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Automation in Medicaid Prior Authorization

Findings

Patrick Jones, Analyst

Katherine Rogers, Deputy Director

MACPAC

Medicaid and CHIP Payment and Access Commission

Overview

- Project overview
- Background
- Findings
- Next steps

Project Overview

Project Overview

Automation: the use of technological tools such as algorithms and artificial intelligence (AI) that supplement or replace human action or decision making

- Understand how automation is being used in the Medicaid prior authorization (PA) process in the managed care and fee-for-service (FFS) delivery systems
- Literature and federal policy reviews, stakeholder interviews with states, federal officials, MCOs, information technology (IT) vendors, provider representatives, and beneficiary advocates
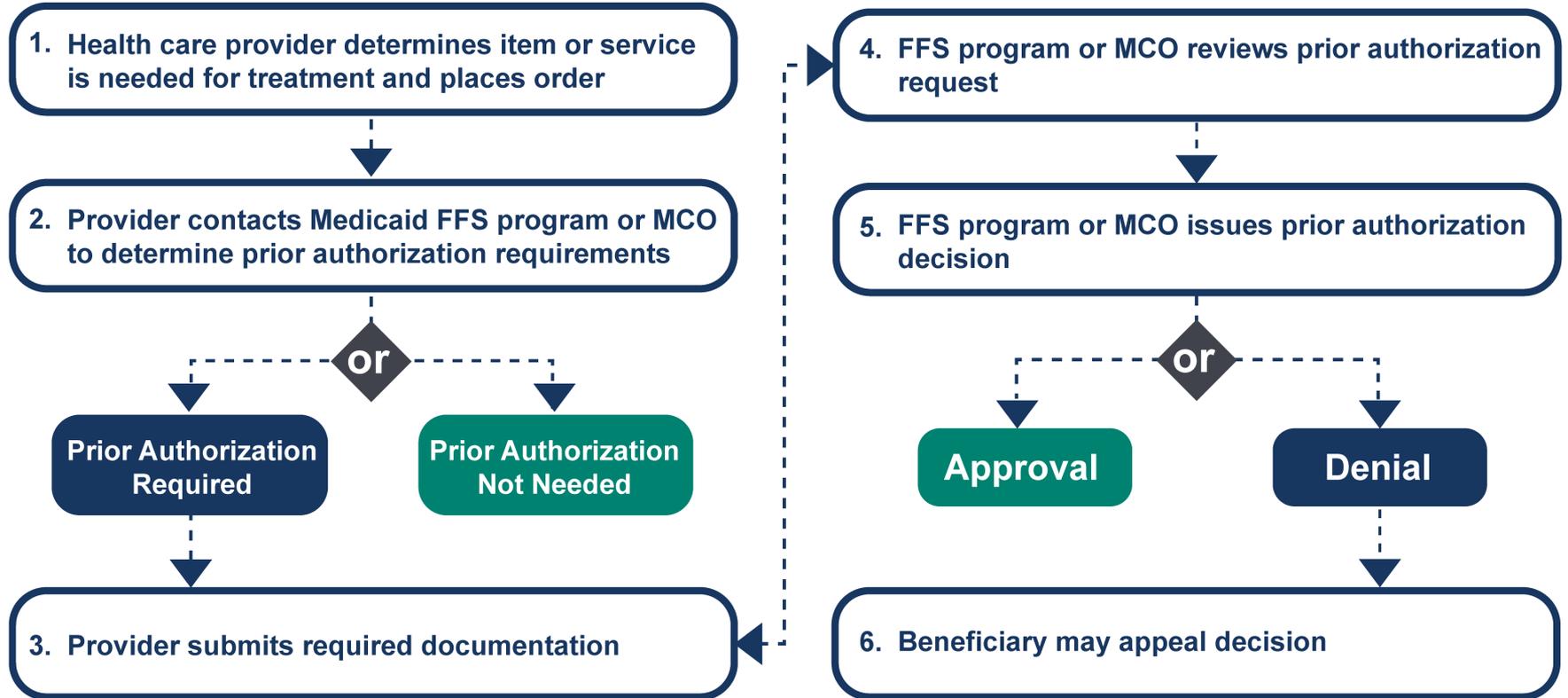
Prior Authorization in Medicaid

Prior Authorization

The multi-step process by which health care payers require medical providers to receive approval before providing a specific item, service, or medication

- Intended to reduce costs by promoting appropriate, cost-effective care
- Some research shows that PA can reduce costs without negatively impacting care
- However, beneficiary advocates and others have raised concerns
  - PA may delay or deny needed care
  - PA increases administrative costs for providers

PA in Medicaid

1. Health care provider determines item or service is needed for treatment and places order

2. Provider contacts Medicaid FFS program or MCO to determine prior authorization requirements

or

Prior Authorization Required

Prior Authorization Not Needed

3. Provider submits required documentation

4. FFS program or MCO reviews prior authorization request

5. FFS program or MCO issues prior authorization decision

or

Approval

Denial

6. Beneficiary may appeal decision

Oversight of Medicaid PA

- The Centers for Medicare and Medicaid Services (CMS) conducts oversight of FFS programs and reviews and approves states' managed care contracts

- State Medicaid agencies can use the external quality review (EQR) process to assess whether MCO PA denials are clinically appropriate

- Regulations require MCOs to have a beneficiary appeals process

- Interoperability rule will subject both FFS and managed care programs to additional timeliness, transparency and reporting, and Application Programming Interface (API) requirements beginning in 2026

PA Automation

Automation Definitions

- **Algorithm:** A procedure or set of rules that is applied to a dataset to achieve a certain function or purpose
- **AI:** A machine-based system that can, for a given set of human-defined objectives, make predictions, recommendations, or decisions influencing real or virtual environments
- **Generative AI:** AI models that draw from large swaths of existing data to create complex original content such as long-form text, high-quality images, or realistic videos or audio
- **Predictive AI:** AI models that draw from targeted historical data to find patterns and forecast future outcomes about the most likely upcoming event, result, or trend

Applications of Automation in PA

Providers

Pre-fill forms
Check compliance
Identify and retrieve documentation

Payers

Format data from PA requests
Make real-time PA decisions
Identify services or providers for automatic approval

Applications of Automation in PA

Benefits

Reduces administrative burden for providers

Reduces processing times and delays in care

Promotes appropriate, cost-effective care

Risks

Limited transparency into how some automation tools make decisions

Data bias can lead to large numbers of incorrect denials

Limited visibility into balance between appropriate clinical review and cost containment

Oversight of Automation

- Existing federal policy does not explicitly address automation in Medicaid PA
  - Existing regulations require "an individual" with expertise to review denials made by MCOs
- CMS issued requirements and guidance related to automation in the Medicare Advantage PA process
  - AI and algorithms can assist with PA decisions, but all decisions must be based on the individual patient's circumstance and applicable coverage criteria
  - AI cannot be used to shift coverage criteria over time or apply non-publicized criteria

Findings

States and MCOs are using AI and algorithms in Medicaid PA

- In interviews with stakeholders, MCOs reported using automation more frequently than FFS programs

- Virtually all states and MCOs report they are not using automation for final PA decision making

- Stakeholders described automation as a tool to expedite approvals, rather than deny care

- States, payers, and providers use automation to synthesize and analyze the large amounts of data associated with PA

States and the federal government have limited insight into MCOs' use of automation in Medicaid PA

- There is no federal requirement obligating states to collect information from MCOs about if and how they use automation in Medicaid PA

- States may leverage their existing contracts and oversight activities for MCOs to identify adoption of automation
  - States and the federal government noted information can be voluntarily shared through these processes
  - No states interviewed reporting using these levers to mandate MCO compliance with state policies on the use of automation in PA or elsewhere

There is little federal regulation or guidance specific to automation in Medicaid PA

- Existing policies do not directly regulate, guide, or monitor automation in Medicaid PA

- Managed care regulations do not address MCOs' use of automation in PA

- Stakeholders indicated that the interoperability rule is a step in the right direction, but more is needed
  - Rule aligns PA policy across payers
  - Improves data exchange for PA processes, but does not address data quality and availability

Some states have passed legislation regulating payers' use of automation in care decisions

States with legislation related to automation in PA, as of December 2025

■ States with legislation related to automation in PA   ■ No legislation
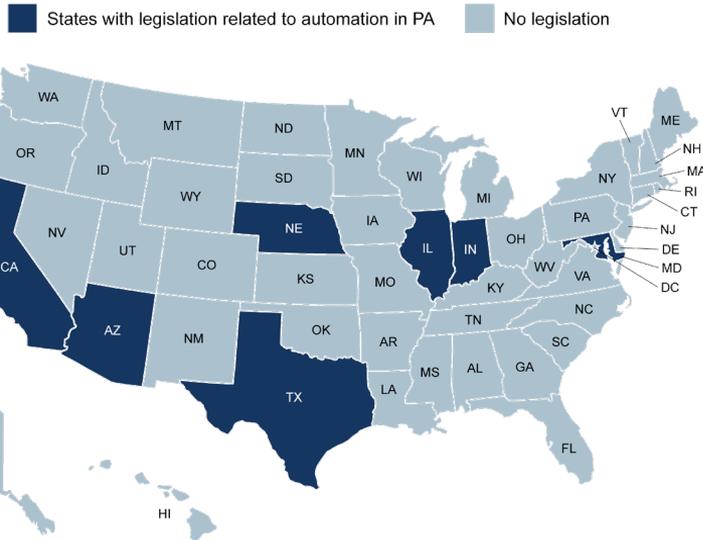
- Some state laws target both algorithms and AI, while others target only AI-based automation tools

- Six of seven state laws include a "human-in-the-loop" provision that bars automated denials

- Some state laws include additional protections

- States laws include transparency requirements

Source: MACPAC and Mathematica 2025, federal and state policy review.

Automated PA processes present potential risks to beneficiaries, states, providers, and health plans

- Automation tools may increase denial rates for Medicaid beneficiaries
- Provider and beneficiary representatives stated that there is limited transparency into how automation tools, particularly AI-based tools, make decisions
- Payers and providers warned that less-resourced providers and payers may be less able to adopt automation tools, leading to an uneven distribution of risks and benefits
- MCOs, IT vendors, and states reported that they are aware of these risks and are taking action
- Beneficiary advocates argued that "human-in-the-loop" policies don't guarantee fair, thorough reviews of PA requests

Limited federal guidance on automation in Medicaid PA is slowing the adoption of automation tools

- There is not a singular source of guidance on developing and implementing automation tools for PA in Medicaid
- The absence of federal guidance makes many states and MCOs reluctant to adopt automation tools
- Restrictions and regulations related to health data may limit access to the data needed to build automation tools
- Some states, payers, providers and IT vendors spoke in support of standardized federal guidelines
- However, some raised concerns about federal action

Key Takeaways

- Payers are using automation in PA; however, its use in Medicaid is nascent and poorly documented

- PA automation can reduce costs, promote appropriate care, and reduce many of the burdens associated with PA

- PA automation may also reduce access to care and creates new transparency and bias risks

- Current federal oversight of automation in Medicaid PA is limited, though states are taking some action

- Many stakeholders support federal action to create clarity and consistency

Next Steps

Next Steps

- Staff expect to include a chapter on PA automation in the June 2026 report to Congress
- We ask Commissioners to share any questions in response to these findings
  - Our research found that states and the federal government have limited insight into the use of automation in Medicaid PA. Should states and the federal government collect information regarding use of PA automation? If so, what information should be collected and why?
  - Many state laws require a "human in the loop" for all PA denials and all payers we spoke to stated that have human in the loop policies. Should the federal government make human in the loop a standard requirement?
  - Stakeholders from multiple groups expressed support for federal regulation of automation in Medicaid PA. Is there a role for federal regulations or guidance at this time? How should/can federal guidance and regulation balance the risks and benefits of automation in Medicaid PA?

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Research findings

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JANUARY MEETING

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