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Office of the Actuary

DATE: June 28, 2019

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 the Midsession Review of the President's FY 2020 Budget.

- The market basket and productivity increases for FY 2020 used in the final IPPS rule were substituted in for the ones used in the Midsession Review.

- The base year for developing these estimates was FY 2016. 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.

Assumptions and Results of Medicare DSH Payments Estimate						
FY	Update	Discharges	Case mix	Other	Total	DSH (in millions)
2016						13,981
2017	1.0015	1.0021	1.004	1.0714	1.0796	15,093
2018	1.018088	0.9845	1.018	1.03185	1.0528	15,891
2019	1.0185	0.9687	1.005	1.02075	1.0121	16,084
2020	1.031	0.9939	1.005	1.0012	1.0311	16,583

The discharge column shows the increase in the number of Medicare inpatient hospital discharges. The numbers for 2017 and 2018 are from data which has been adjusted for incompleteness. The number for 2019 is based on very preliminary data for 2019. The number for 2020 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 case mix column shows the increase in case mix for IPPS hospitals. The 2017 and 2018 numbers are based on actual data adjusted for incompleteness. The 2019 increase is based on preliminary data. The 2020 increase is based on the recommendation of the 2010-2011 Medicare Technical Review Panel.

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.

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.

Medicaid Expansion Assumptions and Resulting Impacts on Medicare DSH Payments					
	2016	2017	2018	2019	2020
Medicaid enrollment pre-ACA (in millions)	59.7	60.4	61.2	62.2	63.2
Medicaid enrollment post-ACA (in millions)	70.8	72.0	73.4	74.6	75.5
Under 65 pre-ACA enrollment (in millions)	54.0	54.5	55.3	56.0	56.7
Under 65 post-ACA enrollment (in millions)	65.1	66.2	67.5	68.4	69.1
Increase in Medicare DSH	1.1%	0.3%	0.2%	0.0%	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, 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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