TEACHING HOSPITALS of TEXAS

Medicaid Disproportionate Share Hospital Payments: Essential for Texas Teaching Hospitals

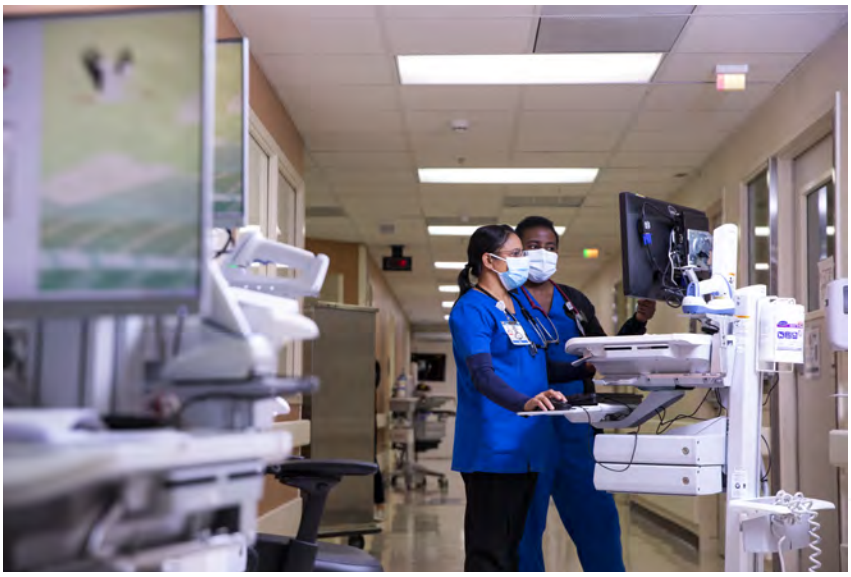
Established in 1981, the Medicaid disproportionate share hospital (DSH) payment program provides funding to hospitals that provide a disproportionate share of health care for those who are uninsured and those with Medicaid coverage.

In federal fiscal year 2020, 172 Texas hospitals received $1.8 billion in Medicaid DSH payments.

In Texas, the Medicaid DSH program is one of only two Medicaid supplemental payment programs that help offset hospitals' costs of providing uninsured care, making it critical in a state with an uninsured rate of more than 18%.[1]

Texas' Medicaid DSH program is also unique because of how it is financed. Public hospitals contribute the non-federal share of their DSH payments (about 40% of total payments), which reduces their overall net DSH payment. In addition, five public hospitals contribute the non-federal share not only of their own DSH payments but also of the DSH payments for private hospitals in Texas, making it possible for the state's rural and urban private hospitals to receive DSH payments.

Important as the DSH program is, future DSH payments may be reduced. The Patient Protection and Affordable Care Act (ACA)[2] included reductions to state Medicaid DSH allotments equal to $18.1 billion between federal fiscal years 2014 and 2020. These reductions assumed that the ACA would increase the number of individuals with health insurance (in part through Medicaid expansion), which, in turn, would reduce uncompensated care costs and the need for DSH payments. While these reductions have been postponed numerous times since 2020, they are slated to occur beginning FFY 2024 through FFY 2027 at a much larger amount than originally proposed: $32.0 billion.[3] DSH has also been targeted in recent federal legislation; for example, Build Back Better included DSH allotment cuts to states not expanding Medicaid, but so far, those cuts have not been enacted.



Growing Number of Uninsured, Increasing Uncompensated Care Costs

With Texas' large number of uninsured residents, DSH is particularly critical. Texas consistently leads the nation in the number of uninsured residents, with an estimated 5.2 million Texas, or one in six without health insurance. After earlier declines, the proportion of uninsured in Texas recently has been increasing.

Texas hospitals annually incur about $7 billion in uncompensated care costs to provide health care for the uninsured. The 14 state, public, and non-profit hospitals and health systems that form THOT comprise 8% of DSH-eligible hospitals but provide care accounting for more than one-third of total hospital uncompensated care costs. Much of that uncompensated care is provided in lower-cost outpatient, non-emergent settings with DSH funding enabling integrated, coordinated care that prioritizes community-based care over hospital inpatient and emergency department care.

[1] Uncompensated care payments authorized under Texas' Medicaid 1115 Waiver are the only other supplemental Medicaid payments that help defray hospital's costs of providing healthcare to uninsured Texans.
[2] ACA; P.L. 111-148
[3] For a review of changes to DSH reductions and current law, see: https://crsreports.congress.gov/product/pdf/IF/IF10422

KEY TAKEAWAYS

- Maintaining current DSH funding is critical to Texas hospitals, particularly for those providing a significant share of care for uninsured Texans and those with Medicaid. THOT's 14 hospitals and health systems provide more than one-third of all hospital uncompensated care. Reductions in DSH payments will be detrimental to their ability to sustain care for the uninsured.
- The number of Texans without health insurance is increasing, putting additional strain on hospitals to care for them and on the limited DSH allotment.
- Texas needs both coverage expansion to increase access to care and reduce the number of uninsured Texans and continued DSH and 1115 Waiver uncompensated care payments, since even with coverage expansion, about 4 million Texans still would be without health insurance.
- Five public hospitals make possible DSH payments to all Texas' rural and urban private hospitals. Since reimbursement for their contribution of the non-federal share for private hospitals counts as a Medicaid payment, public hospitals can be penalized by a reduction in their access to other Medicaid funding. Texas needs to ensure penalties for providing the non-federal share of DSH payments are mitigated and there are incentives for public hospitals to continue to provide the non-federal share of payments.

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