SOUTH CAROLINA FAQs

Disproportionate Share **(DSH)**

The purpose of this document is to briefly review **South Carolina Medicaid Disproportionate Share (DSH,)** one of our hospitals most important financial resources; and the role DSH plays and could play in funding health care in South Carolina.

What is Disproportionate Share (DSH)?

DSH is a policy-based (Federal and State) payment to hospitals. The purpose of DSH is to provide General Assistance Program (GAP) funding" for those hospitals that provide a disproportionate amount of care to the uninsured. Specifically, DSH payments were intended to improve the financial stability of "safety-net" hospitals experiencing financial burden from uncompensated care and Medicaid losses.

Why is DSH important to hospitals?

While Medicare and Medicaid cover many who cannot afford health insurance, a large coverage gap exists of uninsured and nonelderly adults who qualify for neither Medicare or Medicaid. Hospitals, on average, receive payment of less than 10% of these patient bill balances. This creates a significant financial burden for those hospitals serving a disproportionate share of these patients. DSH helps offset this financial burden.

What hospitals qualify for DSH?

To qualify as a DSH hospital, a facility must have at least one percent (1%) of patients treated by Medicaid. Additionally, the hospital must have at least two (2) obstetricians with staff privileges available to treat patients. Certain exceptions are permitted. In South Carolina, we have determined that all acute hospitals would be eligible for DSH.

How much does it cost and where does the money come from?

The Medicaid DSH program is jointly funded by federal and state governments.

The federal portion is funded by the Center for Medicare and Medicaid Services (CMS) which calculates state payments primarily on the demographic makeup of each state. In 2016, the South Carolina DSH fund was $501 million. The federal government paid $356 million, or a "match rate" of 71.08 %. The state funded the remaining $145 million or 29% of the cost. All acute hospitals in the state pay a provider tax of $264 million which supports both the DSH and Medicaid programs.

Does DSH cover 100% of a hospitals uncompensated and Medicaid losses?

No. Medicaid shortfalls and uninsured costs in the South Carolina are currently reimbursed at approximately half of hospitals' costs.

Do all South Carolina hospitals get an equal share of DSH?
No. There is a complicated formula to determine the amount of DSH appropriated to each hospital. Out-of-state "border" hospitals receive only 60% of their DSH costs while hospitals determined by the state to be rural receive additional amounts of DSH. State-owned psychiatric hospitals also receive DSH payments.

How are DSH payment amounts determined?
DSH payments are paid during the actual year appropriated or "DSH Year" based on estimations from prior year hospital activity. An annual audited report three years later determines the actual DSH costs for the period and adjustments are made to hospital payments. Some hospitals pay a settlement back to SCDHHS while others receive additional DSH payments.

How has the Affordable Care Act (ACA) or Obamacare impacted DSH?
A key assumption of the Affordable Care Act was that increased coverage from Medicaid Expansion and a dramatic increase in individuals with third party coverage from ACA exchanges would drastically reduce uncompensated care costs and likewise the need for Disproportionate Share. The Supreme Court, however, ruled that the federal government could not force states to accept a large-scale expansion to the Medicaid program. States such as South Carolina that chose to opt out of ACA Medicaid Expansion removed the availability of this third-party coverage for millions of the poorest Americans, not reducing the amount of uninsured costs as planned. This created an increased gap in coverage of the uninsured. As many states refused to expand Medicaid, CMS delayed the DSH cuts to 2016. The Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) further delayed the cuts to 2018, where they remain today.

Also, the state of South Carolina allows all acute hospitals to participate in the DSH program while many states limit DSH participation to a smaller group of "safety-net" hospitals with the highest Medicaid and uninsured utilization rate. The ACA makes it clear that states that do not limit DSH payments to only safety-net hospitals can expect larger ACA DSH reductions than other states. South Carolina's DSH reduction in 2018 alone is estimated to be approximately 21%, which will equate to approximately $100 million dollars statewide - one of the largest in the country.

What is the South Carolina Hospital Associations position on DSH as a new health care policy is formed?
As of August 2017 there has been no legislation passed by both the House of Representatives and the Senate which would repeal the DSH reductions.

What is the South Carolina Hospital Associations position on DSH as a new health care policy is formed?
The South Carolina Hospital Association recognizes the importance of DSH payments to South Carolina hospitals and the financial risks that payment reductions will create, particularly for the small and poor hospitals. It is imperative that our DSH allotment not decrease, especially as we have not expanded Medicaid in our state. It is important that we find a means of removing the 2018 DSH reductions or at least delay them further until a reasonable means of financing the uninsured of our state can be found.

SCHA South Carolina Hospital Association