



Notification of Recalculated FY 2015 Medicaid Improper Payment Rates

State: Pennsylvania
Date: February 15, 2017

The Improper Payments Information Act (IPIA) of 2002¹ requires Federal agencies to annually review programs susceptible to significant improper payments to estimate the amount of improper payments, report those estimates to Congress, and submit a report on actions the agency is taking to reduce the improper payments.

Medicaid and the Children's Health Insurance Program (CHIP) were identified as programs at risk for significant improper payments. CMS measures Medicaid and CHIP improper payments through the Payment Error Rate Measurement (PERM) program. Under PERM, reviews are conducted in three component areas (Fee-For-Service [FFS], managed care, and eligibility) for both the Medicaid and CHIP programs. The results of these reviews are used to produce national program improper payment rates as well as state-specific program improper payment rates. The PERM program uses a 17-state, three-year rotation cycle for measuring improper payments, so every state is measured once every three years. Pennsylvania is a Cycle 1 state. Cycle 1 states were measured in Fiscal Year (FY) 2015 and will be measured again after the other two cycles.

In light of changes to the way states adjudicate eligibility for Medicaid and CHIP under the Affordable Care Act, the PERM eligibility component measurement is on hold for FY 2014 – FY 2017². As a result, Pennsylvania's FY 2015 cycle did not include an eligibility review and Pennsylvania's state-specific improper payment rates include only FFS and managed care component review results. The re-introduction of the eligibility component is anticipated to take effect before Pennsylvania's next cycle. Therefore, Pennsylvania's next PERM cycle will include an eligibility review and Pennsylvania's state-specific improper payment rates will include FFS, managed care, and eligibility component review results.

In a separate document, you were notified of Pennsylvania's official Medicaid program and component improper payment rates and target Medicaid improper payment rates for the next cycle. Preliminary sample sizes for the next cycle are not included in this letter due to the expectation that Pennsylvania's next PERM cycle will operate under a new PERM regulation³.

¹ Amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).

² See State Health Official Letter #13-005 at <http://www.medicaid.gov/Federal-Policy-Guidance/downloads/SHO-13-005.pdf> and <http://medicaid.gov/federal-policy-guidance/downloads/SHO15004.pdf>. States are required to participate in Medicaid and CHIP eligibility review pilots during this time. CMS will update the eligibility component measurement methodology and related PERM program regulation to reflect Affordable Care Act changes.

³ PERM's state-specific sample size approach is specified in the PERM regulation. State-specific sample sizes will be released upon publication of the final rule.

Pennsylvania Medicaid Improper Payment Rates for FY 2015

Table 1A below displays FY 2015 samples sizes, improper payment rates, and confidence intervals for each component.⁴

Table 1A: Pennsylvania Official FY 2015 Medicaid Improper Payment Rates

Component	FY 2015 Sample Size	Improper Payment Rate Estimate	Lower Confidence Interval (95%)	Upper Confidence Interval (95%)
Overall	571	3.16%	1.35%	4.98%
Fee-for-service	332	7.55%	3.21%	11.88%
Managed care	239	0.00%	0.00%	0.00%

After the official improper payment rate was calculated, CMS recalculated Pennsylvania's improper payment rate to reflect revised improper payment amounts based on information submitted after the cycle cut-off. CMS has recalculated Pennsylvania fee-for-service and overall improper payment rates for FY 2015. Table 1B below displays samples sizes, improper payment rates, and confidence intervals for each component based on the re-review.

Table 1B: Pennsylvania Recalculated FY 2015 Medicaid Improper Payment Rates

Component	FY 2015 Sample Size	Improper Payment Rate Estimate	Lower Confidence Interval (95%)	Upper Confidence Interval (95%)
Overall	571	3.16%	1.34%	4.97%
Fee-for-service	332	7.53%	3.19%	11.86%
Managed care	239	0.00%	0.00%	0.00%

Pennsylvania Medicaid Target Improper Payment Rates for the Next Cycle

OMB guidance requires agencies to set targets for future erroneous payment rates. National Medicaid targets are negotiated by the Department of Health and Human Services, OMB, and CMS. CMS calculates state-specific improper payment rate targets to allow CMS to partner with

⁴ A confidence interval is a range around a measurement that conveys the precision of that measurement. If multiple samples were drawn and reviewed, the results would fall within the ranges shown 95% of the time.

states to meet the national Medicaid improper payment rate target. Table 2 shows Pennsylvania's target improper payment rates for the next cycle.

Table 2: Pennsylvania Next Cycle Medicaid Target Improper Payment Rates

Pennsylvania	FFS	Managed Care	Eligibility	Overall
Target Rate	4.52%	0.00%	3.00%	4.84%

States are asked to reduce their FFS and managed care component improper payment rates by a fixed proportion relative to an anchor rate (anchor rates are currently set at 1.5 percent for FFS and 1 percent for managed care). FFS and managed care target rates for the next cycle are based on reducing the state's FY 2015 component improper payment rates by 50 percent of the difference between the current rate and the anchor rate. Eligibility targets are set at 3 percent for every state due to the 3 percent threshold for state eligibility improper payment rates set by section 1903(u) of the Social Security Act.