

# CAPITOL STREET

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November 1, 2024

## Medicaid State Directed Payments Addressed by MACPAC

No Draconian Recommendations: Transparency For Now

Relevant Companies



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### »» Our Take & Next Up

A Medicaid Commission of experts notes [today](#) that state-directed payments (SDP) are skyrocketing but provide no major recommendations on whether/how to curb, apart from transparency & access monitoring. We attended the session today; see the non-partisan commission's [slides](#) and issue [brief](#) here. We do not believe the enhanced payments (to hospitals, psychiatric hospitals) are at-risk in the near term. If Congress decides (2025+) to embark on deficit reduction measures then state-directed pay may be called into question (but not eliminated). We note that a GOP sweep (President Trump + Republican House & Senate) would likely bring in budget reconciliation. ACA subsidies would likely be extended in conjunction with TJCA individual tax cuts -- perhaps not to the same generous subsidy levels as currently. However, GOP lawmakers are looking for sources of funds in this exercise. We note that Medicare Advantage (MA) policies are in the mix as GOP members are concerned about prior authorization, HRAs (See recent WSJ articles, one is [here](#)) and network policies.

### »» Key Points

**MACPAC notes skyrocketing payments via DPP.** Link to [slides](#) and issue [brief](#). We believe that slides 9-11 are noteworthy. Some highlights are below.

- There has been rapid growth in directed payment use and spending according to 2023-2024 data
- Most uniform rate increases and VBP (value based purchasing) arrangements were targeted to hospitals and hospital-affiliated providers

**Uniform rate increases comprise the bulk of state directed pay: \$81 B out of \$110 B (projected) in 2024.** MACPAC analyzed 302 approved directed payment arrangements (Feb 2023 - Aug 2024). See slide 11.

**The non-partisan commission's near-term recommendations are not draconian: require states to collect and report the sources and cost of financing the non-federal share.** MACPAC and public commenters emphasized need to measure access and increase access to care, transparency via reporting requirements

**The Commission highlights the 2024 Managed Care Rule ([here](#)) in response to the rapid growth.** The parameters they feel will assist in formulating a policy direction and largely go into effect in 2027.

- Elimination of separate payment terms (effective July 2027). Separate payment terms allow states to fund SDPs for managed care by creating a separate funding pool (plans pay providers from a set funding pool, shielding them from financial risk). New regulations require all SDPs to be integrated into base capitation rates, prohibiting the use of separate payment terms (aiming to eliminate funding practices that limit managed care plans' financial risk).
- Prohibition of post-payment reconciliation processes (effective July 2027). By requiring managed care plans to pay providers based on actual utilization instead of historical estimates, the rule ensures that payments reflect real service usage, maintaining the risk-based nature of capitation rates. This change is intended to enhance oversight and prevent states from effectively removing financial risk from managed care plans through these reconciliation practices.
- More stringent reporting requirements (improve transparency and oversight). (1) Report provider-level directed payment data to T-MSIS. States report provider-level data on actual SDP expenditures within the Transformed Medicaid Statistical Information System (T-MSIS), providing CMS with detailed, provider-specific information on SDP spending. (2) Additional evaluation plan and report requirements. States must develop evaluation plans for each SDP and submit evaluation reports to CMS every three years if SDP costs exceed 1.5% of total capitation payments (ensures ongoing oversight and assessment of SDP effectiveness and impact).

**MACPAC (staff) will continue to build on other payment and financing work. They noted three pending research & evaluation topics.** (1) Update payment index that will compare Medicaid hospital payments across states and to Medicare payment rates (2) Continue to review UPL narratives and (3) Continue to monitor directed payment arrangements.

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