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Disproportionate Share Formula State Policies

Disproportionate Share Hospital (DSH) payments are federal funds allocated to states for the purpose of reimbursing hospitals that serve a high proportion of uninsured and Medicaid-insured patients.¹ DSH funding is granted to the states through the federal government. To draw on DSH funding, states must match federal DSH funds with equal funds from state sources and may do so up to their maximum allotment as calculated by the federal government based on a state's FY 1992 DSH payments.² States have considerable power to determine the distribution of these funds to hospitals.³ Hospitals within each state are divided into different categories based on certain criteria.⁴ The Federal Government has established two mandatory hospital groupings: "Group 1" refers to hospitals having a "Medicaid Inpatient Utilization Rate (MIUR) that is greater than one standard deviation of the statewide average MIUR."⁵ MIUR is calculated by dividing "Medicaid hospital Inpatient days" by the total number of inpatient days.⁶ Group 1 targets hospitals that serve a high proportion of Medicaid-insured patients.⁷ "Group 2" refers to hospitals with a "Low Income Utilization Rate (LIUR) of at least 25%."⁸ Group 2 targets hospitals serving a high proportion of underinsured and uninsured patients.⁹ In conjunction with the two federally-mandated groupings, states have the authority to create their own hospital

¹ Medicaid, *Medicaid Disproportionate Share Hospital (DSH) Payments*, (n.d.), <https://www.medicaid.gov/medicaid/finance/dsh/index.html>.

² US Congressional Research Service, *Medicaid Disproportionate State Hospital Payments*, by Alison Mitchell (2016), 4.

³ US Medicaid and CHIP Payment and Access Commission, *Report to Congress on*, (2017), 60.

⁴ State of Vermont, *Federal Medicaid Disproportionate Share Hospital (DSH) Allotment, Payments, and Proposal*, (2017), [https://legislature.vermont.gov/assets/Documents/2018/WorkGroups/House%20Health%20Care/Bills/H.518/FY2018%20Governor's%20Proposed%20State%20Budget/DVHA%20Budget/W~Michael%20Costa~Federal%20Medicaid%20Disproportionate%20Share%20Hospital%20\(DSH\)%20Allotment,%20Payments,%20and%20Proposal~2-22-2017.pdf](https://legislature.vermont.gov/assets/Documents/2018/WorkGroups/House%20Health%20Care/Bills/H.518/FY2018%20Governor's%20Proposed%20State%20Budget/DVHA%20Budget/W~Michael%20Costa~Federal%20Medicaid%20Disproportionate%20Share%20Hospital%20(DSH)%20Allotment,%20Payments,%20and%20Proposal~2-22-2017.pdf).

⁵ State of Vermont, *Federal Medicaid Disproportionate Share*, (2017).

⁶ Medicaid, *Section 400 Adjustments for Disproportionate Share Hospital: Inpatient Hospital*, (2012), 10, <https://www.medicaid.gov/State-resource-center/Medicaid-State-Plan-Amendments/Downloads/UT/UT-11-005-Att.pdf>.

⁷ State of Vermont, *Federal Medicaid Disproportionate Share*, (2017).

⁸ State of Vermont, *Federal Medicaid Disproportionate Share*, (2017).

⁹ State of Vermont, *Federal Medicaid Disproportionate Share*, (2017).

categories.¹⁰ This report discusses DSH grouping policies enacted by New England states, additional states with a similar number of hospitals to Vermont (Alaska and Delaware), and Nebraska, which has a similar amount of DSH funding as Vermont. Below are the formulas for MUIR and LUIR, as is calculated by the Federal Government.¹¹

$$MUIR = \frac{\text{Total Number of Hospital Inpatient Days from Medicaid Patients}}{\text{Total Number of Hospital Days}} \times 100$$

$$LUIR = \left(\frac{\text{Total Medicaid Revenue from Patient Services} + \text{All Other Payments from State and Local Government}}{\text{Total Hospital Revenue from Patient Services}} + \frac{\text{Total Hospital Charges for Inpatient Hospital Services} - \text{Total Amount of Revenue from State and Local Government}}{\text{Total Hospital Charges}} \right) \times 100$$

DSH and Policy in Vermont

In 2016, Vermont received \$24,452,654 as a DSH allotment to be distributed to hospitals; this dollar amount is relatively low compared to the allotment of other states.¹² State allotments are determined based on the amount of DSH payments the state gave out in FY1992 with further adjustments, and are not based on the number of hospitals or patients served using DSH funds.¹³ Vermont has four payment groups for determining the allocation of DSH funding to the State’s 15 hospitals.¹⁴ Group 1 and Group 2 are federally-mandated, Group 3 refers to teaching hospitals, and Group 4 consists of hospitals determined to be eligible to receive DSH funding by the State with no set criteria.¹⁵ Typically, Vermont’s hospitals have fit the criteria for Groups 1, 3, and 4; a hospital has yet to fall into Group 2.¹⁶ Currently, all but one hospital, the University of Vermont Medical Center, is designated Group 4.¹⁷

New England State Policies

Connecticut

Connecticut received \$217,356,916 in DSH funding in 2016 and has seven state-created categories in addition to the two federally-mandated types of DSH-funded hospitals.¹⁸ Table 1 details Connecticut’s DSH hospital categories and the criteria which define them.

¹⁰ State of Vermont, *Federal Medicaid Disproportionate Share*, (2017).

¹¹ US Congressional Research Service, *Medicaid Disproportionate State Hospital*, (2016), 11.

¹² Kaiser Family Foundation, *Federal Medicaid Disproportionate Share (DSH) Allotment*, (2016), <https://www.kff.org/medicaid/state-indicator/federal-dsh-allotments/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D>.

¹³ US Congressional Research Service, *Medicaid Disproportionate State Hospital*, (2016), 4.

¹⁴ State of Vermont, *Federal Medicaid Disproportionate Share*, (2017).

¹⁵ State of Vermont, *Federal Medicaid Disproportionate Share*, (2017).

¹⁶ State of Vermont, *Federal Medicaid Disproportionate Share*, (2017).

¹⁷ State of Vermont, *Federal Medicaid Disproportionate Share*, (2017).

¹⁸ Center for Medicaid and CHIP Services (CMCS), *State Plan Under Title XIX of the Social Security Act*, (2011), 5-22; Kaiser Family Foundation, *Federal Medicaid Disproportionate Share*, (2016).

Table 1. Connecticut’s DSH Categories and Criteria

Group	Criteria
Federally Mandated Group 1	MUIR is greater than the standard deviation of statewide MUIR.
Federally Mandated Group 2	LUIR is greater than 25 percent.
Hospitals Serving Low-Income Persons	Psychiatric and general institutions which serve low-income persons.
Psychiatric Hospitals Serving Low-Income Persons	Psychiatric institutions that serve proportionately high low-income populations.
Private Acute Care Hospitals	Short-term general hospitals that provide uncompensated care services.
Short-Term General Hospitals	Located in a distressed municipality with a population greater than 70,000, or in a “targeted investment community” with a population of more than 100,000 individuals and an enterprise zone.
Private Freestanding Short-Term Children’s General Hospitals	Children’s General Hospitals that provide uncompensated care.
Public Acute Care Hospitals	Short-term general hospitals that provide uncompensated care services and are publicly owned and operated.
Public Chronic Disease Hospitals	Publicly owned and operated chronic disease institutions which provide uncompensated care services.

Sources: Data from State of Vermont, *Federal Medicaid Disproportionate Share*, (2017); Center for Medicaid and CHIP Services (CMCS), *State Plan Under Title XIX*, (2011).

Through Connecticut’s DSH groupings, both private and public institutions receive payments for their uncompensated care services.¹⁹ The State also allows chronic disease, psychiatric, and children’s hospitals to receive payments.²⁰

¹⁹ Center for Medicaid and CHIP Services (CMCS), *State Plan Under Title XIX*, (2011), 7-17.

²⁰ Center for Medicaid and CHIP Services (CMCS), *State Plan Under Title XIX*, (2011), 6-19.

Maine

Maine does not publish information on its DSH groups. The Maine Department of Health and Human Services has not responded to requests for information.

Massachusetts

In 2016, Massachusetts received \$331,469,299, but claims no DSH hospitals and has no DSH groupings.²¹ The State has a Federal Section 1115 waiver that allows it to allocate DSH funding to a Safety Net Care Pool, a program separate from the DSH service that assists low-income, underinsured, and uninsured patients in affording certain services provided by health centers and acute care hospitals.²² Massachusetts Safety Net Care Pool provides payments both to individuals in the State and to a variety of hospital groupings, but these groups are not DSH categories.²³ Massachusetts is the only state that receives a Section 1115 waiver.²⁴

New Hampshire

In 2016, New Hampshire received \$173,992,607 in DSH funds and has three general groupings for determining DSH allotment.²⁵ The two main categories include Critical Access Hospitals (CAHs) and Non-Critical Access Hospitals (NonCAHs).²⁶ CAHs are defined as rural hospitals with fewer than twenty-five beds, and NonCAHs are the thirteen largest hospitals in the State.²⁷ The third category, Provider Payments, refers to the allocation of the remaining funds to support “Medicaid provider payments.”²⁸ New Hampshire’s thirteen CAHs, which are the “First Priority” for DSH distribution, serve the State’s poorest communities and account for half of the hospitals within the State.²⁹

²¹ Kaiser Family Foundation, *Federal Medicaid Disproportionate Share*, (2016); US Medicaid and Chip Payment and Access Commission, *Report to Congress*, 58.

²² US Medicaid and Chip Payment and Access Commission, *Report to Congress*, 58; State of Massachusetts, “Health Safety Net for Patients,” accessed March 29, 2018, <https://www.mass.gov/service-details/health-safety-net-for-patients>.

²³ State of Massachusetts Office of Health and Human Services, *Safety Net Care Pool Payment Methodologies*.

²⁴ US Medicaid and Chip Payment and Access Commission, *Report to Congress*, 58.

²⁵ Kaiser Family Foundation, *Federal Medicaid Disproportionate Share*, (2016).

²⁶ New Hampshire Department of Health and Human Services, *Disproportionate Share Hospital (DSH) Payment Program* (New Hampshire: 2017), <https://www.dhhs.nh.gov/ocom/documents/senate-finance-dsh-05012017.pdf>.

²⁷ New Hampshire Department of Health and Human Services, *Disproportionate Share Hospital (DSH)*, 2017.

²⁸ New Hampshire Department of Health and Human Services, *Disproportionate Share Hospital (DSH)*, 2017.

²⁹ New Hampshire Department of Health and Human Services, *Disproportionate Share Hospital (DSH)*, 2017; New Hampshire Department of Health and Human Services, “New Hampshire Critical Access Hospitals.” (n.d.), accessed March 7, 2018, <https://www.dhhs.nh.gov/dphs/bchs/rhpc/critical-access-hospitals.htm>.

Rhode Island

Rhode Island received \$70,640,998 in DSH funds in 2016.³⁰ In addition to the two federally-mandated DSH hospital groupings, Rhode Island has a third category for hospitals that have “a Medical Assistance Inpatient Utilization (MUIR) rate of not less than one (1) percent.”³¹

States with Characteristics Similar to Vermont

Nebraska

Nebraska has a similar level of funding to Vermont, distributing its \$30,754,070 of allocated DSH funds among six categories of hospitals.³² The six categories include: Metro Acute Care Hospitals, Other Urban Acute Care Hospitals, Rural Acute Care Hospitals, Psychiatric Hospitals and Distinct Part Units in Acute Care Hospitals, Rehabilitation Hospitals and Distinct Part Units in Acute Care Hospitals, and Critical Access Hospitals.³³ Metro Acute Care Hospitals are defined as hospitals “located in a Metropolitan Statistical Area (MSAs) as designated by Medicare,” whereas Other Urban Acute Care Hospitals are hospitals that have been “redesignated to an MSA by Medicare for Federal FY 1995 or 1996 and/or hospitals designated by Medicare as Regional Rural Referral Centers.”³⁴ All other acute care hospitals that do not qualify for the aforementioned categories fall under the Rural Acute Care Hospitals category. Hospitals licensed as psychiatric hospitals and hospitals licensed as rehabilitation hospitals are classified as Psychiatric Hospitals and Distinct Part Units in Acute Care Hospitals, and Rehabilitation Hospitals and Distinct Part Units in Acute Care Hospitals, respectively.³⁵ Hospitals that are certified as Critical Access Hospitals by Medicare are placed into the category of Critical Access Hospital.³⁶

States with a Similar Number of Hospitals

Alaska

In 2016, Alaska received \$22,137,469 in DSH funds.³⁷ The State has a total of twenty-five hospitals and has created seven additional DSH funding categories.³⁸ Many of these categories are for various mental

³⁰ Kaiser Family Foundation, *Federal Medicaid Disproportionate Share*, (2016).

³¹ State of Rhode Island Executive Office of Health and Human Services, *Public Notice of Proposed Amendment to DSH State Plan*, (2017), 2.

³² Kaiser Family Foundation, *Federal Medicaid Disproportionate Share*, (2016); Department of Health and Human Services, Nebraska Medicaid State Plan Under Title XIX of the Social Security Act (Neb. 2018), <http://dhhs.ne.gov/medicaid/Documents/4.19a.pdf>.

³³ Nebraska Medicaid State Plan Under Title XIX of the Social Security Act (Neb. 2018).

³⁴ Nebraska Medicaid State Plan Under Title XIX of the Social Security Act (Neb. 2018).

³⁵ Nebraska Medicaid State Plan Under Title XIX of the Social Security Act (Neb. 2018).

³⁶ Nebraska Medicaid State Plan Under Title XIX of the Social Security Act (Neb. 2018).

³⁷ Kaiser Family Foundation, *Federal Medicaid Disproportionate Share*, (2016).

³⁸ US Medicaid and Chip Payment and Access Commission, *Report to Congress*, 83; Alaska Stat. § 7.8.150.

health and psychiatric services.³⁹ Table 2 details Alaska’s DSH hospital categories and the criteria that define them. Alaska has a considerable number of DSH categories in addition to the two federally-mandated groups. The State has groupings for psychiatric and substance abuse facilities, as well as children’s hospitals.⁴⁰

Table 2. Alaska’s DSH Categories and Criteria

Group	Criteria
Federally Mandated Group 1	MUIR is greater than the standard deviation of statewide MUIR.
Federally Mandated Group 2	LUIR is greater than 25 percent.
Single-Point-of-Entry Psychiatric Hospitals	Single point of entry services, also known as single point of access services, are a resource that provides patient referrals to other mental health services depending on the patient’s needs.
Designated Evaluation and Treatment Hospitals	Hospitals that admit psychiatric patients under involuntary holds.
Institutions for Mental Illness	Institutions for mental illness, which are assigned to treat patients who are involuntarily committed.
Substance Abuse Treatment Providers	Hospitals that provide treatment services to patients currently struggling with substance abuse.
Mental Health Assistance Clinics	Clinics that provide mental health services.
Non-Medicaid Eligible Children's Hospitals	Hospitals that provide unpaid services to children who do not qualify for Medicaid.
Institutional Community Health Care Hospital	Hospitals which provide services at correctional facilities.
Hospitals which Assist Rural Clinics	Rural Hospitals that provide primary care, obstetrical, or pediatrician services.

Sources: Data From State of Vermont, *Federal Medicaid Disproportionate Share*, (2017); Alaska Stat. §7.8.150, Lisa Lambert, "What Do Families Mean by Single Point of Entry (April 8, 2011.); Meredith Ray-LaBatt and Michelle Wagner, "Children's Mental Health System of Care" (lecture, Health Home Serving Children Implementation Policy Bi-Weekly Webinar from the New York State Office of Mental Health, July 19, 2017).

³⁹ Alaska State Hospital & Nursing Home Association, *Overview of Medicaid DSH Funding in Alaska* (Anchorage, 2013), 1.

⁴⁰ Alaska Stat. §7.8.150.3; Alaska Stat. §7.8.150.11; Alaska Stat. §7.8.150.6.

Delaware

The relatively low number of hospitals in Vermont may affect the creation of DSH categories; therefore, in analyzing similar states, Delaware is the most comparable, having a total of 12 hospitals.⁴¹ Delaware received a Medicaid allotment of \$9,838,873 in 2016 and has two DSH categories in addition to the federally-mandated groups: Acute Care Hospitals and Institutions for Mental Disease (IMDs).⁴² Acute Care Hospitals are nonprofit hospitals located within a Delaware city with a population greater than 50,000 that provide obstetric services, have a LIUR of more than 15 percent and are “an enrolled provider with all of Delaware’s Medicaid and Children’s Health Insurance Program (CHIP) managed care organizations.”⁴³ IMDs are eligible to receive DSH funds if they are publicly owned and if more than 60 percent of their service revenue is generated from public funds, bad debt, or free care.⁴⁴

Conclusion

States have significant latitude in how they distribute their DSH funds. As a result, many states have chosen to create hospital categories beyond Group 1 and Group 2 mandated by the Federal Government.⁴⁵ Nebraska, Alaska, and Connecticut all have groupings for psychiatric and mental health treatment hospitals.⁴⁶ Alaska and Connecticut have categories for hospitals that treat children.⁴⁷ New Hampshire and Delaware choose to group rural and urban hospitals together, respectively, in a single category.⁴⁸ Massachusetts has not employed any DSH categories due to its federal waiver.⁴⁹ Analysis of the DSH funding distribution of various states shows that each state has an individualized system unique to its needs.

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⁴¹ US Medicaid and Chip Payment and Access Commission, *Report to Congress*, 83.

⁴² State of Delaware, *DE-13-Annual DSH Report* (2013), distributed by Medicaid.gov, <https://www.medicaid.gov/medicaid/finance/dsh/index.html>; KFF CITE.

⁴³ State of Delaware, *DE-13-Annual DSH Report* (2013), distributed by Medicaid.gov, <https://www.medicaid.gov/medicaid/finance/dsh/index.html>.

⁴⁴ State of Delaware, *DE-13-Annual DSH Report* (2013), distributed by Medicaid.gov, <https://www.medicaid.gov/medicaid/finance/dsh/index.html>.

⁴⁵ US Medicaid and Chip Payment and Access Commission, *Report to Congress*, 60.

⁴⁶ Nebraska Medicaid State Plan Under Title XIX of the Social Security Act (Neb. 2018), Alaska Stat. § 7.8.150, Center for Medicaid and CHIP Services (CMCS), *State Plan Under Title XIX*, (2011), 6.

⁴⁷ Alaska Stat. § 7.8.150.6; Center for Medicaid and CHIP Services (CMCS), *State Plan Under Title XIX*, (2011), 5.

⁴⁸ New Hampshire Department of Health and Human Services, *Disproportionate Share Hospital (DSH)*, 2017; State of Delaware, *DE-13-Annual DSH Report* (2013), distributed by Medicaid.gov, <https://www.medicaid.gov/medicaid/finance/dsh/index.html>.

⁴⁹ US Medicaid and Chip Payment and Access Commission, *Report to Congress*, 58.

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