



Medicaid Hospital Payments

August 2023

Legislative interest

The Idaho Legislature appropriated over \$4.5 billion to Idaho's Division of Medicaid for fiscal year 2024. Hospital services are the largest component of the Medicaid budget, making up about \$900 million in fiscal year 2022.

For years, Idaho remained one of the few states with a Medicaid program still paying hospitals based on cost. This payment policy does little to encourage cost-effective care. In 2020, the Legislature passed House Bill 351, which required Idaho Medicaid to transition its payment policies to focus on value. Starting in fiscal year 2022, Idaho transitioned most of its inpatient hospital payments to a per-discharge payment based on the patient's diagnosis related grouping (DRG). Idaho Medicaid plans to adopt a similar payment policy for outpatient hospital services in fiscal year 2025.

Idaho Medicaid is also increasing its reliance on supplemental payments. States typically pay hospitals using 1) base payments for services and 2) supplemental annual lump-sum payments.

In March 2023, the Joint Legislative Oversight Committee directed us to study payment rates to hospitals. This scope has been developed based on the letter requesting the study and on feedback from key stakeholders and the Legislature's Medicaid Managed Care Task Force.

The letter requesting this study asked about realized savings from the adoption of the DRG payment policy. Unfortunately, this adoption happened 1) during the public health emergency and 2) alongside the beginning of Medicaid's value care organizations. With so many large changes happening at once, isolating the effect of DRG payment policy is not feasible.

Scope

The report will address the following objectives:

1. Describe Idaho's current hospital payment policy and describe options the state has with DRG payment to improve budget predictability, quality of care, and efficiency.
2. Compare Idaho's hospital payment rates on a per-discharge basis to payments made by Medicare and by other state Medicaid programs with comparable payment policies. (These rates will be adjusted for supplemental payments and hospital taxes to ensure fair comparisons. A comparison of aggregate spending on outpatient hospital services will also be included.)
3. Describe Idaho Medicaid's management of the recent change in inpatient payment policy and offer recommendations for the upcoming change in outpatient payment policy.
4. Assess Idaho Medicaid's strategies to mitigate the risks to efficient and high-quality patient care involved in its hospital payment policies.

The projected date of completion is January 2024. However, items will be prioritized and published early based on the needs of the Legislature's Medicaid Managed Care Task Force during the interim.