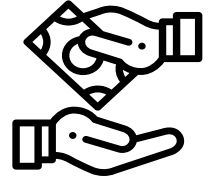
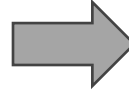
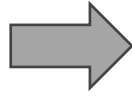


What is Fee for Service?



Fee-for-Service (FFS) arrangements involve [three components](#): 1) a service is provided to a Medicaid participant 2) a bill is submitted to a state Medicaid agency and 3) the state Medicaid agency pays that bill at a designated rate.¹

1978



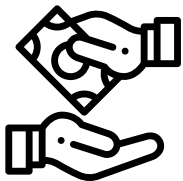
As the federal government looked to manage services and payments nationwide, services became described and coded using standardized 'procedure codes.' These began use in 1978 and were required nationwide by 1986.

1981

Reimbursement rates for behavioral health services in FFS systems were initially the same across Medicare and Medicaid. These rates varied based on geography and were also indexed to healthcare costs. However, over time Congress [removed the Medicaid requirement](#) for rates to follow federal Medicare payment standards.²



2023



Medicaid FFS reimbursement rates are set at the state level. Over time, they have fallen further and further behind Medicare FFS reimbursement rates. Recent analyses of state Medicaid reimbursement rates show that they lag federal Medicare rates for the same services by, on average, [20](#) to [30%](#).^{3,4}

...want more details? Head to page 2!

What is Fee for Service?

Fee for Service (FFS)

History

Architects of the Medicaid program had to find a payment method that appealed to both large hospital systems, and to smaller healthcare providers. At the same time, substantial work was being done to standardize treatment procedures. These efforts eventually dovetailed in a payment method that paid providers based on a defined service or procedure being provided to a beneficiary. This payment method is 'Fee for Service' (FFS).

“[T]here is limited guidance in federal law or regulation pertaining to payment standards”¹

How the Fee is Determined

Fee for Service quickly became the predominant method of service payment for outpatient behavioral health treatment needs. However, [“there is limited guidance in federal law or regulation pertaining to payment standards.”⁵](#) Payments repeatedly became a source of litigation. Having different legal rulings “often leads to unpredictability and does little to standardize the understanding of reimbursement methodologies.”

The Future of Fee for Service

Recent [proposed rule changes](#) have taken aim at improving Fee for Service rates paid to providers and reducing payment disparities between Medicaid and Medicare providers. Proposed changes include: greater transparency regarding State and Managed Care Organization's payments for services, requirements for states to more clearly justify any differences in Medicare and Medicaid payments, and more stringent limits on administrative overhead and profit-taking.

System Implications

Fee for Service payments will likely continue to be used because of their simplicity to implement. Failure to require States to index fees with actual costs of service and inflation has led to gross underpayment for services. In order to maintain adequate provider networks, substantial reform to FFS payment methods must occur. Recent proposed rules are one modest step in that direction.