



## **Office of the Actuary**

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**DATE:** July 1, 2021

**SUBJECT:** Estimate of Medicare DSH payments used in development of factor 1

This memorandum summarizes the Office of the Actuary's estimate of Medicare DSH payments in the absence of the uncompensated care payments included in the ACA. This memo includes 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. During the time that these payments have been disbursed many changes to the formulas used to determine the payment have been implemented. The most recent change was included in the ACA which reduced the amount paid to 25 percent of what previously was paid and then created a new payment provision for uncompensated care payments in which the majority of the other 75 percent of what was previously paid would be paid on a different basis. In order to come up with the amounts needed for the uncompensated care payments pool, there was a need to determine how much Medicare DSH would have been paid under the previous system. The key assumptions that were made to estimate the payments are described below.

- These impacts were based on the assumptions and projections that will be used in the 2021 Trustees Report.
- The market basket and productivity increases for FY 2022 used in the final IPPS rule were substituted in for the ones used in the Trustees Report.
- The base year for developing these estimates was FY 2018. The base data came from the Medicare cost reports, including supplemental information for IHS hospitals.
- The projections of DSH payments were based on data from the IPPS impact file, and projected increases in utilization and case mix.

The amount of DSH payments is determined from the Office of the Actuary's Part A benefits projection model. One of the results of this model is the breakdown of inpatient hospital spending. These results then needed to be adjusted for Maryland hospitals and Puerto Rico hospitals. However, we can also break down the results into components that we know. The following table shows the assumptions and results of the methodology used to develop these estimates.

The update column shows the increase given to IPPS hospitals which is a function of the market basket increase. It also includes any legislated reductions, including the productivity increase, and any adjustments for documentation and coding.

<b>Assumptions and Results of Medicare DSH Payments Estimate</b>						
FY	Update	Discharges	Case mix	Other	Total	DSH (in millions)
2018						13,882
2019	1.0185	0.970	1.009	1.0176	1.0144	14,082
2020	1.031	0.857	1.038	0.9912	0.9091	12,801
2021	1.029	1.013	1.029	0.9662	1.0364	13,267
2022	1.025	1.059	0.9675	1.00375	1.0541	13,985

The discharge column shows the increase in the number of Medicare inpatient hospital discharges. The numbers for 2019 and 2020 are from data which has been adjusted for incompleteness. The number for 2021 is based on very preliminary data for 2021. The number for 2022 is an assumption based on recent trends recovering back to the long term trend and assumptions related to how many beneficiaries will be enrolled in MA plans. The 2020 through 2022 numbers include the impact of the Covid-19 pandemic.

The case mix column shows the increase in case mix for IPPS hospitals. The 2019 and 2020 numbers are based on actual data adjusted for incompleteness. The 2021 increase is based on preliminary data. The 2022 increase is based on the recommendation of the 2010-2011 Medicare Technical Review Panel. The 2020 through 2022 numbers are also adjusted for the Covid-19 impacts.

The other column shows the increase in other factors which 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), various adjustments to the payment rates which have been included over the years but are not picked up in the other columns (such as the increase in rates for the two midnight policy). In addition, this column includes a factor for the Medicaid expansion due to the ACA. It also includes the impacts on Medicaid enrollment due to the pandemic.

The total column is a combination of all the previous columns. The DSH column is the result of these assumptions which is obtained by applying the total increase to the previous year's result.

The Medicaid expansion impacts the Medicare DSH numbers because the DSH percentage is determined partially based on Medicaid hospital days. Therefore, since there will be more Medicaid beneficiaries there will be higher Medicare DSH payments. The following table shows the Medicaid expansion assumptions and the resulting impacts on Medicare DSH that we used in this estimate.

<b>Medicaid Expansion Assumptions and Resulting Impacts on Medicare DSH Payments</b>					
	2018	2019	2020	2021	2022
Medicaid enrollment pre-ACA (in millions)	62.8	61.8	63.1	63.6	63.6
Medicaid enrollment post-ACA (in millions)	75.1	73.9	76.0	76.9	77.2
Under 65 pre-ACA enrollment (in millions)	56.8	55.7	56.9	57.1	57.0

Under 65 post-ACA enrollment (in millions)	69.0	67.7	69.7	70.5	70.6
Increase in Medicare DSH	0.1%	0.1%	2.9%	0.4%	0.0%

The enrollment numbers shown are the people enrolled under the old rules for Medicaid eligibility and the people enrolled under the new rules (including the Medicaid expansion). These numbers are shown both for the total Medicaid enrollment and the under 65 Medicaid enrollment. The last row shows the impact of this higher enrollment on the Medicare DSH payments. This includes an assumption that these new enrollees are healthier than the average Medicaid recipient and therefore have less hospital utilization.

In conclusion, these results are the latest and best estimates our office has for Medicare DSH payments for these years. Since we do not know how many Medicare beneficiaries will choose to enroll in an MA plan, or how much the remaining fee for service enrollees will use hospital services, or the total impact of the Covid-19 pandemic, there is much uncertainty in these numbers. However, we believe that the assumptions used are reasonable and the resulting spending numbers are also reasonable.

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