



Office of the Actuary

DATE: July 31, 2025

SUBJECT: Estimate of Medicare DSH Payments Used in Development of Factor 1

This memorandum summarizes the Office of the Actuary's (OACT's) estimate of Medicare disproportionate share hospital (DSH) payments in the absence of the changes to uncompensated care payments required by the Affordable Care Act (ACA). Included is a description of the methodology used to develop these estimates, as well as the results of that methodology.

DSH payments have been a part of Medicare reimbursement to hospitals since the mid-1980s, and since that time there have been many changes to the formulas that are used to determine these payments. The most recent change was required by the ACA, which reduced the amount of DSH payments to 25 percent of what had previously been paid and then created a new payment provision for uncompensated care payments. Under this new provision, for the remaining 75 percent of DSH amounts that had previously been paid, the majority were to be paid on a different basis. To determine the amounts needed for the uncompensated care payments, it is necessary to estimate what the Medicare DSH payments would have been under the previous system. The key assumptions used to estimate these payments are described below.

- Claims experience for fiscal year (FY) 2022 is used as the base data for developing DSH payments. The data are adjusted to reflect 100 percent of DSH payments using the Medicare cost reports, excluding those for hospitals in Maryland, since they are not paid under the inpatient prospective payment system (IPPS).
- Projections of DSH payments are determined using estimated reimbursement per admission from the IPPS impact files and assumptions for changes in utilization and case mix from OACT's Part A benefits model. These assumptions are consistent with those reflected in the 2025 Medicare Trustees Report, which was released on June 18, 2025.
- The market basket increases and productivity adjustments for FY 2026 reflect the values that are included in the IPPS final rule.

The following table shows the assumptions and results of the methodology used to develop the estimated DSH payments.

Assumptions and Results of Medicare DSH Payment Estimates

FY	Adjustments					DSH payments (in millions)
	Payment update	Discharges	Case mix	Other	Total	
2022	—	—	—	—	—	\$13,022
2023	1.043	0.994	0.990	1.0577	1.0859	14,140
2024	1.031	0.997	0.997	1.0310	1.0570	14,946
2025	1.029	1.020	0.9997	1.0029	1.0527	15,734
2026	1.026	1.020	1.0023	1.0027	1.0519	16,550

The “Payment update” column shows the increase to IPPS hospital payment rates for each year. These assumptions are a function of the market basket increase and include any legislated adjustments, such as the increase in productivity and adjustments for documentation and coding.

The “Discharges” column shows the adjustment for the increase in the number of Medicare fee-for-service (FFS) inpatient hospital discharges. The adjustments for 2023 and 2024 reflect the net impact of a positive per-beneficiary utilization trend, based on actual claims experience, and the decrease in FFS enrollment that occurred in those years as a growing share of beneficiaries enrolled in Medicare Advantage (MA) plans. The estimates for 2025 and 2026 reflect assumptions for per-beneficiary utilization growth, which is positive and reflects a continuation of the recent historical trend, and growth in FFS enrollment, which is estimated to be less negative in these years.

The “Case mix” column shows the adjustment for the change in the mix of cases for IPPS hospitals. The 2023 and 2024 amounts are derived from actual claims experience. The 2025 and 2026 amounts represent assumptions that are based on actuarial judgment, and these values reflect a gradual transition of the recent historical trend to a case mix increase of 0.5 percent, as recommended by the 2010–2011 Medicare Technical Review Panel.

The “Other” column shows the adjustment for other factors that contribute to the Medicare DSH estimates. These factors include the difference between the total inpatient hospital discharges and the IPPS discharges (particularly those in DSH hospitals), along with various adjustments to the payment rates that have been included over the years but are not reflected in the update, discharge, or case mix impacts. In addition, this column includes a factor for the change in Medicaid enrollment in 2023.

The “Total” column represents the combined impact of all the previous columns, and the “DSH payments” column shows the estimated spending that results from applying the total increase to the previous year’s amount.

For several years we have made adjustments for changes in Medicaid enrollment because the DSH payment percentage is determined partially on the basis of Medicaid hospital days. That is, the more Medicaid beneficiaries there are, the higher the Medicare DSH payments will be. For the projection in the FY 2026 IPPS final rule, after examining estimated changes in Medicaid enrollment over the past few years, we are making no further explicit adjustments beyond 2023.

The following table shows total Medicaid enrollment and the number of enrollees under age 65. The last row shows the impact of this higher enrollment on Medicare DSH payments.

Medicaid Enrollment Assumptions and Resulting Impacts on Medicare DSH Payments¹		
	2022	2023
Medicaid enrollment post-ACA (in millions)	89.9	94.5
Under age 65 post-ACA enrollment (in millions)	82.1	86.4
Increase in Medicare DSH	3.1%	1.9%

¹Medicaid enrollment excludes Territories.

It is important to note that there is a high degree of uncertainty associated with these estimates because we do not know the number of Medicare beneficiaries who will choose to enroll in an MA plan or the number of inpatient hospital services that the remaining FFS enrollees will utilize. However, we believe that the assumptions, methodology, and resulting spending estimates are reasonable.

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