CMS
CENTERS FOR MEDICARE & MEDICAID SERVICES

PERM Improper Payment Rate Calculation Presentation



PERM Improper Payment Rate Calculation Process

Key Takeaways

- PERM methodology undergoes a thorough approval process and adheres to the requirements of the Payment Integrity Information Act (PIIA) of 2019
- PERM calculations are not easily replicated
- Projected improper payments are used to understand drivers of the improper payment rate
- The number of errors is used to understand common error trends

Improper Payment Rate Process

- States send universe data to the Statistical Contractor (SC), and the SC draws a sample of claims from the universe
- Contractors [Review Contractor (RC) and Eligibility Review Contractor (ERC)] review the sampled claims and determine an improper payment amount for each claim
- SC calculates the estimated improper payment rates at the state, cycle, and national levels from the reviewed claims

Calculating State Component Improper Payment Rates

Step 1. Determine Weights

- The number of claims sampled per stratum is compared to the number of claims in the universe for the stratum
  - For example, in Stratum 1, if 10 in 1000 items are sampled, then 1/100 would be the sampling frequency (10/1000)
  - This means each claim sampled within this stratum represents 100 claims in the universe. The claims sampled would have a sampling weight of 100.
  - Claims in different strata will have different weights.

Step 2. Calculate Projected Dollars

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

Step 3. Add All Projected Dollars

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

Stratum 1:
$100,000 improper payments
$2,000,000 total payments

Stratum 2:
$50,000 improper payments
$2,000,000 total payments

Stratum 3:
$100,000 improper payments
$2,000,000 total payments

Stratum 4:
$200,000 improper payments
$2,000,000 total payments

Stratum 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

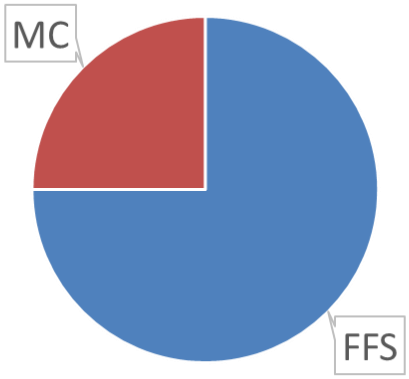
  $500,000 / $10,000,000 = 5.00%

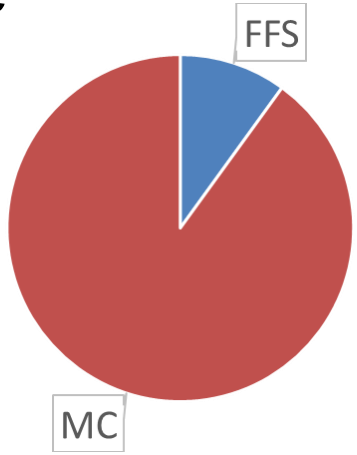
*Note: This is a simplified example using the sampling weight. In practice, there are additional benchmarks applied to the sampling weight, so results are aligned with universe total payments and state CMS 64/21 or FMR expenditures.

Combining State Component Improper Payment Rates

State Combined Claims Improper Payment Rate

- The claims improper payment rate is calculated by combining the state's FFS and MC improper payment rates, weighted by the size of each program
- For example, if a state's FFS expenditures are 75% of the state's total expenditures, then the FFS improper payment rate will contribute 75% to the claims improper payment rate
- In contrast, if a state's MC expenditures are 90% of the state's total expenditures, then the MC improper payment rate will contribute 90% to the claims improper payment rate





State Combined Overall Improper Payment Rate

- Overall improper payment rate is calculated using the following equation:

$$R = R_C + R_E - R_C * R_E$$

- Overall improper payment rate is equal to the claims improper payment rate (FFS and MC) plus the eligibility improper payment 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 Improper Payment Rates

Cycle Improper Payment Rates

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

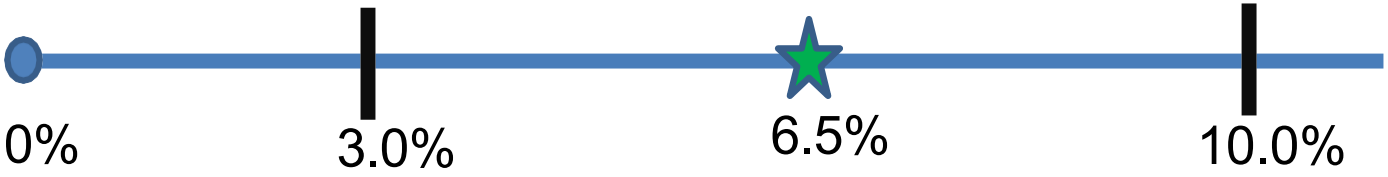
National Rolling Improper Payment Rates

- The national improper payment rate
  - Called “rolling” improper payment rate because it includes improper payment rates from three cycles of data
  - RY 2026 rolling rate includes improper payment rates from RY 2024, RY 2025, and RY 2026 cycles
  - Similar to the cycle improper payment rate
    - Each state’s contribution is based on the state’s total expenditures and improper payment rates
    - The rolling component improper payment rates are combined to calculate the overall national rolling improper payment rate

Calculating Target Improper Payment Rates

State Improper Payment Rate Targets

- State target improper payment rates can be found in the Error Rate Notification Letters
- State FFS and MC target improper payment rates are half the difference between the current state component improper payment rate and an anchor (FFS anchor is 3%, MC anchor is 1%).
- For example:
  - FFS improper payment rate is 10.0%
  - FFS anchor is 3.0%
  - FFS target = 10.0% - (10.0%-3.0%) / 2 = 6.5%



  - If the state improper payment rate is already lower than the anchor, then the new target improper payment rate is the same as the current improper payment rate
  - Eligibility targets for RY 2026 are set at 3%

PERM Improper Payment Rate Calculation Process

Questions?