PERM Improper Payment Rate Calculation Presentation

PERM Improper Payment Rate Calculation Process

Most Important Takeaways

- The approval process of the PERM methodology is very thorough

- PERM Calculations are not easily replicated

- Focus on projected dollars in error to understand what drives the rate

- Focus on number of errors to understand common error trends

Calculating State Improper Payment Rates

- States send universe data, and the Statistical Contractor (SC) draws a sample of claims from the universe

- Review Contractors (RC) review sampled claims and determine improper payment amount

- SC calculates an estimated improper payment rate from the reviewed sampled claims

Calculating State Component Rates

- The number of claims sampled is compared to the number of items in the stratum in the universe
  - For example, in the first stratum, if 10 in 1000 items are sampled, then 1/100 would be the sampling frequency (10/1000)
  - This means one item would represent 100 items in that strata thus giving the sampled unit a weight of 100

Step 2. Calculate projected dollars

- Multiply payments and errors by weights to calculate projected improper payments and projected paid amount
    - Using the previous example, if $200 in error is found in a strata with a weight of 100, then this would project to $20,000 in error for the entire stratum
    - $200 * 100 = $20,000 projected dollars in error

Step 3. Add all projected dollars

- Add up all of the projected improper payments and projected paid amounts from each strata within a component (Medicaid/CHIP, FFS/MC/Eligibility)

Strata 1:
  $100,000 improper payments
  $2,000,000 total payments
Strata 2:
  $50,000 improper payments
  $2,000,000 total payments
Strata 3:
  $100,000 improper payments
  $2,000,000 total payments

Strata 4:
  $200,000 improper payments
  $2,000,000 total payments
Strata 5:
  $50,000 improper payments
  $2,000,000 total payments

Step 4. Calculate improper payment rate

- Total projected improper payment: $500,000
- Total projected paid amount: $10,000,000

- Improper payment rate:

  Projected improper payment/Projected paid amount

- The improper payment rate for this state's component would be $500,000 / $10,000,000 = 5.00%

State Combined Claims Improper Payment Rate

- The claims improper payment rate is calculated by combining the state's FFS and MC rates, weighted by the size of each program

- For example, if a state's FFS expenditures are 25% of the state's total expenditures, then the FFS improper payment rate will contribute 25% to the claims improper payment rate

State Combined Overall Improper Payment Rate

- Overall improper payment rate including eligibility is calculated using the following:

$$R = R_{FFs+Mc} + R_E - R_{FFs+Mc} * R_E$$

- Overall improper payment rate is equal to the claims rate (FFS and MC) plus the eligibility rate and less the overlap between claims and eligibility

  – Statistical overlap is removed since the eligibility sample is drawn from the FFS and MC universes

Calculating the Cycle and National Rates

Cycle Improper Payment Rates

- The cycle improper payment rate
  - Calculated by combining all 17 state component rates (FFS, managed care, eligibility)
  - The cycle component rates are then combined to calculate the cycle overall rate
  - Is impacted by each state's:
    - Total expenditures
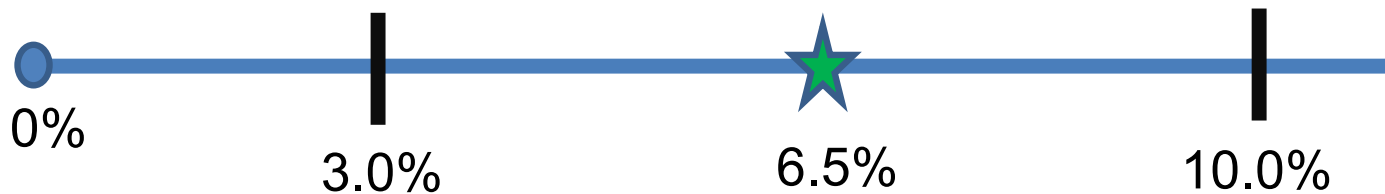   - Improper payment rate

National Rolling Improper Payment Rates

- The national improper payment rate
  - Is called "rolling" because it includes rates from three cycles of data
  - RY 2021 includes improper payment rates from RY 2019, RY 2020, and RY 2021 cycles
  - Similar to cycle rate
    - State's contribution is based on the total expenditures and improper payment rates
    - The rolling component rates are combined to calculate the national rolling overall rate

Calculating Target Rate

State Improper Payment Rate Targets

- The state FFS and managed care target rates are half of the difference between the current state component rate and the component anchor. For example
  - FFS rate is 10.0%
  - FFS anchor is 3.0%
  - FFS target = 10.0% - (10.0%-3.0%) / 2 = 6.5%

- If the state rate is already lower than the anchor, then the new target rate is the same as the current rate

Questions?