DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
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FACT SHEET

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Medicaid State Disproportionate Share Hospital Allotment Reductions Proposed Rule

The Affordable Care Act requires aggregate reductions to state Medicaid disproportionate share hospital (DSH) allotments annually from fiscal year (FY) 2014 through FY 2020, at the same time as the Marketplace and Medicaid provide increased coverage options that will reduce uncompensated care levels for hospitals. State Medicaid programs make DSH payments to qualifying hospitals that serve a large number of low-income individuals. On May 13, 2013, the Centers for Medicare & Medicaid Services (CMS) issued a proposed rule with request for comment to implement the provision of the Affordable Care Act that reduces Medicaid Disproportionate Share Hospital (DSH) allotments. Once finalized, this rule will go into effect starting October 1, 2013 unless Congress enacts the President's Budget proposal to begin the Medicaid DSH allotment reductions in FY 2015 instead of FY 2014, while retaining the same total amount of reductions through 2020.

Overview

The Affordable Care Act authorizes states to expand Medicaid to adults under age 65 with income of up to 133 percent of the federal poverty level (approximately $15,280 for a single adult in 2013) and provides unprecedented federal funding for these states. The Federal government will pay for 100% of the cost of coverage for newly eligible individuals through 2016, and pay no less than 90% of the cost subsequently. Expanded coverage thanks to the Affordable Care Act through the Medicaid program and through Health Insurance Marketplaces is expected to significantly reduce uncompensated care.

At the same time as the Affordable Care Act expands coverage that reduces levels of uncompensated care, it also reforms Medicaid DSH allotments to reflect anticipated changes in coverage. Currently, states make Medicaid DSH payments to hospitals in instances where hospitals serve a disproportionate share of low income patients and have high levels of uncompensated care costs. States have broad discretion to distribute Medicaid DSH payments to hospitals, subject to hospital-specific payment limits and state-wide DSH allotments. DSH allotments vary greatly among states. The Affordable Care Act directs that there be greater targeting of this funding.

Provisions of the Proposed Rule

The Affordable Care Act includes the annual amount of aggregate DSH reductions and directs the Secretary to develop a methodology, with consideration of statutory factors (mentioned below), for carrying out the reductions. This proposed rule implements these changes. The law specifies the following annual reductions to state-wide DSH allotments for all states:

Fiscal Year	Reduction (Federal Share)
2014	$500 million
2015	$600 million
2016	$600 million
2017	$1.8 billion
2018	$5 billion
2019	$5.6 billion
2020	$4 billion

The Affordable Care Act also outlines the following factors that must be taken into account when developing the methodology:

(1) Low DSH states receive smaller reductions.
(2) States with lowest percentages of uninsured individuals receive larger reductions.
(3) States that do not target their DSH payments to hospitals with high volumes of Medicaid beneficiaries receive larger reductions.
(4) States that do not target their DSH payments on hospitals with high levels of uncompensated care receive larger reductions.
(5) States that have increased coverage under section 1115 demonstrations as of July 31, 2009, and adjusted their DSH allotments will have these adjustments taken into account.

The proposed rule includes a reduction methodology only for FY 2014 and FY 2015 only. A two-year methodology accommodates data refinement and methodology improvement before larger reductions begin in FY 2017. CMS will revisit the methodology and promulgate new rules to govern DSH reductions in FYs 2016 and beyond. The rule establishes separate DSH reduction pools for low-DSH states and other states. The rule then creates a formula for distributing the reductions in each pool that gives one-third weight to the uninsured percentage factor. Another one-third is given to each of the two DSH payment targeting factors. The rule also contains a procedure for protecting allotments that support section 1115 demonstration coverage increases. The proposed methodology encourages states to target Medicaid DSH payments to high Medicaid volume hospitals and hospitals with high levels of uncompensated care.

This rule proposes an annual reduction methodology for the first two years, effective January 1, 2014.

CMS is seeking comment on provisions of this final rule through July 12, 2013.

The rule can be found at http://www.ofr.gov/inspection.aspx