November 1, 2024

Directed Payments in Medicaid Managed Care

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Overview

- Background
- Trends and characteristics of directed payments
  - Rapid growth in directed payment use and spending
  - Targeting and financing of directed payments
  - Payment methods for different types of directed payments
  - Goals and outcomes of directed payments
- Centers for Medicare & Medicaid Services (CMS) policy updates
- Next steps

Supplemental Payments and Managed Care

- States are not permitted to make upper payment limit (UPL) supplemental payments for managed care
  - States initially used Section 1115 demonstrations to make supplemental payments through uncompensated care pools or Delivery System Reform Incentive Payment (DSRIP) programs
  - Some states required managed care organizations (MCOs) to make additional payments to providers, known as pass-through payments
- In 2016, CMS created a new option for states to direct managed care plans to make additional payments to providers
  - CMS has encouraged states to use directed payment authority as DSRIP funding and pass-through payments phased out

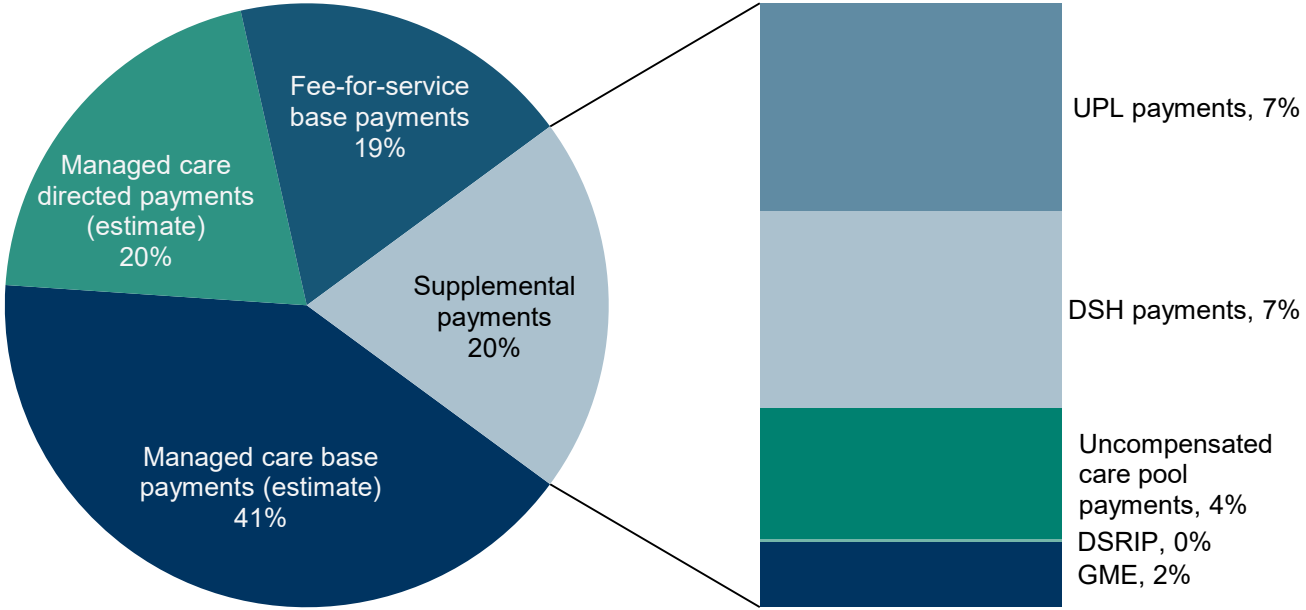
Directed Payment Option

- States can direct managed care payments to providers if they meet certain criteria under existing regulations:
  - Tied to utilization and delivery of services under the managed care contract
  - Advance at least one of the goals of the state's quality strategy
  - Are not conditioned on provider participation in intergovernmental transfer (IGT) funding agreements
- States must submit a pre-print application to CMS for review prior to implementing a directed payment arrangement
- Directed payment arrangements are typically approved for one year and are not renewed automatically

Types of Directed Payments

- **Minimum or maximum fee schedule** - sets base payment rates that plans pay for specified services
  - Minimum and maximum fee schedules can use a state plan approved rate, a Medicare fee schedule, or other alternative fee schedule that the state develops
- **Uniform rate increase** - requires plans to pay a uniform dollar or percent increase in payment above negotiated payment rates
  - Most similar to lump-sum supplemental payments in fee for service (FFS)
- **Value-based payment (VBP)** – requires plans to implement VBP models such as pay-for-performance incentives, shared savings arrangements, or other alternative payment models

Directed Payments are a Large Share of Medicaid Hospital Spending, FY 2022



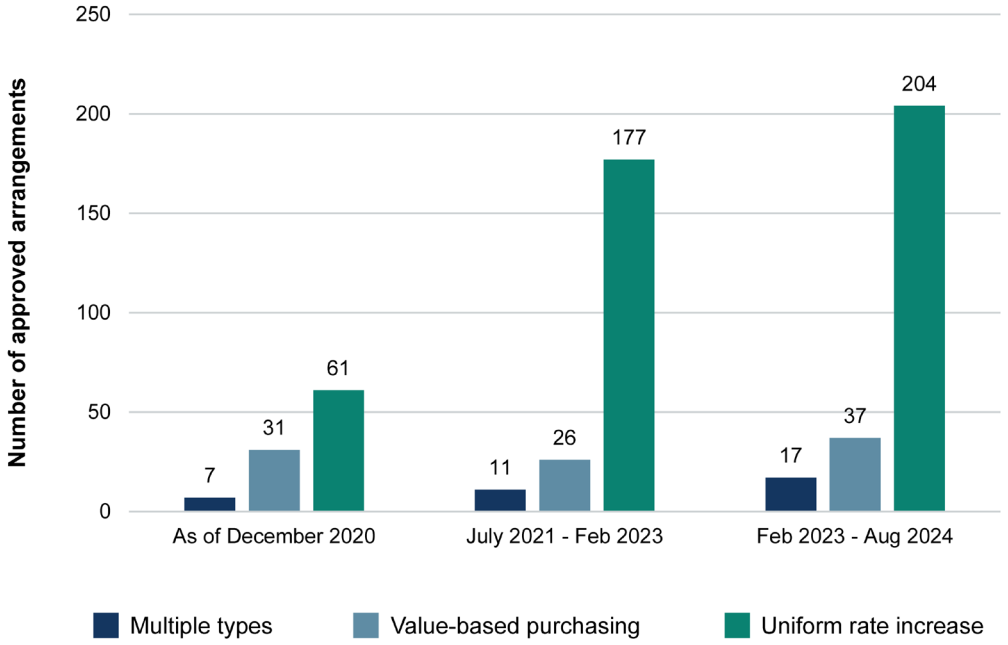
Notes: FY is fiscal year. DSH is disproportionate share hospital. UPL is upper payment limit. DSRIP is delivery system reform incentive payment. GME is graduate medical education. DSRIP and uncompensated care pool payments must be authorized under Section 1115 waivers. Managed care payments to hospitals are estimated based on total managed care spending reported by states. DSRIP spending is a non-zero amount that rounds to 0%.
Sources: MACPAC, 2024, analysis of CMS-64 net expenditure data as of May 30, 2023 and CMS-64 Schedule C waiver report data as of September 29, 2023, and directed payment arrangements approved through February 1, 2023.

Trends and Characteristics of Directed Payments

Methodology

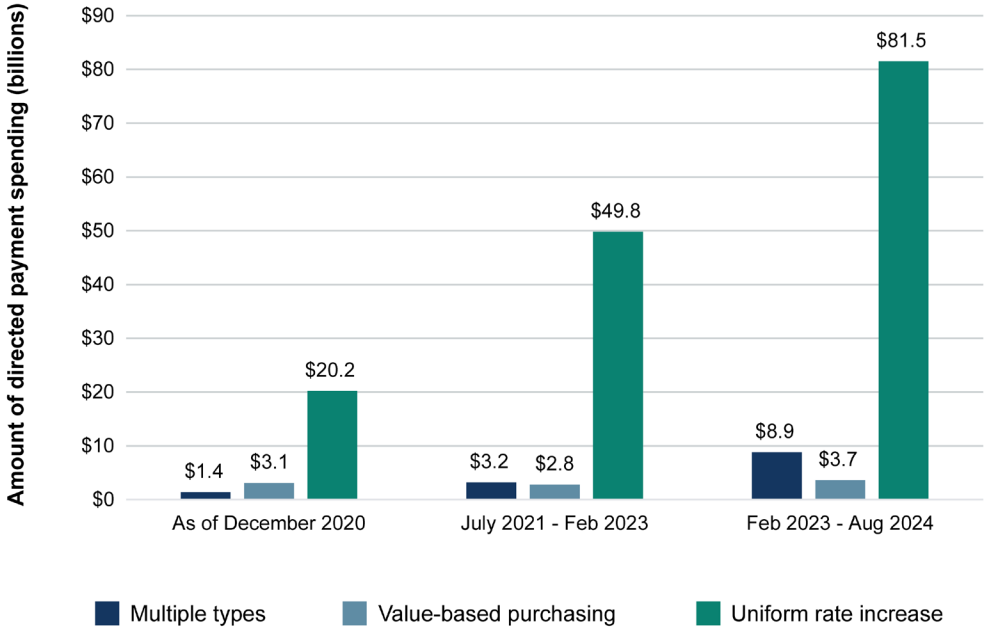
- Obtained directed payment preprints from Medicaid.gov and CMS
  - All directed payment preprints approved on or after February 1, 2023 are publicly available
  - Does not include minimum fee schedules using state plan rates because they do not require prior written approval
- Reviewed all distinct directed payment preprints approved between February 1, 2023 and August 1, 2024 (n=302)
  - Excluded prior versions of directed payment arrangements that were subsequently renewed or amended (n=198) and directed payments approved after February 2023 that did not use CMS's required template (n=6)
  - Projected payment amounts represent annualized amounts for the most recent rating period, which may not be tied to a specific year and differ from actual spending
  - This analysis updates our previous directed payment analyses that reviewed directed payment preprints approved up to February 2023

Growth of Approved Directed Payment Arrangements



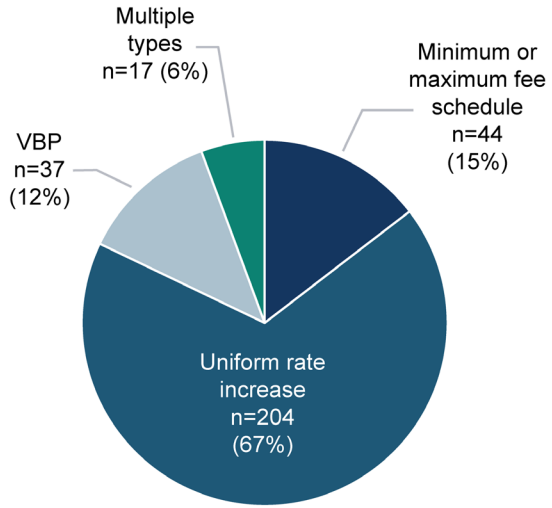
Notes: Number of approved arrangements excludes prior versions of directed payment arrangements that have been renewed or amended after they were initially approved. For July 2021 to August 2024, the number excludes directed payments approved after July 1, 2021 that did not use CMS's new template.
Source: MACPAC, 2024, analysis of directed payments approved between February 2023 and August 2024; MACPAC, 2023, analysis of directed payments approved between July 2021 and February 2023; MACPAC, 2022, analysis of directed payments approved as of December 2020

Growth of Projected Spending from Directed Payment Arrangements

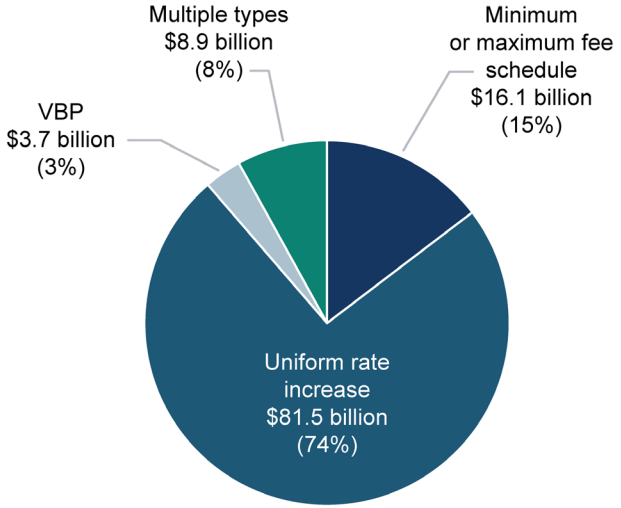


Notes: Amounts from approved arrangements exclude prior versions of directed payment arrangements that have been renewed or amended after they were initially approved. For July 2021 to August 2024, the amounts exclude directed payments approved after July 1, 2021 that did not use CMS's new template. Projected payment amounts represent annualized amounts for the most recent rating period, which may differ from calendar year or fiscal year 2024. In addition, projected spending reported in directed payment approval documents may differ from actual spending.
Source: MACPAC, 2024, analysis of directed payments approved between February 2023 and August 2024; MACPAC, 2023, analysis of directed payments approved between July 2021 and February 2023; MACPAC, 2022, analysis of directed payments approved as of December 2020

Directed Payment Types and Projected Payment Amounts, February 2023 – August 2024



Approved directed payment arrangements N = 302



Total projected spending = $110.2 billion

Notes: This analysis is based on a review of unique directed payment arrangements approved between February 1, 2023 and August 1, 2024. Analysis excludes prior versions of directed payment arrangements that were subsequently renewed or amended (n = 198) and directed payments approved after February 1, 2023 that did not use CMS's new template (n = 6). Projected payment amounts represent annualized amounts for the most recent rating period, which may differ from calendar year or fiscal year 2024. In addition, projected spending reported in directed payment approval documents may differ from actual spending.
Source: MACPAC, 2024, analysis of directed payments approved between February 2023 and August 2024

Targeting and Financing of Directed Payments

- Targeting
  - Most uniform rate increases and VBP arrangements were targeted to hospitals and hospital-affiliated providers
  - Minimum or maximum fee schedules were more likely to target behavioral health providers
- Financing
  - Most uniform rate increases were financed by provider taxes or IGTs
- Targeting appears related to the financing of the non-federal share
  - Of the 29 directed payment arrangements projected to increase payments to providers by more than $1 billion a year, 24 were targeted to hospital systems and 26 were financed by provider taxes or IGTs

Payment Methods Differ across Directed Payment Types

- Directed payments can be incorporated as:
  - Adjustments to the base capitation rate
  - Separate, predetermined pool of funding in addition to the base capitation rate, known as separate payment terms
- Most uniform rate increases and VBP arrangements use separate payment terms
  - Of the $81.5 billion of annual spending on uniform rate increases, $70.6 billion, or 87 percent, were delivered through separate payment terms
  - Provider taxes and IGTs financed the majority of uniform rate increases delivered through separate payment terms
- The 2024 managed care rule will eliminate separate payment terms effective for the first rating period beginning on or after July 9, 2027
  - Directed payments currently incorporated as separate payment terms must transition to capitation rate adjustments

Goals and Outcomes of Directed Payments

- Most common stated goal in directed payment arrangements is to improve access, but the link between additional payments and access is often unclear
  - Measures of improved access may be unclear and vary across arrangements (e.g., utilization measures, timeliness of care, provider retention in MCO network)
- Directed payment arrangements may focus on access for specific providers or services
  - Some arrangements target safety net hospitals, children's hospitals, and maternal and behavioral health providers
- Lack of evaluation results for meeting stated goals

CMS Policy Updates

2024 Managed Care Rule

- Rapid growth in the use of directed payments created challenges with oversight and transparency for CMS
- To address these issues, CMS finalized a managed care rule in July 2024 with major updates to directed payments
- Key changes include:
  - Elimination of separate payment terms (effective July 2027)
  - Prohibition of post-payment reconciliation processes (effective July 2027)
  - More stringent reporting requirements
    - Report provider-level directed payment data to Transformed Medicaid Statistical Information System (T-MSIS)
    - Additional evaluation plan and report requirements
    - Collect provider attestations that state no participation in hold harmless arrangements
- The final rule addressed some of MACPAC's prior recommendations, but additional steps are needed to fully implement our recommendations
  - Require states to collect and report the sources and cost of financing the non-federal share

Next Steps

- Staff will continue to build on other payment and financing work:
  - Update payment index that will compare Medicaid hospital payments across states and to Medicare payment rates
  - Continue to review UPL narratives
  - Continue to monitor directed payment arrangements
- Staff would appreciate Commissioner feedback on our findings and additional information that would be useful to the Commission
  - As we continue to review directed payment preprints, what directed payment information would you want us to monitor as the changes in the final rule are implemented?

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