SPG SACHS POLICY GROUP
60 East 42nd Street, Suite 1762
New York, NY 10165
Phone: 212 827 0660
Fax: 212 827 0667

Medicaid Disproportionate Share Hospital (DSH) Allotment Reductions Proposed Rule

OVERVIEW

On July 27th, the Centers for Medicare and Medicaid Services (CMS) issued a proposed rule that would implement $43 billion in Medicaid DSH payment reductions between federal FYs 2018 and 2025. Under the Affordable Care Act (ACA), Medicaid DSH funding was scheduled to be reduced between FYs 2014 and 2020 to account for lower levels of uncompensated care. Legislation has subsequently delayed the cuts**,** most recently until September 30, 2017.

CMS will accept comments on the rule until August 28th. The proposed rule is available here.

DSH HEALTH REFORM METHODOLOGY (DHRM)

Under the proposed rule, DSH payment reductions would incrementally increase each year from $2 billion in FY 2018 to $8 billion in FY 2025. Payment reductions would be state-specific under the ACA's DHRM. The DHRM takes into account the extent to which the DSH allotment for a state was included in the budget neutrality calculation for coverage expansion. Low DSH states, states with total expenditures for DSH payments less than 3% of total Medicaid expenditures, would experience smaller payment reductions. The following states would experience larger payment reductions:

- States that have a low percentage of uninsured;
- States that do not target DSH payments to hospitals with high volumes of Medicaid and uncompensated care.

The proposed rule would generally uphold the DHRM, but apply more recent data and weight assignments that are intended to further reduce the impact of DSH payment cuts on states with higher rates of uninsured. Under the proposed rule's DHRM, CMS estimates that based on 2017 data New York would see DSH payment cuts of nearly $330 million, or 18.7%, in FY 2018. This is more than double the cuts that any other state would experience. New Jersey is the second most adversely affected state with nearly $154 million in payment reductions.