new spending) If inflation adjuster is: 4.2% (6%, 5%, 4% ...) $94 billion ($7 billion in new spending) If inflation adjuster is: 3.2% (5%, 4%, 3% ...) $90 billion ($3 billion in new spending) Not capped if the base and growth formula are not capped. *State spending:* Current Federal payments for states included in their general grant growth if DSH payments are less than 12% of total spending; otherwise, DSH payments are frozen.	Not specified: medical assistance or payments to hospitals

The Cost of Including DSH in the Formula

The Governor's proposal allows states to keep their DSH payments for use in general medical assistance. It does this by:

- Allowing DSH to grow at the estimated enrollment growth rate and the inflation adjuster for low-DSH states, and
- Freezing DSH but allowing it to stay in the base and the allotment for high-DSH states.

A "high-DSH" state is one whose DSH payments exceed 12 percent of total spending.

Consequences:
Since the baseline growth in DSH is lower than the minimum adjuster of 3 percent and CBO's estimated enrollment growth rate, this DSH policy will likely cost rather than save money. Consequently, the inclusion of DSH comes at the expense of a lower inflation adjuster for medical assistance.

The following table illustrates the trade-off. The DSH freeze and the President's DSH rows illustrate what the index value could be to yield the same savings as would be generated at the 3.2 percent average annual adjuster value if DSH were reduced rather than increased.

Proposal	Adjuster	DSH Changes	Benefits Changes [2]	Net Savings
Governors' Plan	5.2% (7%, 6%, 5%)	+ $11 billion [1]	- $30 billion	- $19 billion
	4.2% (6%, 5%, 4%)	+ $7 billion [1]	- $48 billion	- $41 billion
	3.2% (5%, 4%, 3%)	+ $3 billion [1]	- $66 billion	- $63 billion
DSH Freeze	4.2% (5.5%, 5%, 4%)	- $12 billion	- $51 billion	- $63 billion
President's DSH	5.6% (7%, 6%, 5.5%)	- $40 billion	- $23 billion	- $63 billion

[1] From the Urban Institute State Medicaid baseline controlled to the CBO December 1995 estimates. These are preliminary and depend on the scoring of the rest of the proposal since a state is determined to be "high DSH" depending on its total spending.

[2] These estimates are from the per capita cap savings model using the CBO December 1995 baseline. These savings will be different for the Governors' proposal – these are meant only to be illustrative.

Implications of a Hold Harmless

The outline of the Governors' financing proposal suggests that states will get a "hold harmless". In a given year, a state's Federal financing limit will not be less than the previous year's allotment. An "allotment" in this proposal is the base-year spending multiplied by the inflation adjuster and by estimated enrollment growth for years between the base and the current year. It can only be less than the previous year's allotment if the estimated enrollment growth is negative and completely offsets any increase in the allotment due to the inflation adjuster. Stated differently, the hold harmless protects states that experience a large enrollment decline.

To assess the implications of the hold harmless, three different inflation adjusters were chosen. The following table responds to the following question:

- At what point does the Federal spending limit stop adjusting for enrollment declines due to the hold harmless? If enrollment declines more than the numbers in the table below, the states still get the same Federal allotment.

Inflation Adjuster	**5%**	**4%**	**3%**
Estimated Enrollment Growth	At least -5%	At least -4%	At least -3%
Estimated Enrollment Decline	3 million (7-8 percent)	2.6 million (6-7 percent)	2.2 million (5.5 to 6.5 percent)

These estimates are based on the Congressional Budget Office December 1995 baseline. They assume that all states have a negative enrollment growth. They approximate a one-year effect. They are fairly stable over time, with a similar reduction in any given year of the 1996 to 2002 period.

Backup only

CBO December 1995 Baseline: Federal Expenditures

		1995	1996	1997	1998	1999	2000	2001	2002
Baseline Recipients		35.4	36.651	38.1	39.1	40.3	41.4	42.5	43.6
Growth			3.6%	3.9%	2.8%	2.9%	2.8%	2.6%	2.5%
Adjuster	Est. Enrollment								
5%	-5%		33.703	34.906	36.261	37.270	38.363	39.421	40.458
	Difference		-2.948	-3.168	-2.873	-3.011	-3.029	-3.060	-3.100
	Percent Difference		-8.0%	-8.3%	-7.3%	-7.5%	-7.3%	-7.2%	-7.1%
4%	-4%		34.027	35.241	36.610	37.629	38.732	39.800	40.847
	Difference		-2.624	-2.833	-2.524	-2.652	-2.660	-2.681	-2.711
	Percent Difference		-7.2%	-7.4%	-6.5%	-6.6%	-6.4%	-6.3%	-6.2%
3%	-3%		34.357	35.583	36.965	37.994	39.108	40.186	41.244
	Difference		-2.294	-2.491	-2.169	-2.287	-2.284	-2.295	-2.314
	Percent Difference		-6.3%	-6.5%	-5.5%	-5.7%	-5.5%	-5.4%	-5.3%

Savings: $59 b
Phased in Coalition DSH;
Undocumented pool; FQHC pool
BASELINE SCENARIO

Index: 7%, 6%, 5% ....

Federal Medicaid Savings Under the Alternative Proposal
1996 - 2002 (Dollars in millions)

Per Capita Cap
Savings w/
Comparable Index:
~$30 billion

States	DSH	
	Savings	% Change
Total	**10,987**	**13%**
Alabama	873	42%
Alaska	9	10%
Arizona	(17)	-2%
Arkansas	1	5%
California	430	5%
Colorado	(617)	-51%
Connecticut	415	26%
Delaware	(2)	-7%
District of Columbi	54	25%
Florida	(19)	-1%
Georgia	(1)	0%
Hawaii	19	14%
Idaho	(11)	-77%
Illinois	(351)	-19%
Indiana	268	16%
Iowa	3	8%
Kansas	199	26%
Kentucky	(912)	-66%
Louisiana	3,440	52%
Maine	238	31%
Maryland	69	10%
Massachusetts	(94)	-3%
Michigan	249	8%
Minnesota	19	9%
Mississippi	(34)	-3%
Missouri	1,470	48%
Montana	0	23%
Nebraska	2	3%
Nevada	109	40%
New Hampshire	657	49%
New Jersey	1,167	29%
New Mexico	10	18%
New York	(789)	-6%
North Carolina	287	12%
North Dakota	(0)	-2%
Ohio	(724)	-20%
Oklahoma	13	9%
Oregon	(14)	-9%
Pennsylvania	384	10%
Rhode Island	(55)	-10%
South Carolina	1,211	53%
South Dakota	(5)	-73%
Tennessee	125	0%
Texas	2,720	36%
Utah	3	11%
Vermont	(48)	-30%
Virginia	88	14%
Washington	19	1%
West Virginia	130	19%
Wisconsin	0	1%
Wyoming	-	0%

Savings: $59 b
Phased in Coalition DSH;
Undocumented pool; FQHC pool
BASELINE SCENARIO

Index: 6%, 5%, 4% ....

Federal Medicaid Savings Under the Alternative Proposal
1996 - 2002 (Dollars in millions)

Per Capita Cap Savings:
~ $48 billion

States	DSH	
	Savings	% Change
Total	**7,060**	**8%**
Alabama	754	36%
Alaska	5	6%
Arizona	(45)	-6%
Arkansas	0	1%
California	36	0%
Colorado	(640)	-53%
Connecticut	336	21%
Delaware	(4)	-11%
District of Columbi	43	20%
Florida	(83)	-5%
Georgia	(98)	-4%
Hawaii	13	10%
Idaho	(11)	-78%
Illinois	(411)	-22%
Indiana	189	11%
Iowa	1	4%
Kansas	161	21%
Kentucky	(931)	-67%
Louisiana	3,037	46%
Maine	198	26%
Maryland	40	6%
Massachusetts	(197)	-7%
Michigan	117	4%
Minnesota	10	5%
Mississippi	(84)	-7%
Missouri	1,286	42%
Montana	0	18%
Nebraska	(0)	-1%
Nevada	94	34%
New Hampshire	577	43%
New Jersey	959	24%
New Mexico	7	14%
New York	(1,275)	-10%
North Carolina	174	7%
North Dakota	(1)	-6%
Ohio	(838)	-23%
Oklahoma	6	4%
Oregon	(20)	-13%
Pennsylvania	210	5%
Rhode Island	(76)	-14%
South Carolina	1,070	47%
South Dakota	(5)	-74%
Tennessee	94	0%
Texas	2,309	31%
Utah	2	6%
Vermont	(53)	-32%
Virginia	58	9%
Washington	(51)	-3%
West Virginia	97	14%
Wisconsin	(2)	-3%
Wyoming	-	0%

'Savings: $59 b
Phased in Coalition DSH;
Undocumented pool; FQHC pool
BASELINE SCENARIO

Avg. 3.2%

Index: 5%, 4%, 3% ....

Federal Medicaid Savings Under the Alternative Proposal
1996 - 2002 (Dollars in millions)

Pen Comm Car ~ $66 billion

States	DSH	
	Savings	% Change
Total	**3,287**	**4%**
Alabama	641	31%
Alaska	1	2%
Arizona	(72)	-10%
Arkansas	(1)	-4%
California	(343)	-4%
Colorado	(663)	-55%
Connecticut	259	16%
Delaware	(5)	-15%
District of Columbi	33	15%
Florida	(146)	-9%
Georgia	(191)	-8%
Hawaii	7	5%
Idaho	(11)	-78%
Illinois	(468)	-25%
Indiana	113	7%
Iowa	(0)	-1%
Kansas	124	16%
Kentucky	(949)	-68%
Louisiana	2,650	40%
Maine	160	21%
Maryland	11	2%
Massachusetts	(296)	-11%
Michigan	(11)	0%
Minnesota	1	0%
Mississippi	(132)	-10%
Missouri	1,110	36%
Montana	0	13%
Nebraska	(2)	-5%
Nevada	79	29%
New Hampshire	500	38%
New Jersey	759	19%
New Mexico	5	9%
New York	(1,741)	-13%
North Carolina	66	3%
North Dakota	(1)	-10%
Ohio	(947)	-26%
Oklahoma	0	0%
Oregon	(25)	-16%
Pennsylvania	43	1%
Rhode Island	(95)	-17%
South Carolina	935	41%
South Dakota	(5)	-75%
Tennessee	64	0%
Texas	1,914	26%
Utah	1	2%
Vermont	(57)	-35%
Virginia	30	5%
Washington	(117)	-7%
West Virginia	65	9%
Wisconsin	(5)	-7%
Wyoming	-	0%

'edicaid Recipients: Person Years FY 1994

	Adult			Kids			Aged			Disabled			TOTAL	Preg. Women
	Mandatory	Optional	Total	Mandatory	Optional	Total	Mandatory	Optional	Total	Mandatory	Optional	Total		
:otal	**5,104,521**	**1,885,767**	**6,990,288**	**########**	**2,633,136**	**########**	**2,060,410**	**1,465,915**	**3,526,325**	**4,304,393**	**1,055,735**	**5,360,128**	**32,176,832**	**1,548,434**
:bama	56,258	7,582	63,840	227,212	954	228,166	55,840	15,082	70,922	121,581	4,621	126,202	**489,129**	24,496
ska	16,178	1,108	17,286	37,249	-	37,249	4,338	195	4,533	5,871	60	5,931	**64,999**	4,365
zona	64,639	24,632	89,271	175,893	135,160	311,053	16,083	9,143	25,226	58,489	3,595	62,084	**487,634**	43,152
ansas	18,678	26,613	45,290	54,957	44,227	99,183	30,721	16,455	47,176	75,319	4,086	79,405	**271,054**	10,809
lifornia	930,644	588,795	1,519,439	2,054,495	547,187	2,601,682	381,165	129,061	510,226	666,873	61,679	728,552	**5,359,898**	189,262
orado	47,321	8,790	56,111	109,994	28,449	138,443	34,691	1,386	36,077	38,002	5,389	43,391	**274,022**	20,836
nnecticut	55,771	14,904	70,675	132,200	26,921	159,121	521	43,702	44,223	102	40,226	40,328	**314,347**	13,912
laware	9,597	3,306	12,903	33,257	2,889	36,146	3,162	2,393	5,555	8,620	1,985	10,605	**65,208**	2,591
trict of Colu	24,733	2,524	27,257	62,218	4,685	66,903	4,614	4,741	9,355	18,671	5,399	24,070	**127,584**	6,405
rida	245,916	49,530	295,446	855,200	36,513	891,713	99,584	85,457	185,041	224,932	43,448	268,380	**1,640,580**	101,894
orgia	147,884	28,662	176,546	487,182	5,865	493,047	67,182	26,468	93,650	148,903	17,288	166,191	**929,433**	36,116
waii	18,623	1,036	19,659	40,505	6,394	46,899	1,321	13,218	14,539	1,087	10,360	11,447	**92,544**	3,951
aho	11,844	3,604	15,448	50,573	181	50,754	3,117	4,595	7,712	6,344	9,159	15,503	**89,417**	5,834
inois	224,497	141,770	366,267	572,585	243,672	816,257	46,493	59,877	106,370	196,255	70,523	266,778	**1,555,671**	58,993
iana	86,924	16,010	102,934	200,953	73,723	274,676	17,710	38,961	56,671	34,768	24,771	59,539	**493,820**	21,068
va	42,318	14,496	56,814	95,686	21,536	117,222	10,199	21,208	31,407	35,734	8,434	44,168	**249,610**	9,733
sas	23,324	11,278	34,602	58,220	27,574	85,794	1,323	17,630	18,953	16,892	10,411	27,303	**166,652**	9,132
ntucky	71,346	31,415	102,761	197,867	47,632	245,499	39,227	18,527	57,754	137,135	4,830	141,965	**547,979**	19,775
uisiana	89,361	14,379	103,740	241,533	66,814	308,347	63,954	25,580	89,534	126,384	11,263	137,647	**639,268**	41,141
ine	23,652	12,851	36,503	58,561	13,377	71,938	6,300	13,640	19,940	22,989	8,565	31,554	**159,935**	3,937
ryland	67,441	17,409	84,850	171,954	52,770	224,724	20,156	21,135	41,291	66,387	20,113	86,500	**437,364**	30,998
ssachusetts	130,417	30,461	160,878	298,291	34,127	332,418	2,246	90,756	93,002	14,736	136,872	151,608	**737,906**	27,368
chigan	259,756	44,125	303,881	543,016	56,074	599,090	33,912	43,072	76,984	181,814	33,816	215,630	**1,195,585**	29,912
nesota	131,499	31,801	163,300	364,962	19,990	384,952	25,691	61,909	87,600	74,691	36,844	111,535	**747,387**	11,665
ssissippi	47,029	15,143	62,172	209,105	7,621	216,726	37,497	24,185	61,682	106,119	9,489	115,608	**456,188**	20,034
ssouri	106,195	19,383	125,578	325,331	4,840	330,171	34,262	44,858	79,120	59,148	24,761	83,909	**618,778**	22,389
ntana	13,384	6,925	20,308	28,605	4,977	33,581	2,160	4,759	6,919	10,902	2,083	12,985	**73,793**	2,813
braska	13,655	18,962	32,617	48,186	14,152	62,338	7,339	10,359	17,698	15,999	4,092	20,091	**132,744**	7,734
vada	11,522	5,751	17,273	44,224	735	44,959	5,664	4,043	9,707	3,250	9,034	12,284	**84,223**	5,718
w Hampshire	10,078	3,821	13,899	31,305	2,204	33,509	2,375	11,827	14,202	5,778	4,726	10,504	**72,114**	-
w Jersey	124,474	21,003	145,477	319,129	18,945	338,074	34,733	42,829	77,562	111,182	21,583	132,765	**693,878**	21,479
w Mexico	37,939	3,691	41,630	111,675	690	112,365	12,261	4,258	16,519	30,287	1,486	31,773	**202,287**	9,637
w York	414,411	189,483	603,893	1,015,271	286,389	1,301,659	173,575	154,101	327,676	397,258	84,794	482,052	**2,715,280**	145,605
rth Carolina	124,084	49,789	173,873	377,272	39,999	417,271	101,616	21,589	123,205	75,118	21,681	96,799	**811,148**	52,975
rth Dakota	5,318	5,918	11,235	14,374	9,665	24,038	3,800	5,383	9,183	5,640	2,044	7,684	**52,140**	1,666
io	263,683	26,386	290,069	690,373	54,513	744,886	87,232	50,362	137,594	44,720	134,990	179,710	**1,352,259**	71,737
lahoma	58,506	4,987	63,493	159,618	3,365	162,983	28,999	17,366	46,365	43,011	6,836	49,847	**322,687**	23,306
egon	49,717	5,965	55,682	106,259	34,088	140,347	13,445	14,717	28,162	19,686	20,033	39,719	**263,910**	15,951
nnsylvania	194,261	103,807	298,068	507,157	200,400	707,557	80,718	56,162	136,880	233,816	43,368	277,184	**1,419,688**	42,557
ode Island	21,616	2,866	24,482	37,648	2,182	39,830	4,171	12,933	17,104	14,791	7,467	22,258	**103,674**	-
uth Carolina	54,923	6,933	61,855	177,147	25,928	203,074	57,681	13,116	70,797	80,923	3,911	84,834	**420,560**	29,694
uth Dakota	8,091	749	8,840	30,625	1,132	31,757	3,469	4,641	8,110	10,653	1,837	12,490	**61,197**	4,492
nnessee	89,819	55,194	145,013	257,752	157,561	415,313	83,634	19,789	103,423	187,382	12,578	199,960	**863,708**	34,747
xas	313,245	57,747	370,992	1,193,766	27,064	1,220,830	190,140	88,153	278,293	233,576	18,582	252,158	**2,122,273**	189,898
ah	25,532	4,443	29,975	77,300	4,829	82,129	3,992	4,199	8,191	10,034	6,415	16,449	**136,744**	9,959
rmont	12,800	5,405	18,205	29,062	12,263	41,325	4,240	4,825	9,065	9,650	2,295	11,945	**80,539**	2,194
rginia	66,108	26,493	92,601	143,174	155,165	298,339	53,528	23,191	76,719	81,941	9,058	90,999	**558,658**	35,137
shington	96,098	52,135	148,233	279,561	35,352	314,913	21,279	23,574	44,853	79,791	13,323	93,114	**601,113**	23,417
st Virginia	70,736	8,951	79,687	114,104	1,825	115,929	21,129	2,991	24,120	54,417	4,772	59,189	**278,924**	23,662
consin	68,270	53,428	121,698	192,947	30,349	223,296	20,572	35,262	55,834	92,930	9,310	102,240	**503,067**	22,020
oming	4,410	3,336	7,746	21,426	197	21,623	1,349	2,252	3,601	3,812	1,450	5,262	**38,232**	2,270

om 2082 data / HCFA OAct
andatory" includes cash, and pre- and post-88 eligibles, except for children, which include noncash as well. The "other" category was split evenly between the Adults and Kids.
egnant women were estimated by taking 2/3 of the infants, since the counts are ever-ons and because of the age-counting problem (i.e., includes children less than one born in the previous FY)

3/14/96