

SMDL #01-031

November 20, 2001

Dear State Medicaid Director:

This letter addresses state plan amendments and upper payment limits in the Medicaid program. On January 12 and September 5 of this year, the Centers for Medicare and Medicaid Services (CMS) published two final rules in the Federal Register that made changes to the upper payment level rules in Medicaid. States affected by these final rules must come into compliance as of the effective date and in accord with any state-specific transition period. In addition, on November 20, 2001, CMS is issuing a Notice of Proposed Rulemaking (NPRM) that would reduce the upper payment level for certain non-state government-owned hospitals from 150 percent to 100 percent.

The purpose of this letter is to inform you that CMS does not intend to approve any state plan amendments submitted after the NPRM's publication date that would allow payments in excess of the proposed upper payment level of 100 percent. Payments in excess of the 100 percent level undermine the integrity of the program by allowing states to avoid appropriate matching requirements and use Federal funds for non-Medicaid purposes. In any event, because we anticipate taking final action on the proposed rule early next year, we do not believe that states that submit new state plan amendments can reasonably expect to rely on new upper payment level plans that exceed the proposed level.

The Administration is committed to strengthening the fiscal integrity of the Medicaid program while ensuring that its beneficiaries have access to the care they need. We look forward to working with you to ensure that that Medicaid program continues to be administered with the highest level of fiscal integrity.

Sincerely,

/s/

Dennis G. Smith
Director