DSH Payment Counter-Offer

The problem: The House achieves $13.1 billion of $14.6 billion, or 90%, of its gross Medicaid savings by reductions in DSH payments. 78% of the DSH payment reductions come out of 12 states. How can we allocate DSH reductions so that High-DSH states sustain the largest reductions but the cuts are not devastating?

Outline of Proposal for 3% Floor on DSH Reductions

(1) Per the House formula, 1995 is used as base year for Medicaid spending.

(2) Per the Commerce Commmittee proposal, each state gets the better of the House or Senate levels. Cost of Commerce Committee revision = $1 billion.

(3) High-DSH states take the highest reduction, but are protected against excessive cuts by a cap limiting each state's reduction in federal DSH payments to no more than 3% of the federal share of Medicaid spending in that state in 1995.

(4) Low-DSH states take the least reduction, and are protected by using the better of House or Senate levels.

(5) Very-Low DSH state are protected by a freeze at 1995 levels.

(6) Cost of Cap at 3% of 1995 Medicaid Payments = $921 million more than the pending Commerce Committee proposal.

Options for Covering Cost of DSH Revisions

The cost of going with Senate provisions on SSI and Medicaid eligibility for legal immigrants is $2.4 billion over the House. No "billpayer" is tied to this decision; the extra cost has to be worked out in the budget mix. The extra cost of DSH formula revision can be worked out the same way; but there are also specific ways to offset the $921 million reduction in Medicaid savings caused by our proposal.

(1) Permit Medicaid Rates to be used for Cost Sharing for Qualified Medicare Beneficiaries (QMBs) and Dual Eligibles:

The Senate bill overrides court decisions that have required state to pay Medicare cost-sharing for services to QMB and Dual Eligible beneficiaries, even though the

Medicare payment exceeds the Medicaid payment for such services. Since Medicaid rates average about 73% of Medicare rates, if payments to providers for these beneficiaries are held to Medicaid's lower levels, states save substantially. Because the federal match is lower, there are corresponding savings to the federal government of $5 billion over five years, according to CBO. CBO estimates that Medicare providers would react to lower rates by increasing the volume and intensity of service, thereby raising Medicare costs by $2.9 billion. So, net federal savings = $2.1 billion.

Many in the House see the Senate bill as bad policy, but if it has to be accepted as part of the compromise, the savings should be allocated to Medicaid and used to offset the cost of DSH formula revision.

(2) Re-Score Medicare Offsets Attributable to State Circumvention:

In estimating federal savings from reductions in DSH matching payments to the states, CBO typically reduces savings that accrue from policy changes by 25%. CBO makes this adjustment because it believes that states losing DSH matching funds will raise spending on other Medicaid services to offset the loss.

The House achieved $13.1 billion of its $14.6 billion in gross Medicaid savings by reducing DSH payments. Since CBO typically assumes a 25% offset, the net savings after a 25% offset would come to about $11.4 billion. But the House bill allows states to use Children's Health Assistance Programs (CHAPS) funds for "direct services." CBO assumes that some CHAPS money will be used for "direct services" and will replace DSH losses. CBO, therefore, reduces "leakage" in the House bill to 15%.

Commerce Committee staff have contested CBO's 25% offset, and are said to be proposing what will amount to a directed scorekeeping at 15%. If this step is taken, about $1.5 billion will be saved under the House DSH formula. These savings could be used to pay for formula revisions.

(3) Re-Allocate $1.5 billion for SLMB expansion from Medicaid to Medicare.

The pending position on the plus-up in SLMB coverage is to pay for the extra coverage with federal funds and not require a state match. Without a state match, this becomes less a benefit of Medicaid and more a feature of Medicare.

We have already allocated to Medicare the increased cost of QMB/SLMB premium coverage due to the shift in home health care costs from Part A to Part B. The

expansion of SLMB coverage could be re-allocated also, and $1.5 billion in added cost over 5 years would be removed from Medicaid.

(4) Limit Administrative Costs of Federal Benefit Programs.

State employees administer TANF (formerly AFDC), Medicaid, and Food Stamps. In the past, the federal government matched 50% of the administrative costs. Now TANF administrative costs are simply part of the unmatched block grant. In attributing costs to each program, past practice was to attribute costs for all shared activities, such as checking income and assets, to AFDC. Costs unique to one program, such as determining housing costs for the Food Stamp shelter deduction, were allocated to just that program

Under welfare reform, states can allocate the cost of shared activities equally among the three programs. This will inevitably cause costs to migrate from TANF (a fixed, unmatched program) to Food Stamps and Medicaid (matched programs). State will strive to define murky areas as specific to Food Stamps or Medicaid, which will mean cost-sharing and increased federal spending. For this reason, CBO increased its Food Stamps and Medicaid baselines by $5-6 billion over 5 years in February.

If Congress requires that states continue to attribute shared costs to TANF, CBO estimates savings of $3.3 billion over 5 years. $1.8 billion would be realized in Medicaid and $1.5 billion would be realized in Food Stamps.

States have not yet received approval for their new administrative allocation plans. Thus when the states switch to "shared" attribution, they will receive payments retroactively for redesignated 1997 costs. Merely halting the retroactive paymetns could save several hundred million dollars.