

## **States' Use of Cost-Based Reimbursement for Medicaid Services at Critical Access Hospitals**

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### **Overview**

Critical Access Hospitals (CAH) are reimbursed by Medicare at 101% of allowable cost for both inpatient and outpatient services. State Medicaid agencies, however, are not required to reimburse CAHs on a cost-basis and have flexibility in determining how CAHs are paid for providing services to Medicaid enrollees. This brief documents which of the 45 states with CAHs utilize a cost-based reimbursement methodology for Medicaid. Information was collected in 2009 from a variety of sources including telephone calls with Flex Program Coordinators and chief financial officers of CAHs, and reviews of state Medicaid manuals available on the internet.

Medicaid reimbursement policies are an important factor in CAH financial status. Twenty-eight states provide Medicaid reimbursement based on cost for either inpatient or outpatient services or both. For the 17 states where cost-based reimbursement is not used at all CAHs are usually reimbursed for Medicaid services in the same manner as the PPS hospitals in their state. The type of reimbursement that is most advantageous for a small rural hospital depends upon multiple factors including an individual hospital's cost structure, payor mix and service lines, as well as general Medicaid payment policies, and whether other types of incentives are offered to rural hospitals in their state.

### **Medicaid Reimbursement for Inpatient Care**

Just over one-half of CAHs are located in states which use a cost-based reimbursement methodology for Medicaid inpatient services (Table 1):

- 9 states reimburse CAHs at cost (100%);
- 13 states reimburse CAHs above cost (101% or greater). Maine has the highest reimbursement percentage at 109% of cost;
- 2 states reimburse less than total cost, Idaho at 96.5% and Washington at approximately 99%; and
- 1 state, Nevada, provides cost based reimbursement for inpatient services only (at 100%) and not outpatient.

### **Medicaid Reimbursement for Outpatient Care**

Approximately two-thirds of CAHs are located in states which provide cost-based reimbursement for outpatient services (Table 2):

- 9 states reimburse CAHs at cost (100%);
- 14 states reimburse CAHs above cost (101% or greater). Maine has the highest reimbursement percentage at 109% of cost;
- 4 states reimburse CAHs less than full cost. The two lowest are Idaho at approximately 80% and Texas at 80.3% of cost; and
- 4 states provide cost-based reimbursement for outpatient services only and not inpatient – Georgia (100%), New Hampshire (91.2%), Texas (80.3%), and Vermont (101%).

**Table 1: Inpatient Medicaid Reimbursement**

Cost-Based			Not Cost-Based
Less than Cost (<100%)	At Cost (100%)	Greater than Cost (> 100%)	
<p>Idaho (96.5%)</p> <p>Washington (~99%; uses a cost-based formula that results in a payment 1%-2% less than Medicare's 101% payment)</p>	<p>Alaska</p> <p>Arkansas</p> <p>Colorado</p> <p>Nebraska</p> <p>Nevada</p> <p>North Carolina</p> <p>North Dakota</p> <p>South Carolina</p> <p>West Virginia</p>	<p>Hawaii (101%)</p> <p>Iowa (101%)</p> <p>Kansas (101%)</p> <p>Kentucky (101%)</p> <p>Louisiana (101%)</p> <p>Maine (109%)</p> <p>Montana (101%)</p> <p>Ohio (101%)</p> <p>Oregon (101%)</p> <p>Pennsylvania (101%)</p> <p>South Dakota (101%)</p> <p>Tennessee (101%)</p> <p>Wisconsin (101%)</p>	<p>Alabama</p> <p>Arizona</p> <p>California</p> <p>Florida</p> <p>Georgia</p> <p>Illinois</p> <p>Indiana</p> <p>Massachusetts</p> <p>Michigan</p> <p>Minnesota</p> <p>Mississippi</p> <p>Missouri</p> <p>New Hampshire</p> <p>New Mexico</p> <p>New York</p> <p>Oklahoma</p> <p>Texas</p> <p>Utah</p> <p>Vermont</p> <p>Virginia</p> <p>Wyoming</p>

**Table 2: Outpatient Medicaid Reimbursement**

Cost-Based			Not Cost-Based
Less than Cost (< 100%)	At Cost (100%)	Greater than Cost (> 100%)	
<p>Idaho (~80%; estimate only due to carveouts)</p> <p>New Hampshire (91.2%)</p> <p>Texas (80.3%)</p> <p>Washington (~99%; uses a cost-based formula that results in a payment 1%-2% less than Medicare's 101% payment)</p>	<p>Alaska</p> <p>Arkansas</p> <p>Colorado</p> <p>Georgia</p> <p>Nebraska</p> <p>North Carolina</p> <p>South Carolina</p> <p>West Virginia</p> <p>North Dakota</p>	<p>Hawaii (101%)</p> <p>Iowa (101%)</p> <p>Kansas (101%)</p> <p>Kentucky (101%)</p> <p>Louisiana (101%)</p> <p>Maine (109%)</p> <p>Montana (101%)</p> <p>Ohio (101%)</p> <p>Oregon (101%)</p> <p>Pennsylvania (101%)</p> <p>South Dakota (101%)</p> <p>Tennessee (101%)</p> <p>Vermont (101%)</p> <p>Wisconsin (101%)</p>	<p>Alabama</p> <p>Arizona</p> <p>California</p> <p>Florida</p> <p>Illinois</p> <p>Indiana</p> <p>Massachusetts</p> <p>Michigan</p> <p>Minnesota</p> <p>Mississippi</p> <p>Missouri</p> <p>Nevada</p> <p>New Mexico</p> <p>New York</p> <p>Oklahoma</p> <p>Utah</p> <p>Virginia</p> <p>Wyoming</p>

Sources: Telephone calls with Flex Program Coordinators and chief financial officers of CAHs, and reviews of state Medicaid manuals available on the internet, 2009.