DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop N3-01-21
Baltimore, Maryland 21244-1850

Office of the Actuary

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SUBJECT: Estimate of Medicare DSH Payments Used in Development of Factor 1

This memorandum summarizes the Office of the Actuary's (OACT's) estimate of Medicare disproportionate share hospital (DSH) payments in the absence of the changes to uncompensated care payments required by the Affordable Care Act (ACA). Included is a description of the methodology used to develop these estimates as well as the results of that methodology.

DSH payments have been a part of Medicare reimbursement to hospitals since the mid-1980s. Since that time, there have been many changes to the formulas that are used to determine these payments. The most recent change was required by the ACA, which reduced the amount of DSH payments to 25 percent of what had previously been paid and then created a new payment provision for uncompensated care payments. Under this new provision, for the remaining 75 percent of DSH amounts that had previously been paid, the majority were to be paid on a different basis. To determine the amounts needed for the uncompensated care payments, it was necessary to estimate what the Medicare DSH payments would have been under the previous system. The key assumptions used to estimate these payments are described below.

- Claims experience for fiscal year (FY) 2021 is used as the base data for developing DSH payments. The data are adjusted to reflect 100 percent of DSH payments using the Medicare cost reports and supplemental information for Indian Health Service hospitals. These results are further adjusted to exclude hospitals in Maryland, since they are not paid under the inpatient prospective payment system (IPPS).

- Projections of DSH payments are determined using estimated reimbursement per admission from the IPPS impact files and assumptions for utilization and case mix from OACT's Part A benefits model. These assumptions are based on those reflected in the Midsession Review of the President's Fiscal Year 2025 Budget.

- The market basket increases and productivity adjustments for FY 2025 reflect what is included in the IPPS final rule.

The following table shows the assumptions and results of the methodology used to develop the estimated DSH payments.

Assumptions and Results of Medicare DSH Payment Estimates						
	Adjustments					
FY	Payment update	Discharges	Case mix	Other	Total	DSH payments (in millions)
2021	—	—	—	—	—	$13,401
2022	1.025	0.946	0.997	0.9940	0.9611	12,880
2023	1.043	0.946	0.990	1.0501	1.0259	13,214
2024	1.031	0.984	1.005	1.0230	1.0434	13,787
2025	1.029	0.981	1.005	1.0022	1.0164	14,013

The "Payment update" column shows the increase to IPPS hospital payment rates for each year. These assumptions are a function of the market basket increase and include any legislated adjustments, such as the increase in productivity and adjustments for documentation and coding.

The "Discharges" column shows the adjustment for the increase in the number of Medicare fee-for-service (FFS) inpatient hospital discharges. The adjustments for 2022 and 2023 reflect actual claims experience that has been adjusted for completion. The estimate for 2024 is an assumption based on very preliminary claims experience for this year. The estimate for 2025 is an assumption based on recent historical experience. These estimates reflect a decrease in FFS enrollment, as a growing share of beneficiaries have moved into Medicare Advantage (MA) plans.

The "Case mix" column shows the adjustment in case mix for IPPS hospitals. The 2022 and 2023 amounts are based on actual claims experience adjusted for completion so reflect the impact of the COVID-19 pandemic. The 2024 and 2025 assumptions are based on the recommendation of the 2010–2011 Medicare Technical Review Panel.

The "Other" column shows the adjustment for other factors that contribute to the Medicare DSH estimates. These factors include the difference between the total inpatient hospital discharges and the IPPS discharges (particularly those in DSH hospitals) and various adjustments to the payment rates that have been included over the years but are not reflected in the update, discharge, or case mix impacts. In addition, this column includes a factor for the change in Medicaid enrollment.

The "Total" column represents the combined impact of all the previous columns, and the "DSH payments" column shows the estimated spending that results from applying the total increase to the previous year's amount.

In the past, we have made an adjustment for the Medicaid expansion because the DSH percentage is determined partially on the basis of Medicaid hospital days. That is, the more Medicaid beneficiaries there are, the higher the Medicare DSH payments will be. For the projection in the FY 2025 IPPS/LTCH final rule, after examining the changes in Medicaid enrollment over the past few years, we assume that the patterns of DSH increases for previous Medicaid enrollment increases will continue in the future.

The following table shows total Medicaid enrollment and the number of enrollees under age 65. The last row shows the impact of this higher enrollment on Medicare DSH payments.

Medicaid Enrollment Assumptions and Resulting Impacts on Medicare DSH Payments[1]			
	2021	2022	2023
Medicaid enrollment post-ACA (in millions)	83.0	89.9	94.5
Under 65 post-ACA enrollment (in millions)	75.6	82.1	86.3
Increase in Medicare DSH	4.3%	3.1%	1.9%

[1]Medicaid Enrollment excludes territories.

It is important to note that there is a high degree of uncertainty associated with these estimates because we do not know the number of Medicare beneficiaries who will choose to enroll in an MA plan or the amount of inpatient hospital services the remaining FFS enrollees will utilize. However, we believe that the assumptions, methodology, and resulting spending estimates are reasonable.

Suzanne Codespote, ASA, MAAA
Theresa Bean, ASA
Yaminee Thaker