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**SHO# 13-005**  
**Affordable Care Act # 27**

August 15, 2013

**RE:** Payment Error Rate Measurement (PERM) eligibility reviews, Medicaid Eligibility Quality Control (MEQC) Program, and development of an interim approach for assessing payment error for eligibility

Dear State Health Official:  
Dear State Medicaid Director:

This letter is one of a series intended to provide guidance on implementation of the Patient Protection and Affordable Care Act of 2010 (Pub. L. No. 111-148), as amended by the Health Care and Education Reconciliation Act of 2010 (Pub. L. No. 111-152) (collectively referred to as the Affordable Care Act). The purpose of this letter is to provide guidance to states on eligibility reviews under the Payment Error Rate Measurement (PERM) and the Medicaid Eligibility Quality Control (MEQC) programs. In light of changes to the way states adjudicate eligibility for applicants for Medicaid and the Children's Health Insurance Program (CHIP) starting in 2014, we will be implementing an annual 50-state pilot program strategy with rapid feedback for improvement, in place of the PERM and MEQC eligibility reviews, starting January 1, 2014, for fiscal years (FY) 2014 - 2016. These programs will help inform CMS's approach to rulemaking that it will undertake prior to the resumption of the PERM eligibility measurement component in FY 2017.

Background on Error Rate Measurement in Medicaid and CHIP

The PERM rules are set forth at 42 C.F.R. §§ 431.950 - 431.1002 and the MEQC rules are set forth at 42 C.F.R. §§ 431.800 - 431.865. The Centers for Medicare & Medicaid Services (CMS) developed the PERM Program in response to the Improper Payments Information Act (IPIA) of 2002, which focuses on reducing improper payments across the federal government. PERM reviews calculate error rates within three aspects of the Medicaid and CHIP programs -- fee-for-service (FFS) and managed care payments, and program eligibility. Findings from federal reviews of FFS and managed care payments are combined with state eligibility determination review findings to yield national Medicaid and CHIP program error rates. The PERM reviews take place on a rotating cycle with one third of states being reviewed each year.

Under MEQC, states must annually demonstrate the accuracy of their Medicaid eligibility determination process. States may meet this obligation by choosing one of three methods, one of which includes pilot projects. Most states avail themselves of the opportunity to conduct pilot

projects, which allow them to target areas prone to eligibility errors and to help improve program administration.

#### Impact of the Affordable Care Act for Medicaid and CHIP Eligibility

The Affordable Care Act created significant changes to Medicaid and CHIP eligibility applicable to all states regardless of their decision to expand Medicaid. These program changes include:

- Use of Modified Adjusted Gross Income (MAGI) methodologies for income determinations and household composition;
- Use of a single streamlined application (or approved alternative) for intake of applicant information;
- Availability of multiple channels to consumers for submitting application information (by mail, fax, phone or on-line);
- Use of a HHS-managed data services hub for access to federal verification sources;
- Need for account transfers and data sharing between the Marketplace, Medicaid and CHIP to avoid rework or confusion by consumers; and
- Reliance on data-driven processes for 12 month renewals.

These changes require redesign of many Medicaid and CHIP business operations and systems, and interaction with other state and federal partners.

In light of the importance of these changes in policy, operations, and systems, CMS and the states have a strong interest in ensuring timely feedback about the accuracy of determinations based on these changes and ways to quickly create improvements or corrections based on those results. The interaction of the Marketplaces, Medicaid, and CHIP, and the cross-program interdependencies and coordination built to create an efficient system of coverage, will need special consideration in the planning of future program measurements and accountability. Accordingly, the current methodologies applied to measurement of eligibility accuracy under PERM need to be updated to reflect the changes states are making in their eligibility processes and systems and incorporate new regulations concerning the above changes.

#### Substitution of Medicaid and CHIP Eligibility Review Pilots for PERM and MEQC Eligibility Reviews

In light of these factors, CMS is implementing an interim change in methodology for conducting Medicaid and CHIP eligibility reviews under PERM for FY 2014 - 2016 (cycles 3, 1, and 2, respectively). Instead of the current PERM and MEQC eligibility review

requirements, during this time, all states will participate in the Medicaid and CHIP Eligibility Review Pilots to provide more targeted, detailed information on the accuracy of eligibility determinations. During this period, PERM managed care and fee-for-service payment reviews will continue uninterrupted on the normal cycle schedule, and CMS will continue to report Medicaid and CHIP improper payment rates based on that data. In addition, PERM eligibility component measurements through the FY 2013 cycle will continue as scheduled. Beginning in FY 2014, the 50-state Medicaid and CHIP Eligibility Review Pilots will take the place of the PERM state eligibility determination reviews, albeit not for reporting comprehensive Medicaid and CHIP program error rates which will use an estimated eligibility component rate based on historical data.

The Medicaid and CHIP Eligibility Review Pilots will use targeted measurements to: (1) provide state-by-state programmatic assessments of the performance of new processes and systems in adjudicating eligibility; (2) identify strengths and weaknesses in operations and systems leading to errors; and (3) test the effectiveness of corrections and improvements in reducing or eliminating those errors. The pilots will also provide a testing ground for different approaches and methodologies for producing reliable results and help inform CMS's approach to rulemaking that it will undertake prior to the resumption of the PERM eligibility measurement component in FY 2017.

The CMS is working with states to develop pilot specifications and tools, and will be providing additional technical guidance and assistance to help states focus their efforts for 2014 shortly. States will focus pilots on specific eligibility pathways and processes, to capture a broad set of data on eligibility determinations using the Affordable Care Act's rules, and provide states and CMS critical feedback during initial implementation. In general, under these Medicaid and CHIP Eligibility Review Pilots:

- All states will participate annually as a means to ensure that there are no gaps in oversight during this transition period.
- States will conduct four streamlined pilot measurements over the three year period. The pilot measurements should be taken and results should be reported to CMS, by the last day of June 2014, December 2014, June 2015, and June 2016.
- States will submit project descriptions and sampling approaches to CMS for expedited approval. CMS anticipates issuing a template for states to use in this process to ease administrative burden and ensure standardization in reporting.
- States do not have to select a sample size that will provide statistically projectable results to the universe of all their determinations; but the size of the sample should be sufficiently robust to be relied on for programmatic insight and action. CMS anticipates issuing technical guidance requiring each measurement to contain a minimum of 200 cases.
- States should focus their first two pilot projects (due June and December 2014) on MAGI-based determinations.

The CMS is working collaboratively with states to provide ongoing assistance and feedback on implementation of these pilots as we also assess overall implementation of the changes in eligibility processes and systems. We will also use the data obtained through the pilots to inform the development of a revised PERM methodology that provides informative, actionable information to states and CMS to monitor program administration after January 1, 2014.

To maintain transparency regarding the accuracy of Medicaid and CHIP enrollment, CMS will include an overall analysis of the Medicaid and CHIP Eligibility Review Pilot results in the FY 2015, 2016, and 2017 Agency Financial Reports (AFRs) and Medicaid and CHIP improper payment reports that are posted to the CMS PERM website. Additionally, CMS will continue to report comprehensive Medicaid and CHIP program error rates in the FY 2015, 2016, and 2017 AFRs based on the FFS and managed care PERM reviews and an estimated eligibility component rate based on historical data. We hope this guidance is helpful and if you have questions, please contact Chrissy Fowler at (410) 786-9232 or Barbara Richards at (410) 786-5920.

Sincerely,

/s/

/s/

Deborah Taylor  
Director, Office of Financial Management

Cindy Mann  
Director, Center for Medicaid & CHIP  
Services

cc:

CMS Regional Administrators

CMS Associate Regional Administrators  
Division of Medicaid and Children's Health Operations

Matt Salo  
Executive Director  
National Association of Medicaid Directors

Alan R. Weil, J.D., M.P.P  
Executive Director  
National Academy for State Health Policy

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Heather Hogsett  
Director, Committee on Health & Homeland Security  
National Governors Association

Ron Smith  
Director  
Legislative Affairs  
American Public Human Services Association

Christopher Gould  
Director, Government Relations  
Association of State and Territorial Health Officials

Debra Miller  
Director for Health Policy  
Council of State Governments

Joy Wilson  
Director, Health Committee  
National Conference of State Legislatures