California Hospital Association

Medicaid State Directed Payments Help Ensure Patient Access to Care

State Directed Payments (SDPs)

What are SDPs?
SDPs are additional payments made to health care providers to support Medicaid quality and access goals.

How do they work?

- The Centers for Medicare & Medicaid Services (CMS) reviews and approves SDPs for each 12-month rating period.
- Payments to providers are made via managed care organizations (MCOs) and are based on utilization of Medicaid services.

Oversight of payments

- States must annually demonstrate that SDPs are actuarially sound and result in reasonable and appropriate provider payment levels.
- CMS requires evaluation plans that demonstrate payments are effective in meeting program access and quality objectives.

How do SDPs support health care in California?

SDPs are a cornerstone of the California Medicaid program (known as Medi-Cal), ensuring that adequate resources are available to pay for care provided to more than 14 million Californians enrolled in Medi-Cal managed care. If approved by CMS in 2025, SDPs will:

- Account for approximately **10% of Medi-Cal funding** ($15.5 billion)
- Be self-financed using provider taxes and intergovernmental transfers — instead of state general fund dollars — to ensure program sustainability
- Ensure aggregate Medicaid payments for private hospitals reach approximately 80% of the cost of providing care to Medicaid patients

As of August 2024, there are **302 distinct directed payment arrangements in 41 states and territories** providing an estimated **$110 billion to support care delivered by Medicaid providers.**[1]

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How are the dollars spent?

SDPs help states close gaps in reimbursement between Medicaid and other payers, enabling health care providers to invest in initiatives that improve quality and access in their communities. In California, SDPs:

- Improve access to care in rural areas
- Expand and support key services, such as primary care, emergency care, maternal and child health, and behavioral health care services
- Secure critical access hospitals and children's hospitals
- Advance state quality goals related to well-care visits; prenatal and postpartum care; depression screening; and other prevention, wellness, and chronic disease management strategies
- Support hospitals and health systems in providing 24/7 standby capacity to respond to natural disasters, mass casualty events, and other emergencies

What is the impact of cuts?

Federal cuts to the Medicaid program disproportionately affect California. As the most populous state in the nation, California has the largest share of Medicaid enrollees.

- Because of its population, **California has the largest dollar value amount of SDPs of any state**, followed closely by other populous states like Texas.[1]
- California's budget includes $161 billion for Medi-Cal, more than half of which is paid for with federal funds that are now at risk.[2]
- Current Medicaid policy changes being debated in Congress are estimated to cut between **$10 billion and more than $20 billion** from the state of California alone.[3]

Health care access would be at grave risk without these funds. For many hospitals, losing this revenue would mean closure of service lines; for others, it would threaten their viability altogether. That means millions of Americans — regardless of what type of insurance they have — would lose access to their health care providers.

With **53%** of California hospitals losing money every day to care for patients, the health care services upon which their communities rely are at risk. **When a hospital closes because of underpayment from Medicaid or Medicare, it closes for everyone.**

[1] https://www.gao.gov/assets/870/864660.pdf

[2] https://ebudget.ca.gov/2024-25/pdf/Enacted/BudgetSummary/HealthandHumanServices.pdf

[3] https://calbudgetcenter.org/resources/california-at-risk-proposed-federal-funding-cuts-jeopardize-key-services/