

Industry Insights



Proposed Rule's Effect on DSH Payments

April 2017

Authors: [William Clark](#) & [Michael Thomas](#)

On April 14, 2017, the Centers for Medicare & Medicaid Services (CMS) released its federal fiscal year (FY) 2018 proposed Medicare inpatient prospective payment system (IPPS) rule. Similar to the FY 2017 proposed IPPS rule, the 2018 rule proposes to begin incorporating uncompensated care cost information from Worksheet S-10 (S-10) of the Medicare cost report beginning in FY 2018. If finalized, this proposal will cause significant redistributions of the uncompensated care portion of Medicare disproportionate share hospital (DSH) payments between providers.

[Click here for an estimate of the effect on your hospital.](#)

For FY 2018, CMS proposes uncompensated care data use from FY 2014 cost reports combined with the insured low-income days proxy used to determine uncompensated care payments the last several years. Concern areas related to using the S-10 have been expressed to CMS. Some were addressed in Transmittal 10 issued on November 18, 2016, which updated the cost report instructions. Specifically, Transmittal 10 clarified some issues related to the reporting of charity care charges and write-offs. However, other areas of significance needing clarification remain unanswered, e.g., clarification as to whether presumptive charity is considered allowable.

Regardless of [stakeholders' concerns](#), CMS is clearly intent on beginning to incorporate the S-10 into uncompensated care payment distribution. CMS expects cost reports beginning in FY 2017 will be the first cost reports the S-10 data will be subject to review. It's important for hospitals to understand what information is reported on the S-10 and capture their uncompensated care costs. Hospitals also should review their policies for charity care and bad debt and evaluate how those correlate to the S-10.

In addition, the pool of Medicare DSH dollars to be distributed among qualifying hospitals has increased by approximately \$1 billion compared to FY 2017. The increased funds result from both Factors 1 and 2 of the uncompensated care Medicare DSH calculation method. Factor 1's increase is mostly contributed to Medicaid expansion and represents 75 percent of what total Medicare DSH payments would have been made prior to the Affordable Care Act. Factor 2's increase is from the larger Factor 1 and CMS changing the source to estimate the national percentage of uninsured.

Important steps to take now:

- Verify detailed patient listings are available to support S-10 filed amounts
- Establish that filed amounts are compliant with Medicare cost report instructions
- Check that policies, procedures and reporting are compliant and consistent
- Evaluate the effect of current cost report instructions and potential changes to cost report instructions on uncompensated care reporting

BKD National Health Care Group is dedicated to assisting hospitals capture their uncompensated care information and other factors affecting Medicare DSH payments. Contact your BKD advisor for more information.