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FACT SHEET

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Medicare Disproportionate Share Hospital



What's Changed?

We added uncompensated care payment methodology for FYs 2023 and 2024 (page 5).

You'll find substantive content updates in dark red.

Disproportionate share hospitals (DSHs), defined in Section 1886(d)(5)(F) of the [Social Security Act](#), serve a significantly disproportionate number of low-income Medicare patients and get additional Medicare payments to cover the costs of providing care to them.

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**.

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).

Together we can advance health equity and help eliminate health disparities in rural populations. Find these resources and more from the [CMS Office of Minority Health](#):

- [Rural Health](#)
- [Data Stratified by Geography \(Rural/Urban\)](#)
- [Health Equity Technical Assistance Program](#)

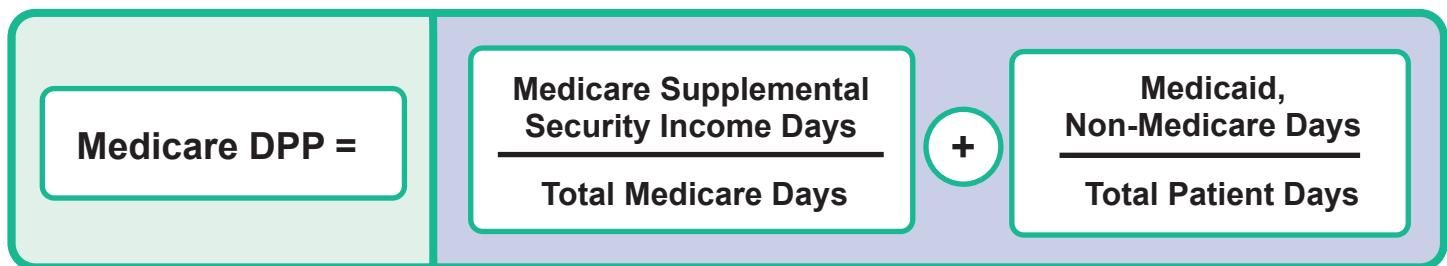


Figure 1. Medicare DPP Formula

Alternate Special Exception Method

To qualify for the alternate special exception Medicare DSH adjustment, hospitals must meet all these criteria:

- Be 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)

If a hospital qualifies under this method, it's known as a **"Pickle"** hospital and is eligible for a specific Medicare DSH adjustment.

Medicare Modernization Act 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 [Medicare Modernization Act](#) (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

Hospitals eligible for DSH payments under Section 1886(d)(5)(F) of the [Social Security Act](#) get 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 these 3 factors:
 - i. 75% of the total payments otherwise made under Section 1886(d)(5)(F) of the Social Security Act
 - ii. 1 minus the percent change in the percent of individuals uninsured
 - iii. A hospital's uncompensated care amount relative to the uncompensated care amount of all DSH hospitals expressed as a percentage

For FY 2023 and subsequent FYs, we'll use a multiyear averaging methodology to determine eligible hospitals' uncompensated care payments. Specifically, in FY 2023, we'll use a 2-year average of audited data on uncompensated care costs from Worksheet-10 from FYs 2018 and 2019. This includes all eligible hospitals and Indian Health Service (IHS) or Tribal Hospitals, and Puerto Rico hospitals.

In FY 2024 and subsequent years, we'll determine uncompensated care payments for all eligible hospitals using a 3-year average of the data on uncompensated care costs from Worksheet S-10 for the 3 most recent FYs for which audited data are available.

The [Acute Inpatient PPS](#) webpage has more information.

Medicare DSH Payment: Counting Hospital Beds & Patient Days

Determine the number of beds in a hospital, according to [42 CFR 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 and 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 Inpatient Prospective Payment System and doesn't 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
- Beds or bassinets in the healthy newborn nursery
- Custodial care



Medicare DSH Payment: Adjustment Formulas

We make additional DSH payments under the IPPS to acute care hospitals serving many 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 RRCs or sole community hospitals, and other hospitals

Medicare DSH Payment Adjustment Formulas for Hospitals Qualifying Under the Primary Method

| 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 |

Get a complete list of rules and adjustments at [42 CFR 412.106\(d\)](#).

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%.

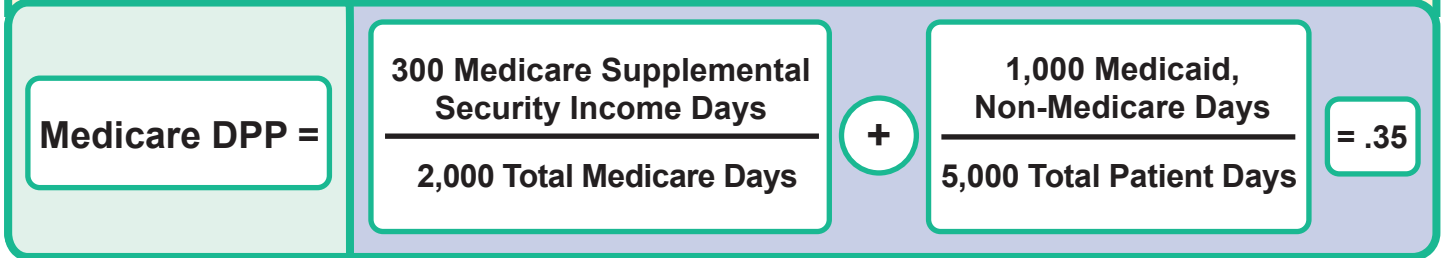


Figure 2. Medicare DPP Calculation & Corresponding Payment Adjustment Calculation Under the Primary Qualifying Method

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%; therefore, Hospital A's Medicare DSH adjustment is 12%. DSHs may also qualify for a low-volume hospital payment adjustment.



Resources

- [2023 Acute Care Hospital IPPS Final Rule](#)
- [Medicare Claims Processing Manual, Chapter 3](#)
- [Medicare Disproportionate Share Hospital \(DSH\)](#)

Other Helpful Websites

- [American Hospital Association Rural Health Services](#)
- [CMS's Rural Health Strategy](#)
- [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.

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