



SHO# 15-004
Affordable Care Act # 35

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

October 7, 2015

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. This letter provides additional information to the guidance provided in SHO letter #13-005, Affordable Care Act #27, dated August 15, 2013, about the interim approach for eligibility reviews for the PERM and MEQC programs. In order to conduct additional testing of PERM eligibility review models and explore options to develop a robust PERM methodology, CMS will be extending the Medicaid and CHIP Eligibility Review Pilots to cover one additional fiscal year.

Background on Medicaid and CHIP Eligibility Review Pilots substitution for PERM and MEQC

The Affordable Care Act made significant changes to Medicaid and CHIP eligibility. The changes required states to redesign many Medicaid business operations, systems, and interactions with other state and federal partners. Updates were needed to PERM eligibility review methodologies applied to measurement of eligibility accuracy in order to reflect these changes.

SHO letter #13-005, Affordable Care Act #27, dated August 15, 2013, established a 50-state pilot program strategy with rapid feedback for improvement (known as the Medicaid and CHIP Eligibility Review Pilots), in place of the PERM and MEQC eligibility reviews for fiscal years (FYs) 2014 - 2016. All states are required to participate in the Medicaid and CHIP Eligibility Review Pilots to provide more targeted, detailed information on the accuracy of eligibility determinations. The Medicaid and CHIP Eligibility Review Pilots 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. States are required to conduct four rounds of pilot measurements over the three-year period.

For FYs 2014 - 2016, the Medicaid and CHIP Eligibility Review Pilots take the place of the PERM state eligibility determination reviews; except for reporting comprehensive Medicaid and CHIP program error rates. PERM managed care and fee-for-service payment reviews continue, and CMS will continue to report Medicaid and CHIP improper payment rates based on that data as well as a historical eligibility component rate based on each state's eligibility error rate from the most recently completed PERM cycle.

The pilots also provide a testing ground for different approaches and methodologies for producing reliable results and help inform CMS's approach to rulemaking prior to the resumption of the PERM eligibility measurement component previously scheduled for FY 2017.

States are in various stages of developing and implementing new Medicaid and CHIP eligibility systems and operations designed to implement the provisions of the Affordable Care Act. States have reported informative results for the first two rounds of eligibility review pilots. The pilots have been useful in future planning for the new PERM regulations; however, CMS needs more feedback from piloting different approaches and methodologies. An additional round of eligibility pilots, covering a review period of one year, will provide CMS with the information needed to develop a sound and accurate proposed rule.

Extending Medicaid and CHIP Eligibility Review Pilots for one year and resuming PERM eligibility

In light of the need to obtain more information as we continue to develop the framework for the new PERM regulations, CMS is extending the FY 2014-2016 Medicaid and CHIP Eligibility Review Pilots for one additional year. All states will be required to participate in a fifth round of the Medicaid and CHIP Eligibility Review Pilots, which will take the place of the PERM and MEQC eligibility reviews for FY 2017. Results for the fifth round of pilots should be reported to CMS by the last day of June 2017. The PERM eligibility measurement component will resume following this one-year extension of the pilots.

To maintain transparency regarding the accuracy of Medicaid and CHIP enrollment, CMS will continue to provide an overall analysis of the Medicaid and CHIP Eligibility Review Pilot results through the FY 2018 Agency Financial Report (AFR) and Medicaid and CHIP improper payments report that will be posted to the CMS PERM website. Additionally, CMS will continue to report comprehensive Medicaid and CHIP program error rates in the FY 2018 AFR based on the FFS and managed care PERM reviews and a historical eligibility component rate based on each state's eligibility error rate from the most recently completed PERM cycle.¹

Federal Eligibility Review Contractor (ERC) Conducting Eligibility Reviews for Round 5 Pilots in Cycle 3 states

¹ CMS was already planning to report pilot results and a historical eligibility component rate in the FY 2015 to 2017 AFRs and Medicaid and CHIP improper payments report, and given the one-year extension, will continue this practice through FY 2018.

To reduce the burden on the states and improve the consistency of the eligibility reviews, CMS anticipates implementing the use of a federal contractor to conduct PERM eligibility reviews upon resumption of the PERM eligibility measurement component.

PERM cycle 3 states were originally scheduled to resume participation in the PERM eligibility component in FY 2017, which is now covered by a fifth round of the pilots. In order to refine the federal Eligibility Review Contractor (ERC) process prior to calculating the next PERM eligibility error rate, a federal ERC will conduct the eligibility pilot reviews for the fifth round of the Medicaid and CHIP Eligibility Review Pilots in these 17 cycle 3 states. Cycle 1 and cycle 2 states will conduct their own reviews for the fifth round of eligibility pilots in accordance with CMS issued guidance.

In general, states have been following and will continue to follow the schedule below for completing the Medicaid and CHIP eligibility review pilots and restarting PERM eligibility.

| Pilot Round | Review Period | States Impacted | Reporting Due |
|--------------------|---|--|--|
| 1 | October 2013 - March 2014 | All states | June 2014 |
| 2 | April 2014 - September 2014 | All states | December 2014 |
| 3 | October 2014 - March 2015 | All states | June 2015 |
| 4 | April 2015 - March 2016 | All states | June 2016 |
| 5 | April 2016 - March 2017 | PERM cycle 1 & 2 states – conduct pilots PERM cycle 3 states - ERC conducts reviews | June 2017 |
| PERM | PERM eligibility component recommences with PERM cycle 1 states ERC conducts eligibility reviews | | CMS publishes Medicaid and CHIP error rates (including the revised eligibility component) in November 2019 |

CMS will continue to work collaboratively with states to provide ongoing assistance and feedback on the pilots. Detailed guidance on future pilot rounds will be distributed as in previous rounds. For a list of states in each PERM cycle and more information on the eligibility pilot and PERM programs please visit www.cms.gov/perm.

We hope this guidance is helpful and if you have questions, please contact Stacey Krometis at (410) 786-0241 or Judith Cash at (410) 786-4473.

Sincerely,

/s/

Megan Worstell
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Vikki Wachino
Director

cc:

National Association of Medicaid Directors

National Academy for State Health Policy

American Public Human Services Association

National Governors Association

Council of State Governments

Association of State and Territorial Health Officials