



NC Department of Health and Human Services

Medicaid Fee-for-Service (FFS) Rate Setting Overview

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Rate Setting General Overview

- **The goal of any effective rate setting methodology is to include all allowable and reasonable costs and allow the provider to cover the cost incurred for the provision of the service while incentivizing quality care.**
- **Not all programs and services for which rates are set are the same, therefore there is no one methodology, or formula to establish rates.**
- **Federally, not all costs are allowable for Medicaid or other federal fund reimbursement. Some examples include advertising, bad debt, fund raising as examples.**
- **Medicaid funded services cannot be reimbursed at rates greater than private pay.**

Rate Setting General Overview

- **Federal Medicare Upper Payment Limits apply – i.e. comparison of Medicaid to Medicare.**
- **Based on the approach and service type, rates may be uniform for a specific service for all providers or may be unique to each provider for the same service.**
- **Federal requirements can be very specific, or provide a general framework and states have more flexibility in establishing reimbursement methods.**
- **For Medicaid and other grants, various federal regulations and guidance outline allowable costs and cost allocation methods used to report costs.**

Federal Guidance for Rate Setting

- Overarching guidance for rate setting methodology for Medicaid services including HCBS is §1902(a)(30)(A) of the Social Security Act.
- “Payments are consistent with efficiency, economy, and quality of care and are sufficient to enlist enough providers so that services under the plan are available to beneficiaries at least to the extent that those services are available to the general population”

Common Rate Setting Methodologies

- **Fee Schedule** - Provider receives a fixed, pre-determined rate for a single service for a designated unit of time. Does not vary by client, acuity, or provider
- **Negotiated Market Rate** - Provider receives the market price of a service, with an expectation that some negotiation will take place to reach an agreed-upon market price.
- **Tiered Rate** - Providers receive payment for one service in which the rate varies by identified characteristics of the individual, the provider, or some combination of both.

Common Rate Setting Methodologies

Cost Reconciliation Rate (Interim Rate) - Type of rate setting where providers are filing cost reports or cost surveys created by the state, ultimately to be reimbursed at the true cost of service

- **DMA reviews submitted claims for the past state fiscal year and determines the cost of claims for that year.**
- **Claims are reconciled at the true cost of delivering the service.**
- **Costs are reimbursed if the final rate is higher than the interim rate or recouped if the final rate is lower than the interim rate.**
- **The State will then be responsible for reimbursing CMS for all federal financial participation (FFP) payments for all overpayments identified.**
- **Each provider receives a letter outlining the determination of recoupment or reimbursement**

Medicaid Rate Setting

- **Medicaid reimbursement rate methodologies must be approved by the Center for Medicare and Medicaid Services (CMS) prior to implementation.**
- **Only providers recognized by CMS as a provider allowed to provide Medicaid services can be reimbursed at the established Medicaid rates.**
- **Medicaid rate methodologies or references to them can be found within the state health plan**



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Provider reimbursement
Fee For Service

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