mln
FACT SHEET
KNOWLEDGE • RESOURCES • TRAINING

Medicare Disproportionate Share Hospital

MLN006741 September 2024

CMS
CENTERS FOR MEDICARE & MEDICAID SERVICES
Medicare Learning Network®

What's Changed?

We added information from the FY 2024 final rule (pages 3, 5)

You'll find substantive content updates in dark red.

Disproportionate share hospitals (DSHs), defined in Section 1886(d)(5)(F) of the Social Security Act, serve a significantly disproportionate number of low-income Medicare patients and get additional Medicare payments to cover the costs of providing care to them.

Qualifying for the Medicare DSH Adjustment

Hospitals qualify for the Medicare DSH payment adjustment using either the **primary method** or the **alternate special exception method**.

Primary Method

The primary method applies to hospitals serving a significantly disproportionate number of low-income patients, based on the hospital's disproportionate patient percentage (DPP).

The DPP equals the sum of the percentage of total Medicare patient days attributable to patients entitled to both Medicare Part A (including Medicare Advantage patient days, patient days not covered under Part A, and days when patients exhaust their Part A benefits) and Supplemental Security Income (SSI), and the percentage of total patient days attributable to patients eligible for Medicaid but not entitled to Medicare Part A.

> See FY 2024 Inpatient Prospective Payment System (IPPS) Final Rule for more information.

If a hospital's DPP equals or exceeds a specified threshold amount, the hospital qualifies for the Medicare DSH adjustment. The amount of that adjustment is determined using a complex formula that is based on the hospital's DPP.

In the FY 2024 IPPS Final Rule, effective with discharges on or after October 1, 2023, we changed the counting in the numerator of the Medicaid fraction of the DPP of days associated with certain benefits provided by Section 1115 demonstrations.

We only include the days of those patients who aren't entitled to Part A and who get from the Section 1115 demonstration:

(1) health insurance that covers inpatient hospital services or

(2) premium assistance that covers 100% of the premium cost to the patient, which the patient uses to buy health insurance that covers inpatient hospital services

Days of patients for which hospitals are paid from demonstration-authorized uncompensated or undercompensated care pools aren't included as Medicaid days in the numerator of the Medicaid fraction of the DPP. See MLN Matters Article MM13306 for more details on the DSH changes in the 2024 final rule.

The Acute Inpatient PPS webpage has more information.

Alternate Special Exception Method

To qualify for the alternate special exception for the Medicare DSH adjustment, hospitals must meet all these criteria:

- Be located in an urban area
- Have 100 or more beds
- Can demonstrate more than 30% of their total net inpatient care revenues come from state and local government sources for indigent care, other than Medicare or Medicaid

If a hospital qualifies under this method, it's known as a **"Pickle"** hospital and is eligible for a specific Medicare DSH adjustment.

Medicare Modernization Act Provisions Impacting Medicare DSHs

Under the primary qualifying method, the Medicare DSH payment adjustment percentage formulas for large, urban hospitals apply to additional types of hospitals. This increases the DSH payment adjustment percentage for hospitals like rural hospitals with less than 500 beds and urban hospitals with less than 100 beds.

The Medicare Modernization Act (MMA) imposed a 12% DSH payment adjustment cap for certain hospitals and exempts the following hospitals from that cap:

- Hospitals classified as rural referral centers (RRCs)
- Urban hospitals with 100 or more beds
- Hospitals located in rural areas with 500 or more beds

Under the primary qualifying method, the formulas to establish a hospital's Medicare DSH payment adjustment percentage are based on hospital-specific information, including:

- Geographic designation (urban or rural)
- Number of beds
- RRC status

Medicare DSH Uncompensated Care Payment

Hospitals eligible for DSH payments under Section 1886(d)(5)(F) of the Social Security Act may receive 2 separate payments:

1. 25% of the payment from the DSH adjustment formulas (the empirically justified amount)
2. An uncompensated care payment determined as the product of these 3 factors:
    i. 75% of the total payments that would be made under Section1886(d)(5)(F) of the Social Security Act if subsection (r) did not apply (Factor 1);

ii. 1 minus the percent change in the percent of uninsured individuals (Factor 2); and

iii. A hospital's uncompensated care amount relative to the uncompensated care amount of all DSH hospitals, expressed as a percentage (Factor 3).

For FY 2023, we'll use a multiyear averaging methodology to determine eligible hospitals' Factor 3 percentages. Specifically, in FY 2023, we'll use a 2-year average of audited data on uncompensated care costs from Worksheet S-10 from FYs 2018 and 2019 to determine each hospital's uncompensated care amount. This includes all eligible hospitals, including Indian Health Service (IHS) or Tribal Hospitals and Puerto Rico hospitals.

In FY 2024 and subsequent years, we'll determine all eligible hospitals' Factor 3 uncompensated care amounts using a 3-year average of data on uncompensated care costs from Worksheet S-10 for the 3 most recent FYs for which audited data are available. We will use those uncompensated care amounts to determine eligible hospitals' Factor 3 percentages.

In the FY 2024 Inpatient Prospective Payment System (IPPS) Final Rule, effective with discharges on or after October 1, 2023, we changed the counting of days in the numerator of the Medicaid fraction of the DPP associated with certain benefits provided by Section 1115.

We only include the days of those patients who aren't entitled to Part A and who receive from the Section 1115 demonstration health insurance that covers inpatient hospital services or premium assistance that covers 100% of the premium costs to the patient, which the patient uses to buy health insurance that covers inpatient hospital services as Medicaid days in the numerator of the Medicaid fraction of the DPP.

The Acute Inpatient PPS webpage has more information.

Medicare DSH Payment: Counting Hospital Beds & Patient Days

Determine the number of beds in a hospital, per 42 CFR 412.105(b), by dividing the number of available bed days during the cost reporting period by the number of days in the cost reporting period.

For Medicare DSH the number of beds in a hospital, the number of bed days in a hospital includes only those days attributable to units or wards of the hospital providing acute care services generally payable under the Acute Care Hospital IPPS and doesn't include patient days associated with beds in:

- Excluded distinct part hospital units
- Outpatient observation, skilled nursing swing bed, or inpatient hospice services
- Units or wards not occupied to provide a level of care payable under the IPPS at any time during the 3 preceding months
- Units or wards otherwise occupied that couldn't be made available for inpatient occupancy within 24 hours for 30 consecutive days
- Beds or bassinets in the healthy newborn nursery
- Custodial care

Medicare DSH Payment: Adjustment Formulas

We make additional DSH payments under the IPPS to acute care hospitals serving a significantly disproportionate number of low-income patients:

- The disproportionate share adjustment percentage for a Pickle hospital equals 35%
- The primary qualifying method adjustment formulas don't apply to Pickle hospitals
- A hospital is eligible for a Medicare DSH payment under the primary qualifying method when its DPP meets or exceeds 15%
- The formula varies for urban hospitals with 100 or more beds and rural hospitals with 500 or more beds, hospitals that qualify as RRCs or sole community hospitals, and other hospitals

Medicare DSH Payment Adjustment Formulas for Hospitals Qualifying Under the Primary Method

Status/Location	Number of Beds	Threshold	Adjustment Formula
Urban Hospitals	0–99 Beds	≥15%, ≤20.2%	2.5% + [.65 x (DPP−15%)] **Not to Exceed 12%**
Urban Hospitals	0–99 Beds	≥20.2%	5.88% + [.825 x (DPP−20.2%)] **Not to Exceed 12%**
Urban Hospitals	100 or More Beds	≥15%, ≤20.2%	2.5% + [.65 x (DPP−15%)] **No Cap**
Urban Hospitals	100 or More Beds	≥20.2%	5.88% + [.825 x (DPP−20.2%)] **No Cap**
Rural Referral Centers	N/A	≥15%, ≤20.2%	2.5% + [.65 x (DPP−15%)] **No Cap**
Rural Referral Centers	N/A	≥20.2%	5.88% + [.825 x (DPP−20.2%)] **No Cap**
Other Rural Hospitals	0–499 Beds	≥15%, ≤20.2%	2.5% + [.65 x (DPP−15%)] **Not to Exceed 12%**
Other Rural Hospitals	0–499 Beds	≥20.2%	5.88% + [.825 x (DPP−20.2%)] **Not to Exceed 12%**
Other Rural Hospitals	500 or More Beds	≥15%, ≤20.2%	2.5% + [.65 x (DPP−15%)] **No Cap**
Other Rural Hospitals	500 or More Beds	≥20.2%	5.88% + [.825 x (DPP−20.2%)] **No Cap**

Get a complete list of rules and adjustments at 42 CFR 412.106(d).

Example: Hospital A has 62 beds and is in a rural area. It had 5,000 total patient days, 1,000 Medicaid/non-Medicare days, 2,000 Medicare Part A days, and 300 Medicare Part A/SSI days. Hospital A's Medicare DPP is 35%.

$$\text{Medicare DPP} = \frac{\text{300 Medicare Supplemental Security Income Days}}{\text{2,000 Total Medicare Days}} + \frac{\text{1,000 Medicaid, Non-Medicare Days}}{\text{5,000 Total Patient Days}} = .35$$

Figure 2. Medicare DPP Calculation & Corresponding Payment Adjustment Calculation Under the Primary Qualifying Method

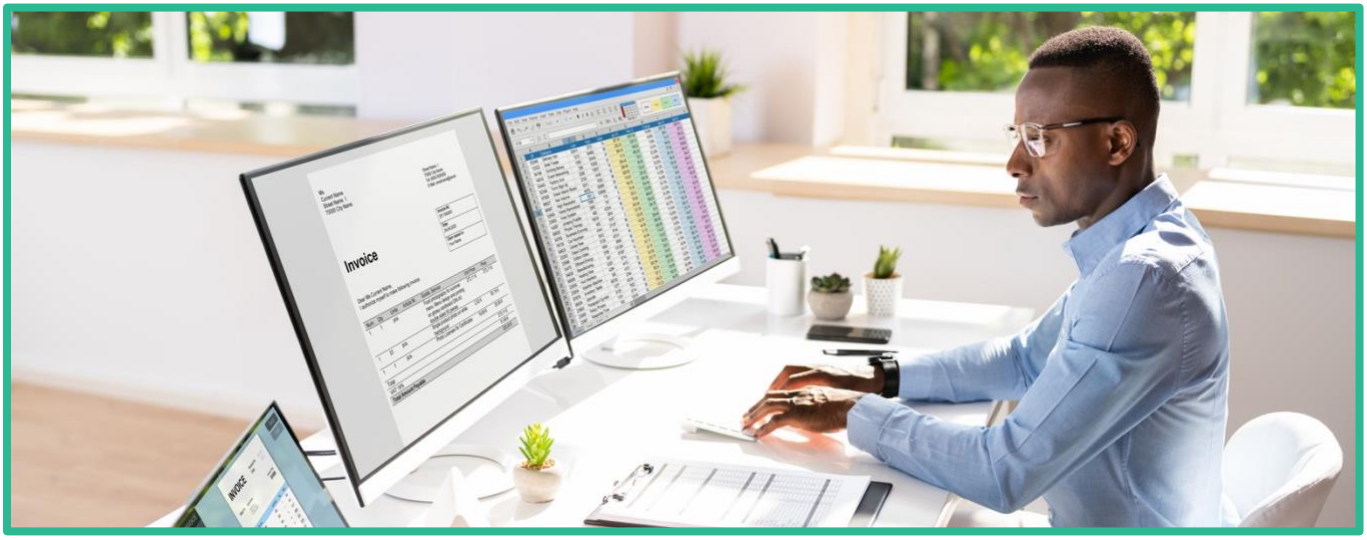
Because Hospital A is located in a rural area, has fewer than 100 beds, and has a DPP of more than 20.2%, the formula for determining the Medicare DSH adjustment is:

5.88% + [.825 x (DPP–20.2%)]

5.88% + [.825 x (35%–20.2%)]

5.88% + 12.21% = 18.09%

Rural hospitals with fewer than 500 beds are subject to a maximum DSH adjustment of 12%; therefore, Hospital A's Medicare DSH adjustment is 12%. DSHs may also qualify for a low-volume hospital payment adjustment.



Resources

- 2024 Acute Care Hospital IPPS Final Rule
- Disproportionate Share Hospital (DSH)
- What is a Pickle Hospital

Other Helpful Websites

- American Hospital Association Rural Health Services
- CMS's Rural Health Strategy
- National Association of Rural Health Clinics
- National Rural Health Association
- Rural Health Clinics Center
- Rural Health Information Hub

Regional Office Rural Health Coordinators

Get contact information for CMS Regional Office Rural Health Coordinators who offer technical, policy, and operational help on rural health issues.