



Affordable Care Act Disproportionate Share Hospital Payment Reductions Sept. 19, 2012

On June 28, 2012, the U.S. Supreme Court ruled that the Affordable Care Act (ACA) was constitutional. Disproportionate Share Hospital (DSH) provisions in the ACA remain the same.

Both the Medicare and Medicaid programs provide additional payment to hospitals that serve a disproportionate share of Medicaid patients and other low income patients.

Medicare

Currently, Medicare DSH payments are distributed based on a complex formula that provides payments to qualifying hospitals based on their percentage of Medicare beneficiaries on Supplemental Security Income (SSI) and their percentage of Medicaid beneficiaries.

Medicare DSH cuts begin in 2014 when hospitals will receive 25 percent of the amount based on the current formula described above. In addition, each hospital will receive a distribution from a pool based on its share of national “uncompensated care.” The size of the pool is set in statute and is 75 percent of current DSH spending offset by the percentage decrease in the national uninsured share of non-elderly population from 2013 to the payment year, minus an additional 0.1 percentage point in fiscal year (FY) 2014 and minus 0.2 percentage points for FYs 2015–2019. The definition and reporting of uncompensated care for this purpose have not yet been defined and are likely to be the subject of future rulemaking.

Medicaid

Currently, each state is allotted a specific amount of federal Medicaid DSH funding. Based on the assumption that the new law will succeed in dramatically reducing the number of uninsured, Congress reduced Medicaid DSH payments by \$14.1 billion from 2014 through 2019 and imposed another \$4 billion reduction in 2020.

Although the statute does not specify how to allocate the reductions among the states, the secretary of HHS is directed to develop a “DSH Health Reform methodology” that must impose the largest percentage reduction on those states with the lowest rates of uninsured. The allocation method also must favor those states that target their DSH dollars to hospitals that serve a large volume of Medicaid recipients or to those hospitals that continue to experience high levels of uncompensated costs. In addition, the ACA requires that smaller reductions be placed on low-DSH states such as Oklahoma. It will be up to each state to determine the methodology for reducing their Medicaid DSH payments to hospitals.

The Oklahoma Hospital Association has prepared Fact Sheets on numerous topics related to the ACA of interest to hospitals. The Fact Sheets may be accessed at www.okoha.com/aca.