



MEDICARE DISPROPORTIONATE SHARE HOSPITAL

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BACKGROUND

[Social Security Act \(SSA\) § 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).

Medicare DPP Formula

Medicare DPP =	Medicare/Supplemental Security Income Days <hr style="width: 80%; margin: 0 auto;"/>	+	Medicaid, Non-Medicare Days <hr style="width: 80%; margin: 0 auto;"/>
	Total Medicare Days		Total Patient Days

2. Alternate Special Exception Method

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

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

These hospitals are known as “Pickle” hospitals. If a hospital qualifies under this method, it is 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, thereby increasing the DSH payment adjustment percentage for hospitals such as rural hospitals with fewer than 500 beds and urban hospitals with fewer than 100 beds.

The MMA also imposed a 12 percent cap on the DSH payment adjustment 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

AFFORDABLE CARE ACT INTRODUCES MEDICARE DSH UNCOMPENSATED CARE PAYMENT

The Affordable Care Act revised the Medicare DSH payment by introducing Medicare DSH uncompensated care payments. For FY 2014 and each year after, hospitals that would otherwise receive a DSH payment made under SSA § 1886(d)(5)(F) receive two separate payments:

1. 25 percent of the amount they previously received for DSH (“the empirically justified amount”)
2. An additional payment for the DSH hospital’s proportion of uncompensated care, determined as the product of three factors:
 - i. 75 percent of the payments otherwise made under SSA § 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 reduction.
 - iii. A hospital’s uncompensated care amount relative to the uncompensated care amount of all DSH hospitals expressed as a percentage

In general, the FY 2020 IPPS final rule defined the uncompensated care amount to be charity care and non-Medicare and non-reimbursable Medicare bad debt, based on provider’s cost reports Worksheet S-10.

For more specific information about DSH payments as part of the Acute Inpatient Prospective Payment System (IPPS), refer to the [Acute Inpatient PPS](#) webpage.

MEDICARE DSH PAYMENT: COUNTING HOSPITAL BEDS AND PATIENT DAYS

Determine the number of beds in a hospital, according to the Code of Federal Regulations (C.F.R.) at [42 C.F.R. § 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
- Counted as 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 could not 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 percent. The primary qualifying method adjustment formulas are not applicable to Pickle hospitals. A hospital is eligible for a Medicare DSH payment under the primary qualifying method when its DPP meets or exceeds 15 percent. 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
(for a complete list of rules and adjustments, refer to [42 C.F.R. § 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

Medicare DPP Calculation and Corresponding Payment Adjustment Calculation Under the Primary Qualifying Method

Example: Hospital A has 62 beds and is located 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 percent.

Medicare DPP =	300 Medicare/Supplemental Security Income Days	+	1,000 Medicaid, Non-Medicare Days	= .35
	2,000 Total Medicare Days		5,000 Total Patient Days	

Because Hospital A is located in an urban area, has fewer than 100 beds, and has a DPP of more than 20.2 percent, 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 percent. Hospital A's Medicare DSH adjustment is 12 percent. DSHs may also qualify for a low-volume hospital payment adjustment.

RESOURCES

Table 1. DSH Resources

For More Information About...	Resource
Chapter 3 of the Medicare Claims Processing Manual	CMS.gov/Regulations-and-Guidance/Guidance/Manuals/Downloads/clm104c03.pdf
Medicare DSH	CMS.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/dsh

Table 2. Hyperlink Table

Embedded Hyperlink	Complete URL
42 C.F.R. § 412.105(b)	https://www.ecfr.gov/cgi-bin/text-idx?SID=7cfd08f360b2ff3ee08f8931a5f9538c&mc=true&node=se42.2.412_1105&rgn=div8
42 C.F.R. § 412.106(d)	https://www.ecfr.gov/cgi-bin/text-idx?SID=cf1d2d4b2d20e7acc77a77f644251014&mc=true&node=se42.2.412_1106&rgn=div8
Acute Inpatient PPS	https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS
Social Security Act (SSA) § 1886(d)(5)(F)	https://www.ssa.gov/OP_Home/ssact/title18/1886.htm

HELPFUL WEBSITES

American Hospital Association Rural Health Care

<https://www.aha.org/advocacy/small-or-rural>

Critical Access Hospitals Center

<https://www.cms.gov/Center/Provider-Type/Critical-Access-Hospitals-Center>

Disproportionate Share Hospitals

<https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/dsh>

Federally Qualified Health Centers Center

<https://www.cms.gov/Center/Provider-Type/Federally-Qualified-Health-Centers-FQHC-Center>

Health Resources and Services Administration

<https://www.hrsa.gov>

Hospital Center

<https://www.cms.gov/Center/Provider-Type/Hospital-Center>

Medicare Learning Network®

<http://go.cms.gov/MLNGenInfo>

National Association of Community Health Centers

<http://www.nachc.org>

National Association of Rural Health Clinics

<https://narhc.org>

National Rural Health Association

<https://www.ruralhealthweb.org>

Rural Health Clinics Center

<https://www.cms.gov/Center/Provider-Type/Rural-Health-Clinics-Center>

Rural Health Information Hub

<https://www.ruralhealthinfo.org>

Swing Bed Providers

<https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/SNFPPS/SwingBed>

Telehealth

<https://www.cms.gov/Medicare/Medicare-General-Information/Telehealth>

Telehealth Resource Centers

<https://www.telehealthresourcecenter.org>

U.S. Census Bureau

<https://www.census.gov>

REGIONAL OFFICE RURAL HEALTH COORDINATORS

To find contact information for CMS Regional Office Rural Health Coordinators who provide technical, policy, and operational assistance on rural health issues, refer to [CMS.gov/Outreach-and-Education/Outreach/OpenDoorForums/Downloads/CMSRuralHealthCoordinators.pdf](https://www.cms.gov/Outreach-and-Education/Outreach/OpenDoorForums/Downloads/CMSRuralHealthCoordinators.pdf).

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