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MEDICAID

States' Use and Distribution of Supplemental Payments to Hospitals

GAO Highlights

Highlights of GAO-19-603, a report to congressional requesters

Why GAO Did This Study

Medicaid, the joint federal-state program that finances health care coverage for low-income and medically needy individuals, spent an estimated $177.5 billion on hospital care in fiscal year 2017. About a quarter ($46.3 billion) of those hospital payments were supplemental payments—typically lump sum payments made to providers that are not tied to a specific individual's care. States determine hospital payment amounts within federal limits. In fiscal year 2017, DSH payments totaled about $18.1 billion. Beginning in fiscal year 2020, the amount of DSH payments each state can make is scheduled to be reduced.

GAO was asked to study Medicaid DSH payments to hospitals. Among other things, GAO examined hospital uncompensated care costs and DSH payments by state Medicaid program and hospital characteristics.

GAO analyzed data from the 2014 DSH audits—states' independently audited and certified reports of hospital-level uncompensated care costs and DSH payments—from 47 states and the District of Columbia (48 states). Three states were excluded from the analysis because they either did not make DSH payments or the submitted data were unreliable. The 2014 data were the most recently available audited, hospital-specific, data at the time of GAO's analysis. We provided a draft of this report to HHS for review. HHS provided technical comments, which we incorporated as appropriate.

View GAO-19-603. For more information, contact Carolyn L. Yocom at (202) 512-7114 or yocomc@gao.gov.

What GAO Found

Medicaid disproportionate share hospital (DSH) payments are one type of supplemental payment and are designed to help offset hospitals' uncompensated care costs for serving Medicaid beneficiaries and uninsured patients. Under the Medicaid DSH program, uncompensated care costs include two components: (1) costs related to care for the uninsured; and (2) the Medicaid shortfall—the gap between a state's Medicaid payment rates and hospitals' costs for serving Medicaid beneficiaries. GAO's analysis of hospitals receiving DSH payments showed that in 2014, costs related to care for the uninsured comprised 68 percent of total uncompensated care costs, and the remaining 32 percent was the Medicaid shortfall.

Across states, GAO found that total DSH payments varied significantly in 2014. DSH payment levels are generally tied to state DSH spending in 1992 and since 1993 states have been subject to a limit on the amount of federal funding that may be used for DSH payments.

State Disproportionate Share Hospital (DSH) Payments, 2014

DSH payments to hospitals (millions)	Number of states
$500 or more	8
$200 to $499	11
$50 to $199	15
Less than $50	14

Source: GAO analysis of Medicaid and CHIP Payment and Access Commission compiled data from state DSH audits and Medicare cost reports. | GAO-19-603

Notes: GAO's analysis includes hospitals receiving DSH payments in the 48 states with reliable 2014 DSH audits.

The amount of DSH payments made to hospitals varied significantly by state. Among hospitals receiving DSH payments, nationally:

- Medicaid DSH payments covered 51 percent of the uncompensated care costs. In 19 states, DSH payments covered at least 50 percent of uncompensated care costs.
- DSH payments comprised about 14 percent of total Medicaid payments, yet wide variation existed. For example, DSH payments comprised about 97 percent of Medicaid payments to DSH hospitals in Maine and 0.7 percent of Medicaid payments to DSH hospitals in Tennessee.

Some types of hospitals received a greater proportion of DSH payments relative to their share of total uncompensated care costs. For example, states generally provided more DSH payments to public hospitals (in comparison to private and non-profit hospitals) and teaching hospitals (as compared to non-teaching hospitals) relative to their share of total uncompensated care costs.