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
Step 1. Determine weights

- 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:
  \[
  \frac{\text{Projected improper payment}}{\text{Projected paid amount}}
  \]

- The improper payment rate for this state’s component would be $500,000 / $10,000,000 = 5.00%
Combining State Component Rates
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:

\[ R = R_{FFS+MC} + R_E - R_{FFS+MC} \times R_E \]

• 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
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
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
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Questions?