

<b>CMS Manual System</b>	<b>Department of Health &amp; Human Services (DHHS)</b>
<b>Pub 100-04 Medicare Claims Processing</b>	<b>Centers for Medicare &amp; Medicaid Services (CMS)</b>
<b>Transmittal 13428</b>	<b>Date: September 22, 2025</b>
	<b>Change Request 14233</b>

**SUBJECT: Revised Start Date of the Expanded Outlier Reconciliation Criteria for the Inpatient Prospective Payment System (IPPS) and Long Term Care Hospital (LTCH) PPS**

**I. SUMMARY OF CHANGES:** The purpose of this Change Request (CR) is to revise the start date for the expanded outlier reconciliation criteria for hospitals paid under the Inpatient Prospective Payment System (IPPS) and the Long Term Care Hospital Prospective Payment System (LTCH PPS).

**EFFECTIVE DATE: October 1, 2025**

*\*Unless otherwise specified, the effective date is the date of service.*

**IMPLEMENTATION DATE: October 1, 2025**

*Disclaimer for manual changes only: The revision date and transmittal number apply only to red italicized material. Any other material was previously published and remains unchanged. However, if this revision contains a table of contents, you will receive the new/revised information only, and not the entire table of contents.*

**II. CHANGES IN MANUAL INSTRUCTIONS:** (N/A if manual is not updated)

R=REVISED, N=NEW, D=DELETED-Only One Per Row.

<b>R/N/D</b>	<b>CHAPTER / SECTION / SUBSECTION / TITLE</b>
R	3/20/20.1.2.5/Reconciliation
R	3/150/150.26/Reconciliation

**III. FUNDING:**

**For Medicare Administrative Contractors (MACs):**

The Medicare Administrative Contractor is hereby advised that this constitutes technical direction as defined in your contract. CMS does not construe this as a change to the MAC Statement of Work. The contractor is not obligated to incur costs in excess of the amounts allotted in your contract unless and until specifically authorized by the Contracting Officer. If the contractor considers anything provided, as described above, to be outside the current scope of work, the contractor shall withhold performance on the part(s) in question and immediately notify the Contracting Officer, in writing or by e-mail, and request formal directions regarding continued performance requirements.

**IV. ATTACHMENTS:**

**Business Requirements  
Manual Instruction**

# Attachment - Business Requirements

Pub. 100-04	Transmittal: 13428	Date: September 22, 2025	Change Request: 14233
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**SUBJECT: Revised Start Date of the Expanded Outlier Reconciliation Criteria for the Inpatient Prospective Payment System (IPPS) and Long Term Care Hospital (LTCH) PPS**

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**I. SUMMARY OF CHANGES:** The purpose of this Change Request (CR) is to revise the start date for the expanded outlier reconciliation criteria for hospitals paid under the Inpatient Prospective Payment System (IPPS) and the LongTerm Care Hospital Prospective Payment System (LTCH PPS).

## II. GENERAL INFORMATION

Number	Requirement	Responsibility								
		A/B MAC			DME MAC	Shared-System Maintainers				Other
		A	B	HHH		FISS	MCS	VMS	CWF	
14233.1	For cost reports with a begin date on or after October 1, 2025 (instead of cost reports with a begin date on or after October 1, 2024), MACs shall refer cost reports to the CMS Central Office for approval of reconciliation of the outlier payments of IPPS hospitals at the time of cost report settlement if the actual operating CCR is found to be plus or minus 20 percent or greater from the CCR used during that time period to make outlier payments, and the sum of operating and capital outlier payments in that cost reporting period exceed \$500,000.  If the MAC receives approval from the CMS Central Office, MACs shall follow the instructions in section 20.1.2.7 of Chapter 3 of the Medicare Claims Processing Manual and shall reconcile the outlier payments of the hospital.	X								

Number	Requirement	Responsibility								
		A/B MAC			DME MAC	Shared-System Maintainers				Other
		A	B	HHH		FISS	MCS	VMS	CWF	
14233.1.1	<p>For hospitals paid under the IPPS, for cost reporting periods with a begin date on or after October 1, 2025 (instead of cost reports with a begin date on or after October 1, 2024), MACs shall refer to the CMS Central Office for approval of reconciliation at the time of cost report settlement any new hospital in its first cost reporting period (regardless of the change to the operating CCR and no matter the amount of outlier payments during the cost reporting period).</p> <p>If the MAC receives approval from the CMS Central Office, MACs shall follow the instructions in section 20.1.2.7 of Chapter 3 of the Medicare Claims Processing Manual and shall reconcile the outlier payments of the hospital.</p>	X								
14233.1.2	<p>MACs shall continue to refer cost reports to the CMS Central Office for approval of reconciliation of the outlier payments of IPPS hospitals at the time of cost report settlement if the actual operating CCR is found to be plus or minus 10 percentage points or greater from the CCR used during that time period to make outlier payments, and the sum of operating and capital outlier payments in that cost reporting period exceed \$500,000.</p> <p>If the MAC receives approval from the CMS Central Office, MACs shall follow the instructions in section 20.1.2.7 of Chapter 3 of the Medicare</p>	X								

Number	Requirement	Responsibility								
		A/B MAC			DME MAC	Shared-System Maintainers				Other
		A	B	HHH		FISS	MCS	VMS	CWF	
	Claims Processing Manual and shall reconcile the outlier payments of the hospital.									
14233.2	<p>For cost reports with a begin date on or after October 1, 2025 (instead of cost reports with a begin date on or after October 1, 2024), MACs shall refer cost reports to the CMS Central Office for approval of reconciliation of the outlier payments of hospitals paid under the LTCH PPS at the time of cost report settlement if the actual CCR is found to be plus or minus 20 percent or greater from the CCR used during that time period to make outlier payments, and total outlier payments in that cost reporting period exceed \$500,000.</p> <p>If the MAC receives approval from the CMS Central Office, MACs shall follow the instructions in section 150.28 of Chapter 3 of the Medicare Claims Processing Manual and shall reconcile the outlier payments of the hospital.</p>	X								
14233.2.1	For hospitals paid under the LTCH PPS, for cost reporting periods with a begin date on or after October 1, 2025 (instead of cost reports with a begin date on or after October 1, 2024), MACs shall refer to the CMS Central Office for approval of reconciliation at the time of cost report settlement any new hospital in its first cost reporting period (regardless of the change to the CCR and no matter the amount of outlier payments	X								

Number	Requirement	Responsibility								
		A/B MAC			DME	Shared-System Maintainers				Other
		A	B	HHH	MAC	FISS	MCS	VMS	CWF	
	during the cost reporting period).  If the MAC receives approval from the CMS Central Office, MACs shall follow the instructions in section 150.28 of Chapter 3 of the Medicare Claims Processing Manual and shall reconcile the outlier payments of the hospital.									
14233.2.2	MACs shall continue to refer cost reports to the CMS Central Office for approval of reconciliation of the outlier payments of hospitals paid under the LTCH PPS at the time of cost report settlement if the actual CCR is found to be plus or minus 10 percentage points or greater from the CCR used during that time period to make outlier payments, and total outlier payments in that cost reporting period exceed \$500,000.  If the MAC receives approval from the CMS Central Office, MACs shall follow the instructions in section 150.28 of Chapter 3 of the Medicare Claims Processing Manual and shall reconcile the outlier payments of the hospital.	X								

**A. Background:** Under existing regulations at 42 CFR §412.84(i)(4) for the IPPS and 42 CFR 412.525(a) for the LTCH PPS, outlier payments may be reconciled upon cost report settlement to account for differences between the Cost-to-Charge Ratio (CCR) used to pay the claim at its original submission by the provider and the CCR determined at final settlement of the cost reporting period during which the discharge occurred.

In change request 13566, we expanded the outlier reconciliation criteria effective for IPPS and LTCH PPS hospital cost reporting periods beginning on or after October 1, 2024. However, in this change request, we are revising the effective date specified in CR 13566. The expanded outlier reconciliation criteria will now be effective for IPPS and LTCH PPS hospital cost reporting periods beginning on or after October 1, 2025.

**B. Policy:** The specific regulations governing payments and cost report settlement for outlier cases under the IPPS are located at 42 CFR 412.80 through 412.86. The specific regulations governing payments and cost report settlement for high cost outlier cases under the LTCH PPS are located at 42 CFR 412.525(a).

### III. BUSINESS REQUIREMENTS TABLE

*"Shall" denotes a mandatory requirement, and "should" denotes an optional requirement.*

### IV. PROVIDER EDUCATION

CR as Provider Education: MACs shall use the content in the CR to develop relevant education material. Provide a link to the entire instruction in the education content. You can also supplement with local information that would help your provider community bill and administer the Medicare Program correctly. You don't need to separately track and report on this education.

**Impacted Contractors:** A/B MAC Part A

### V. SUPPORTING INFORMATION

**Section A: Recommendations and supporting information associated with listed requirements:** N/A

*"Should" denotes a recommendation.*

X-Ref Requirement Number	Recommendations or other supporting information:
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**Section B: All other recommendations and supporting information:** N/A

### VI. CONTACTS

**Post-Implementation Contact(s):** Contact your Contracting Officer's Representative (COR).

### VII. FUNDING

#### **Section A: For Medicare Administrative Contractors (MACs):**

The Medicare Administrative Contractor is hereby advised that this constitutes technical direction as defined in your contract. CMS does not construe this as a change to the MAC Statement of Work. The contractor is not obligated to incur costs in excess of the amounts allotted in your contract unless and until specifically authorized by the Contracting Officer. If the contractor considers anything provided, as described above, to be outside the current scope of work, the contractor shall withhold performance on the part(s) in question and immediately notify the Contracting Officer, in writing or by e-mail, and request formal directions regarding continued performance requirements.

**ATTACHMENTS: 0**

# Medicare Claims Processing Manual

## Chapter 3 - Inpatient Hospital Billing

### 20.1.2.5 - Reconciliation

*(Rev. 13428; Issued:09-22-25; Effective:10-01-25; Implementation:10-01-25)*

#### A. - General

Under 42 CFR §412.84(i)(4), for discharges occurring on or after August 8, 2003, high cost outlier payments may be reconciled upon cost report settlement to account for differences between the CCR used to pay the claim at its original submission by the provider, and the CCR determined at final settlement of the cost reporting period during which the discharge occurred. This new regulation was implemented in two phases (further explanation on these two phases is provided below). Hospitals that Medicare contractors identified using the criteria in §I.A. of PM A-03-058 (under which Medicare contractors identified hospitals whose charges appeared to have been increasing at an excessive rate) are subject to the reconciliation policies described in this section for discharges occurring on or after August 8, 2003. For all other hospitals, reconciliation is effective beginning with discharges occurring in a hospital's first cost reporting period beginning on or after October 1, 2003.

MACs shall refer cost reports to the CMS Central Office for approval of reconciliation of the outlier payments of IPPS hospitals at the time of cost report settlement if they meet the following criteria:

1. The actual operating CCR is found to be plus or minus 10 percentage points or more from the CCR used during that time period to make outlier payments, and
2. The sum of operating and capital outlier payments in that cost reporting period exceed \$500,000.

In addition to the criteria above, for cost reports with a begin date on or after October 1, **2025**, MACs shall refer cost reports to the CMS Central Office for approval of reconciliation of the outlier payments of IPPS hospitals at the time of cost report settlement if they meet the following criteria (see Example B below):

1. The actual operating CCR is found to be plus or minus 20 percent or more from the CCR used during that time period to make outlier payments, and
2. The sum of operating and capital outlier payments in that cost reporting period exceed \$500,000.

Also, for hospitals paid under the IPPS, for cost reporting periods with a begin date on or after October 1, **2025**, MACs shall refer to the CMS Central Office for approval of reconciliation at the time of cost report settlement any new hospital in its first cost reporting period (regardless of the change to the operating CCR and no matter the amount of outlier payments during the cost reporting period).

To determine if a hospital meets the criteria above (the 10 percentage points or 20 percent fluctuation in the operating CCR), the Medicare contractor shall incorporate all the adjustments from the cost report, run the cost report, calculate the revised CCR and compute the actual operating CCR prior to issuing a Notice of Program Reimbursement (NPR). If the criteria for reconciliation are not met, the cost report shall be finalized. If the criteria for reconciliation are met, Medicare contractors shall follow the instructions below in §20.1.2.7. The NPR cannot be issued nor can the cost report be finalized until outlier reconciliation is complete.

The criteria require a 10 percentage point or 20 percent fluctuation in the operating CCR only (and not the capital CCR). However, if a hospital meets either criterion, claims will be reconciled using the operating and capital CCRs from the final settled cost report. New hospitals will have their outlier claims reconciled regardless of the change to the CCR and no matter the amount of outlier payments during the cost reporting period.

As stated above, if a cost report is reopened after final settlement and as a result of this reopening there is a change to the CCR (which could trigger or affect outlier reconciliation and outlier payments), Medicare contractors shall notify the CMS Regional and Central Office for further instructions. Notification to the CMS Central Office shall be sent via email to [outliersIPPS@cms.hhs.gov](mailto:outliersIPPS@cms.hhs.gov).

Even if a hospital does not meet the criteria for reconciliation, subject to approval of the Regional and Central Office, the Medicare contractor has the discretion to request that a hospital's outlier payments in a cost reporting period be reconciled if the hospital's most recent cost and charge data indicate that the outlier payments to the hospital were significantly inaccurate. The Medicare contractor sends notification to the Central Office via email at [outliersIPPS@cms.hhs.gov](mailto:outliersIPPS@cms.hhs.gov). Upon approval of the CMS Regional and Central Office that a hospital's outlier claims need to be reconciled, Medicare contractors should follow the instructions in §20.1.2.7.

## **B. - Reconciling Outlier Payments**

The Medicare contractors shall notify the CMS Regional Office and CMS Central Office of any hospital that meets the criteria for reconciliation. Notification to the CMS Central Office shall be sent via email to [outliersIPPS@cms.hhs.gov](mailto:outliersIPPS@cms.hhs.gov). Further instructions for Medicare contractors on reconciliation and the time value of money are provided below in §§20.1.2.6 and 20.1.2.7.

### **EXAMPLE A:**

Cost Reporting Period: 09/01/2014-08/31/2014

Operating CCR used to pay original claims submitted during cost reporting period: 0.40 (In this example, this CCR is from the tentatively or final settled 2012 cost report)

Final settled operating CCR from 09/01/2014-08/31/2014 cost report: 0.50

Total outlier payout in 09/01/2014-08/31/2014 cost reporting period: \$600,000

Because the CCR of 0.40 used at the time the claim was originally paid changed to 0.50 at the time of final settlement, and the provider received greater than \$500,000 in outlier payments during that cost reporting period, the criteria has been met to trigger reconciliation, and therefore, the Medicare contractor shall notify the CMS Regional Office and Central Office. The provider's outlier payments for this cost reporting period will be reconciled using the correct CCR of 0.50.

In the event that multiple CCRs are used in a given cost reporting period, Medicare contractors should calculate a weighted average of the CCRs in that cost reporting period. (See Example B below for instructions on how to weight the CCRs). The Medicare contractor shall then compare the weighted CCR to the CCR determined at the time of final settlement of the cost reporting period to determine if reconciliation is required. Again, total outlier payments for the entire cost reporting period must exceed \$500,000 in order to trigger a referral to CMS for approval of reconciliation.

### **EXAMPLE B:**

Cost Reporting Period: 01/01/**2026**-12/31/**2026**

Operating CCR used to pay original claims submitted during cost reporting period:



- 0.10 from 01/01/~~2026~~-03/31/~~2026~~ (This CCR could be from the tentatively settled 2023 cost report)
- 0.08 from 04/01/~~2026~~-12/31/~~2026~~ (This CCR could be from the tentatively settled 2024 cost report)

Final settled operating CCR from 01/01/~~2026~~-12/31/~~2026~~ cost report: 0.05

Total Outlier payout in 01/01/~~2026~~-12/31/~~2026~~ cost reporting period: \$600,000

Weighted Average CCR: 0.085

CCR	Days	Weight	Weighted CCR
0.10	90	0.247 (90 Days / 365 Days)	(a) 0.0247= (0.10 * 0.247)
0.08	275	0.753 (275 Days / 365 Days)	(b) 0.0602= (0.08 * 0.753)
<b>TOTAL</b>	<b>*365</b>		<b>(a)+(b) =0.085</b>

**\*NOTE:** Total Days in a year may be 366 if the year is a leap year.

The hospital meets the criteria for reconciliation in this cost reporting period because the weighted average CCR at the time the claim was originally paid changed from 0.085 to 0.05 (which is greater than 20 percent) at the time of final settlement, and the provider received an outlier payment greater than \$500,000 for the entire cost reporting period.

## 150.26 - Reconciliation

*(Rev. 13428; Issued:09-22-25; Effective:10-01-25; Implementation:10-01-25)*

### A. - General

For all LTCHs, reconciliation is effective beginning with discharges occurring in a hospital's first cost reporting period beginning on or after October 1, 2003.

MACs shall refer cost reports to the CMS Central Office for approval of reconciliation of the outlier payments of hospitals paid under the LTCH PPS at the time of cost report settlement if they meet the following criteria:

1. The actual CCR is found to be plus or minus 10 percentage points or more from the CCR used during that cost reporting period to make outlier payments, and
2. Applicable outlier payments exceed \$500,000 in that cost reporting period.

In addition to the criteria above, for cost reports with a begin date on or after October 1, ~~2025~~, MACs shall refer cost reports to the CMS Central Office for approval of reconciliation of the outlier payments of hospitals paid under the LTCH PPS at the time of cost report settlement if they meet the following criteria:

1. The actual CCR is found to be plus or minus 20 percent or more from the CCR used during that time period to make outlier payments, and
2. Total outlier payments in that cost reporting period exceed \$500,000.

Also, for hospitals paid under the LTCH PPS, for cost reporting periods with a begin date on or after October 1, ~~2025~~, MACs shall refer to the CMS Central Office for approval of reconciliation at the time of

cost report settlement any new hospital in its first cost reporting period (regardless of the change to the CCR and no matter the amount of outlier payments during the cost reporting period).

For the purposes of determining whether outlier payments meet the \$500,000 threshold, MACs shall combine the following applicable payments depending on the cost reporting period:

- a. For cost reporting periods beginning before October 1, 2015, high cost outlier payments made under 42 CFR §412.525 and short-stay outlier payments made under 42 CFR §412.529 (“OUTLIER” and “SHORT STAY OUTLIER PAYMENTS” on PS&R Report 11S);
- b. For cost reporting periods beginning on or after October 1, 2015 and ending before October 1, 2017, high cost outlier payments made under 42 CFR §412.525 (that is, both high cost outlier payments made to site neutral payment rate discharges described under 42 CFR §412.522(a)(1) and to standard payment rate discharges described under 42 CFR §412.522(a)(2)), and short-stay outlier payments made under 42 CFR §412.529 (“OUTLIER” and “SSO STANDARD PAYMENTS” on PS&R Report 11S);
- c. For cost reporting periods beginning on or after October 1, 2015 and ending after October 1, 2017
  - i. For discharges before October 1, 2017, high cost outlier payments made under 42 CFR §412.525 (that is, both high cost outlier payments made to site neutral payment rate discharges described under 42 CFR §412.522(a)(1) and to standard payment rate discharges described under 42 CFR §412.522(a)(2)), and short-stay outlier payments made under 42 CFR §412.529 (“OUTLIER” and “SSO STANDARD PAYMENTS” on PS&R Report 11S);
  - ii. For discharges after October 1, 2017, high cost outlier payments made under 42 CFR §412.525 (that is, both high cost outlier payments made to site neutral payment rate discharges described under 42 CFR §412.522(a)(1) and to standard payment rate discharges described under 42 CFR §412.522(a)(2)) (“OUTLIER” on PS&R Report 11S);or
- d. For cost reporting periods beginning on or after October 1, 2017, high cost outlier payments made under 42 CFR §412.525 (that is, both high cost outlier payments made to site neutral payment rate discharges described under 42 CFR §412.522(a)(1) and to standard payment rate discharges described under 42 CFR §412.522(a)(2)) (“OUTLIER” on PS&R Report 11S).

To determine if a LTCH meets the criteria above, the Medicare contractor shall incorporate all the adjustments from the cost report, run the cost report, calculate the revised CCR and compute the actual CCR prior to issuing a Notice of Program Reimbursement (NPR). If the criteria for reconciliation are not met, the cost report shall be finalized. If the criteria for reconciliation are met, Medicare contractors shall follow the instructions below in §150.28. The NPR cannot be issued nor can the cost report be finalized until outlier reconciliation is complete. The criteria above replaces the criteria published in §III of PM A-03-058.

As stated above, if a cost report is reopened after final settlement and as a result of this reopening there is a change to the CCR (which could trigger or affect outlier reconciliation and outlier payments), Medicare contractors shall notify the CMS Regional and Central Office for further instructions. Notification to the CMS Central Office shall be sent via email to [outliersIPPS@cms.hhs.gov](mailto:outliersIPPS@cms.hhs.gov).

Even if a LTCH does not meet the criteria for reconciliation, subject to approval of the CMS Regional and Central Office, the Medicare contractor has the discretion to request that a LTCH’s outlier payments in a cost reporting period be reconciled if the LTCH’s most recent cost and charge data indicate that the outlier payments to the hospital were significantly inaccurate. The Medicare contractor sends notification to the CMS Central Office via email to [outliersIPPS@cms.hhs.gov](mailto:outliersIPPS@cms.hhs.gov). Upon approval of the CMS regional and Central Office that a LTCH’s high cost and short stay outlier claims need to be reconciled, Medicare contractors shall follow the instructions in §§150.27 and 150.28.

## **B. Reconciling Outlier Payments**

Beginning with the first cost reporting period starting on or after October 1, 2003, all LTCHs are subject to the reconciliation policies set forth in this section. If a LTCH meets the criteria in part A of this section, the Medicare contractor shall follow the instructions below in §150.28. Further instructions for Medicare contractors on reconciliation and the time value of money are provided below in §§150.27 and 150.28. The following examples demonstrate how to apply the criteria for reconciliation:

#### Example A

Cost Reporting Period: 01/01/2004-12/31/2004

CCR used to pay original claims submitted during cost reporting period: 0.40 (In this example, this CCR is from the tentatively settled 2002 cost report).

Final settled CCR from 01/01/2004-12/31/2004 cost report: 0.50.

Total outlier payments (short-stay and high cost outliers combined) in 01/01/2004-12/31/2004 cost reporting period: \$600,000.

Because the CCR of 0.40 used at the time the claim was originally paid changed to 0.50 (by more than 10 percentage points) at the time of final settlement, and the provider received greater than \$500,000 in (short-stay and high cost) outlier payments during that cost reporting period, the criteria has been met to trigger reconciliation, and therefore, the Medicare contractor notifies the CMS Regional Office and CMS Central Office. The provider's outlier payments for this cost reporting period will be reconciled using the actual CCR of 0.50.

In the event that multiple CCRs are used in a given cost reporting period, Medicare contractor shall calculate a weighted average of the CCRs in that cost reporting period. (See Example B below for instructions on how to weight the CCRs). The Medicare contractor shall then compare the weighted average CCR to the CCR determined at the time of final settlement of the cost reporting period to determine if reconciliation is required. Again, total (combined short- stay and high cost) outlier payments for the entire cost reporting period must exceed \$500,000 in order to trigger reconciliation.

#### Example B

Cost Reporting Period: 01/01/2004-12/31/2004

CCR used to pay original claims submitted during cost reporting period:

- 0.40 from 01/01/2004-03/31/2004 (This CCR is from the tentatively settled 2001 cost report)
- 0.50 from 04/01/2004-12/31/2004 (This CCR is from the tentatively settled 2002 cost report)

Final settled CCR from 01/01/2004-12/31/2004 cost report: 0.35

Total (short-stay and high cost) outlier payout in 01/01/2004-12/31/2004 cost reporting period: \$600,000

Weighted Average CCR: 0.474, completed as follows:

CCR	Days	Weight	Weighted CCR
0.40	91	0.248 (91 Days / 366 Days)	(a) 0.099= (0.40 * 0.248)
0.50	275	0.751 (275 Days / 366 Days )	(b) 0.375= (0.50 * 0.751)
<b>TOTAL</b>	<b>*366</b>		<b>(a)+(b) =0.4742</b>

**\*NOTE:** There are 366 days in the year because 2004 was a leap year.

The LTCH meets the criteria for reconciliation in this cost reporting period because the weighted average CCR at the time the claim was originally paid changed (by more than ten percentage points) from 0.474 to 0.35 at the time of final settlement, and the provider received (combined) outlier payments greater than \$500,000 for the entire cost reporting period.