



Medicare Disproportionate Share Hospital

What's Changed?

- For FY 2021, CMS calculated uncompensated care payments for eligible hospitals using audited Worksheet S-10 data from FY 2017 cost reports. However, for Indian Health Service (IHS) or Tribal Hospitals and Puerto Rico hospitals, CMS based its calculation on low-income insured proxy days. For FY 2022 and subsequent FYs, except for IHS or Tribal hospitals and Puerto Rico hospitals, CMS will calculate each hospital's uncompensated care payments using the most recent available single year of audited Worksheet-10 data.

You'll find substantive content updates in dark red font.

Learn about Medicare Disproportionate Share Hospital (DSH) topics:

- Introduction
- Qualifying for Medicare DSH Adjustment
- Medicare Prescription Drug, Improvement, and Modernization Act (MMA) Provisions Impacting Medicare DSHs
- Medicare DSH Uncompensated Care Payment
- Medicare DSH Payment: Counting Hospital Beds & Patient Days
- Medicare DSH Payment: Adjustment Formulas
- Resources
- Helpful Websites & Regional Office Rural Health Coordinators

Introduction

[SSA Section 1886\(d\)\(5\)\(F\)](#) provides additional Medicare payments to hospitals serving a significantly disproportionate number of low-income patients.

Qualifying for the Medicare DSH Adjustment

Hospitals qualify for the Medicare DSH payment adjustment using either the primary method or the alternate special exception method.

1. Primary Method

The primary method applies to hospitals serving a significantly disproportionate number of low-income patients, based on the hospital's Disproportionate Patient Percentage (DPP).

The DPP equals the sum of the percentage of Medicare inpatient days (including Medicare Advantage inpatient days) attributable to patients entitled to both Medicare Part A and Supplemental Security Income (SSI) (including patient days not covered under Part A and patient days when patients exhaust their Part A benefits), and the percentage of total inpatient days attributable to patients eligible for Medicaid but not entitled to Medicare Part A.

If a hospital's DPP equals or exceeds a specified threshold amount, the hospital qualifies for the Medicare DSH adjustment. The Medicare DSH adjustment is determined by using a complex formula (the applicable formula is based on a hospital's DPP).

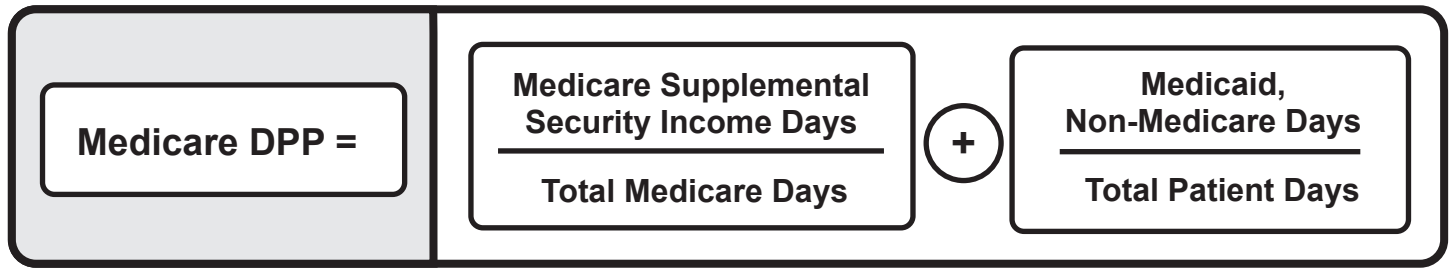


Figure 1. Medicare DPP Formula

2. Alternate Special Exception Method

Qualifying for the alternate special exception Medicare DSH adjustment applies to hospitals meeting all of the following:

- Located in an urban area
- Have 100 or more beds
- Can demonstrate more than 30% of their total net inpatient care revenues come from state and local government sources for indigent care (other than Medicare or Medicaid)

We call these “Pickle” hospitals. If a hospital qualifies under this method, it’s eligible for a specific Medicare DSH adjustment.

MMA Provisions Impacting Medicare DSHs

Under the primary qualifying method, the Medicare DSH payment adjustment percentage formulas for large, urban hospitals apply to additional types of hospitals. This increases the DSH payment adjustment percentage for hospitals like rural hospitals with less than 500 beds and urban hospitals with less than 100 beds.

The MMA imposed a 12% DSH payment adjustment cap for certain hospitals, and exempts hospitals classified as Rural Referral Centers (RRCs), urban hospitals with 100 or more beds, and hospitals located in rural areas with 500 or more beds from the cap.

Under the primary qualifying method, the formulas to establish a hospital’s Medicare DSH payment adjustment percentage are based on hospital-specific information, including:

- Geographic designation (urban or rural)
- Number of beds
- RRC Status

Medicare DSH Uncompensated Care Payment

Since FY 2014, hospitals that are eligible for DSH payments under [SSA Section 1886\(d\)\(5\)\(F\)](#) receive 2 separate payments:

1. 25% of the payment from the DSH adjustment formulas (“the empirically justified amount”)
2. An uncompensated care payment determined as the product of the below 3 factors:
 - i. 75% of the total payments otherwise made under [SSA Section 1886\(d\)\(5\)\(F\)](#).
 - ii. 1 minus the percent change in the percent of individuals uninsured (minus 0.2 percentage point for FYs 2018 and 2019). For FY 2020 and after, there is no additional reduction.
 - iii. A hospital’s uncompensated care amount relative to the uncompensated care amount of all DSH hospitals expressed as a percentage.

For FY 2021, CMS calculated uncompensated care payments for eligible hospitals using audited Worksheet S-10 data from FY 2017 cost reports. However, for Indian Health Service (IHS) or Tribal Hospitals and Puerto Rico hospitals, CMS based its calculation on a proxy of utilization data for Medicaid and Medicare SSI patients.

For FY 2022 and subsequent FYs, except for IHS or Tribal hospitals and Puerto Rico hospitals, CMS will calculate each hospital’s uncompensated care payments using the most recent available single year of audited Worksheet-10 data.

Find additional information about DSH Uncompensated Care payments at the [Acute Inpatient Prospective Payment System \(IPPS\)](#) webpage.

Medicare DSH Payment: Counting Hospital Beds & Patient Days

Determine the number of beds in a hospital, according to [42 CFR Section 412.105\(b\)](#), by dividing the number of available bed days during the cost reporting period by the number of days in the cost reporting period. Include beds used for inpatient ancillary labor/delivery services in the bed count available for IPPS-level acute care hospital services.

For Medicare DSH purposes, the number of patient days in a hospital includes only those days attributable to units or wards of the hospital furnishing acute care services generally payable under the Acute Care Hospital IPPS and does not include patient days associated with beds in:

- Excluded distinct part hospital units
- Outpatient observation, skilled nursing swing bed, or inpatient hospice services
- Units or wards not occupied to provide a level of care under the IPPS at any time during the 3 preceding months
- Units or wards otherwise occupied that couldn’t be made available for inpatient occupancy within 24 hours for 30 consecutive days

Medicare DSH Payment: Adjustment Formulas

Medicare makes additional DSH payments under the IPPS to acute care hospitals serving a large number of low-income patients or to hospitals qualifying as Pickle hospitals.

- The disproportionate share adjustment percentage for a Pickle hospital equals 35%.
- The primary qualifying method adjustment formulas don't apply to Pickle hospitals.
- A hospital is eligible for a Medicare DSH payment under the primary qualifying method when its DPP meets or exceeds 15%.
- The formula varies for urban hospitals with 100 or more beds and rural hospitals with 500 or more beds, hospitals that qualify as rural referral centers or sole community hospitals, and other hospitals.

Medicare DSH Payment Adjustment Formulas for Hospitals Qualifying Under the Primary Method (get a complete list of rules and adjustments at [42 CFR Section 412.106\(d\)](#))

Status/Location	Number of Beds	Threshold	Adjustment Formula
Urban Hospitals	0–99 Beds	≥15%, ≤20.2%	2.5% + [.65 x (DPP–15%)] Not to Exceed 12%
Urban Hospitals	0–99 Beds	≥20.2%	5.88% + [.825 x (DPP–20.2%)] Not to Exceed 12%
Urban Hospitals	100 or More Beds	≥15%, ≤20.2%	2.5% + [.65 x (DPP–15%)] No Cap
Urban Hospitals	100 or More Beds	≥20.2%	5.88% + [.825 x (DPP–20.2%)] No Cap
Rural Referral Centers	N/A	≥15%, ≤20.2%	2.5% + [.65 x (DPP–15%)] No Cap
Rural Referral Centers	N/A	≥20.2%	5.88% + [.825 x (DPP–20.2%)] No Cap
Other Rural Hospitals	0–499 Beds	≥15%, ≤20.2%	2.5% + [.65 x (DPP–15%)] Not to Exceed 12%
Other Rural Hospitals	0–499 Beds	≥20.2%	5.88% + [.825 x (DPP–20.2%)] Not to Exceed 12%
Other Rural Hospitals	500 or More Beds	≥15%, ≤20.2%	2.5% + [.65 x (DPP–15%)] No Cap
Other Rural Hospitals	500 or More Beds	≥20.2%	5.88% + [.825 x (DPP–20.2%)] No Cap

Example: Hospital A has 62 beds and is in an urban area. It had 5,000 total patient days, 1,000 Medicaid/non-Medicare days, 2,000 Medicare Part A days, and 300 Medicare Part A/SSI days. Hospital A's Medicare DPP is 35%.

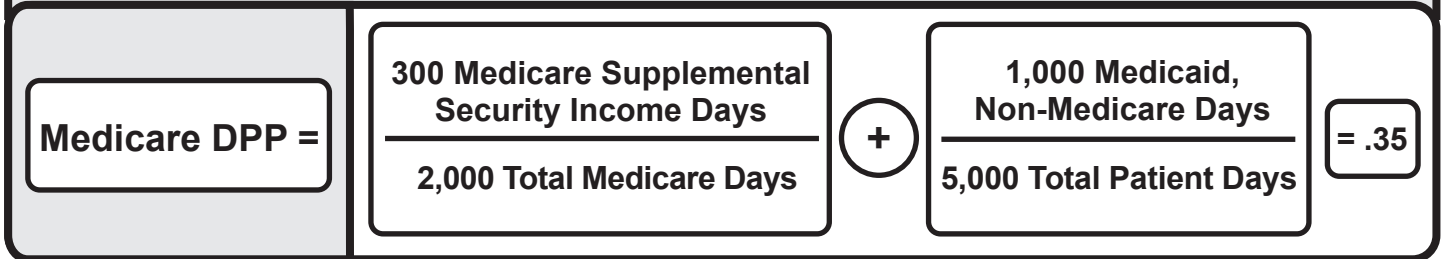


Figure 2. Medicare DPP Calculation & Corresponding Payment Adjustment Calculation Under the Primary Qualifying Method

Because Hospital A is located in an urban area, has fewer than 100 beds, and has a DPP of more than 20.2%, the formula for determining the Medicare DSH adjustment is:

$$5.88\% + [.825 \times (\text{DPP} - 20.2\%)]$$

$$5.88\% + [.825 \times (35\% - 20.2\%)]$$

$$5.88\% + 12.21\% = 18.09\%$$

Urban hospitals with fewer than 100 beds are subject to a maximum DSH adjustment of 12%. Hospital A's Medicare DSH adjustment is 12%. DSHs may also qualify for a low-volume hospital payment adjustment.

Resources

- [Medicare Claims Processing Manual, Chapter 3](#)
- [Medicare DSH](#)

Rural Providers Helpful Websites

- [American Hospital Association Rural Health Care](#)
- [CMS Rural Health](#)
- [National Association of Rural Health Clinics](#)
- [National Rural Health Association](#)
- [Rural Health Clinics Center](#)
- [Rural Health Information Hub](#)

Regional Office Rural Health Coordinators

Get contact information for [CMS Regional Office Rural Health Coordinators](#) who offer technical, policy, and operational help on rural health issues.

[Medicare Learning Network® Content Disclaimer, Product Disclaimer, and Department of Health & Human Services Disclosure](#)

The Medicare Learning Network®, MLN Connects®, and MLN Matters® are registered trademarks of the U.S. Department of Health & Human Services (HHS).