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WHA Submits Comments on CMS' State Directed Payment Rule

Voices concerns about agency's proposal for implementing 10% annual funding cut

On July 21, WHA submitted comments to the Centers for Medicare & Medicaid Services (CMS) on the agency's proposed rule to implement new federal limits on Medicaid state directed payments for hospital services established by the One Big Beautiful Bill Act (OBBBA) enacted in July 2025.

The CMS rule would reduce allowable payment levels from the average commercial rate to Medicare-based limits. It also establishes a temporary grandfathering period for certain eligible state directed payment programs.

WHA has been actively following CMS activity on this proposed rule on state directed payments, as well as a proposed rule on provider taxes, after working closely with Republicans and Democrats in the State Legislature and Governor Evers to enact a historic expansion of Wisconsin's state directed payment program and provider tax in last summer's state budget. The expansion was designed to help reduce the chronic Medicaid underfunding of hospital services in Wisconsin.

As reported in *The Valued Voice*, CMS approved Wisconsin's application (or "preprint") for its calendar year 2026 state directed payment program on May 15. Through the program, Wisconsin hospitals are expected to receive approximately $740 million annually in new Medicaid reimbursements, reducing by roughly half the $1.3 billion they lost in 2024 providing care to Medicaid patients, until annual 10% payment reductions start in 2028.

After CMS approved Wisconsin's 2026 Medicaid hospital preprint, federal officials also notified the state's Medicaid leadership that Wisconsin's directed payment program and provider tax would be grandfathered pursuant to the OBBBA.

The OBBBA provides "grandfathered" state directed payments a temporary period during which they are eligible for delayed full compliance with the total Medicare-based payment limit.

In its comments to CMS, WHA agreed with the agency's decision to propose a definition of ''grandfathered state directed payment'' that aligns with Congressional intent and provides clarity to states on the criteria such a payment arrangement must meet for grandfathering status.

Under the definition CMS proposes, Wisconsin's state directed payment would qualify for grandfathering status, which provides for delayed compliance with the new Medicare-based limit. This means starting in 2028, Wisconsin will need to reduce its state-directed payment by 10 percentage points each year until the total payment rate equals 110% of published Medicare rates, rather than needing to comply with the payment limit immediately that year.

While noting its appreciation for the glidepath Congress had given states to move toward the new payment limits for grandfathered state-directed payments, WHA also expressed its deep concern about CMS' proposed plan for implementing the annual 10-percentage point phase down of these payment arrangements during the temporary grandfathering period.

"WHA is concerned that the approach CMS proposes for implementing the ten-percentage point phase down starting in 2028 will result in more rapid and severe reductions than Congress intended," WHA wrote in its comments. "To help lessen any unintended negative financial consequences of implementing (the payment reduction), WHA urges CMS to offer states maximum flexibility to choose a phase-down approach that could make reducing (state directed payment) programs to Medicare based levels less disruptive to hospitals and other providers."

WHA encouraged CMS to offer states the option of selecting among at least three specific alternative approaches it recommended for applying the 10-percentage point reduction to help lessen the disruption caused by reducing SDP programs to Medicare levels.

WHA also commented on provisions in CMS' proposed rule relating to separate payment terms, service code specific payment limits, and uniform rate increases.

A copy of WHA's full comment letter can be found here.

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