| CMS Manual System | Department of Health & Human Services (DHHS) |
|---|---|
| Pub 100-04 Medicare Claims Processing | Centers for Medicare & Medicaid Services (CMS) |
| **Transmittal 2242** | **Date: June 17, 2011** |
| | **Change Request 7464** |

**SUBJECT : Revision to Formula to Compute the Time Value of Money under the Inpatient Prospective Payment System (IPPS), Outpatient Prospective Payment System (OPPS), Inpatient Rehabilitation Facility (IRF PPS), Inpatient Psychiatric Facility (IPF PPS) and Long Term Care Hospital (LTCH PPS)**

**I. SUMMARY OF CHANGES:** We are making a technical correction to the formula used to compute the Time Value of Money when Medicare contractors perform outlier reconciliation under the IPPS, IRF PPS, LTCH PPS, IPF PPS and OPPS.

**EFFECTIVE DATE: July 1, 2011**
**IMPLEMENTATION DATE: July 1, 2011**

*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.*

**II. CHANGES IN MANUAL INSTRUCTIONS:**
R=REVISED, N=NEW, D=DELETED-*Only One Per Row.*

| R/N/D | CHAPTER / SECTION / SUBSECTION / TITLE |
|---|---|
| R | 3/20.1.2.6/Time Value of Money |
| R | 3/140.2.9/Time Value of Money |
| R | 3/150.27/Time Value of Money |
| R | 3/190.7.2.3/Outlier Reconciliation |
| R | 3/190.7.2.4/Time Value of Money |
| R | 4/10.7.2.3/Time Value of Money |

**III. FUNDING:**
**For Fiscal Intermediaries (FIs), Regional Home Health Intermediaries (RHHIs) and/or Carriers:**
No additional funding will be provided by CMS; Contractor activities are to be carried out within their operating budgets.

**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**

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

# Attachment - Business Requirements

| Pub. 100-04 | Transmittal: 2242 | Date: June 17, 2011 | Change Request: 7464 |
|---|---|---|---|

**SUBJECT : Revision to Formula to Compute the Time Value of Money under the Inpatient Prospective Payment System (IPPS), Outpatient Prospective Payment System (OPPS), Inpatient Rehabilitation Facility (IRF PPS), Inpatient Psychiatric Facility (IPF PPS) and Long Term Care Hospital (LTCH PPS)**

**Effective Date**: July 1, 2011

**Implementation Date:** July 1, 2011

## I. GENERAL INFORMATION

We are making a technical correction to the formula used to compute the Time Value of Money when Medicare contractors perform outlier reconciliation under the IPPS, IRF PPS, LTCH PPS, IPF PPS and OPPS.

**A. Background:** The IPPS, IRF PPS, LTCH PPS, IPF PPS and OPPS all have similar regulations concerning outlier reconciliation which are effective on different dates and discussed in full detail in the policy section below. In change request 7192, transmittal 2111, dated December 3, 2010, CMS inadvertently set the formula used to compute the Time Value of Money by dividing the rate from the Social Security Web site by the number of days in the cost report. The corrected formula should divide the rate from the Social Security Web site by 365 in order to compute a daily rate.

**B. Policy:**

The outlier reconciliation policy for the IPPS, LTCH PPS, IRF PPS, IPF PPS and OPPS are found in different places within Part 42 of the Code of Federal Regulations. Below we explain the policy for each PPS.

**IPPS**

For the Inpatient Prospective Payment System (IPPS), section 1886(d)(5)(A) of the Act provides for Medicare payments to Medicare-participating hospitals in addition to the basic prospective payments for cases incurring extraordinarily high costs. This additional payment known as an "Outlier" is designed to protect the hospital from large financial losses due to unusually expensive cases. To qualify for outlier payments, a case must have costs above a fixed-loss cost threshold amount (a dollar amount by which the costs of a case must exceed payments in order to qualify for outliers), which is published in the annual Inpatient Prospective Payment System final rule. The regulations governing payments for operating costs under the IPPS are located in 42 CFR Part 412. The specific regulations governing payments for outlier cases are located at 42 CFR 412.80 through 412.86.

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 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 addition, under 42 CFR § 412.84(i)(4), effective for discharges occurring on or after August 8, 2003, at the time of reconciliation under paragraph (h)(3) of this section, outlier payments may be adjusted to account for the time value of any underpayments or overpayments. Any adjustment will be based upon a widely available index to be established in advance by the Secretary, and will be applied from the midpoint of the cost reporting period to the date of reconciliation.

**LTCH PPS**

Under the broad authority conferred upon the Secretary by section 123 of the BBRA as amended by section 307(b) of BIPA, when the LTCH PPS was implemented (for cost reporting periods beginning on or after October 1, 2002), we established an adjustment for additional payments for outlier cases that have extraordinarily high-costs relative to the costs of most discharges at §412.525(a). Providing additional payments for high cost outliers strongly improves the accuracy of the LTCH PPS in determining resource costs at the patient level and hospital level. Specifically, under §412.525(a), we make high cost outlier payments to LTCHs for any discharge if the estimated cost of the case exceeds the adjusted LTCH PPS payment for the case plus a fixed-loss amount. Under the LTCH PPS high-cost outlier policy, the LTCH's loss is limited to the fixed-loss amount and a fixed percentage of costs above the outlier threshold. We calculate the estimated cost of a LTCH case by multiplying the Medicare allowable covered charge by the overall hospital cost-to-charge ratio (CCR). In accordance with §412.525(a)(3), we pay outlier cases additional payment 80 percent of the difference between the estimated cost of the case and the outlier threshold (the sum of the adjusted Federal prospective payment for the case and the fixed-loss amount).

Additionally, when we implemented the LTCH PPS, we established a special payment policy for short-stay outlier cases. LTCH PPS cases with a length of stay that is less than or equal to five-sixths of the geometric average length of stay for each LTC-DRG are short stay outliers. Generally, LTCHs are defined by statute as having an average Medicare length of stay of greater than 25 days. Under the current short-stay outlier policy at §412.529(c), the adjusted payment for the case is the least of several payment options, one of which is 100 percent of the estimated cost of the case (prior to July 1, 2006, the short-stay outlier payment formula included 120 percent of the estimated cost of the case as one of the payment options). Consistent with the LTCH PPS high-cost outlier policy, under the short-stay outlier policy at §412.529, we calculate the estimated cost of a case by multiplying the Medicare allowable covered charges by the overall hospital cost-to-charge ratio.

In the June 9, 2003, final rule, effective August 8, 2003, we also implemented regulations initially at §412.525(a)(4)(ii) (which is now codified in the regulations at §412.525(a)(4)(iv)(D) for discharges occurring on or after October 1, 2006) and §412.529(c)(5)(ii) (which is now codified in the regulations in §412.529(f)(4)(iv)) to reconcile high cost and short stay outlier payments at 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.

We also implemented regulations initially at §412.525(a)(4)(ii) (which is now codified in the regulations at §412.525(a)(4)(iv)(E) for discharges occurring on or after October 1, 2006) and §412.529(c)(5)(ii) (which is now codified in the regulations in §412.529(f)(4)(v)) that at the time of any outlier reconciliation, high cost and short stay outlier payments may be adjusted to account for the time value of any underpayments or overpayments. Any adjustment is based upon a widely available index to be established in advance by the Secretary, and is applied from the midpoint of the cost reporting period to the date of reconciliation.

**IRF PPS**

Section 1886(j)(4) of the Act provides the Secretary with the authority to make payments in addition to the basic inpatient rehabilitation facility (IRF) prospective payments for cases incurring extraordinarily high costs. A case qualifies for an outlier payment if the estimated cost of the case exceeds the adjusted outlier threshold. We calculate the adjusted outlier threshold by adding the IRF prospective payment for the case (that is, the case-mix group payment adjusted by all of the relevant facility-level adjustments) and the adjusted threshold amount (also adjusted by all of the relevant facility-level adjustments). The unadjusted fixed-loss threshold amount is published annually in the IRF prospective payment system final rule. The regulations governing payments for outlier cases are located at 42 Code of Federal Regulations (CFR) § 412.624(e)(5).

Under 42 CFR § 412.624(e)(5), for discharges occurring on or after October 1, 2003, high cost 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.

Also, according to 42 CFR § 412.624(e)(5), effective for discharges occurring on or after October 1, 2003, IRF outlier payments may be adjusted to account for the time value of any underpayments or overpayments based on the regulations in 42 CFR § 412.84(i), except that CMS calculates a single overall (combined operating and capital) CCR for IRFs and national average IRF CCRs are used instead of statewide average CCRs.

**IPF PPS**

Section 124 of the Medicare, Medicaid, and SCHIP, Balance Budget Refinement Act of 1999 (BBRA) (Pub.L.106-113), mandated the development of a per diem prospective payment system for inpatient psychiatric services furnished in hospitals and psychiatric distinct part units of acute care hospitals and critical access hospitals. Section 124 of the BBRA provides the Secretary discretion in establishing the payment methodology including payments for cases incurring extraordinarily high costs. This additional payment known as an "outlier" is designed to protect IPFs from large financial losses due to unusually expensive cases. Additional payments are made for those cases that have extraordinarily high costs. If the estimated cost of the case is greater than the adjusted fixed dollar loss threshold amount (the fixed dollar loss threshold amount multiplied by area wage index, rural location, teaching and COLA adjustment factors), an additional payment is added to the IPF PPS payment amount.

Under 42 CFR § 412.424(d)(3)(i)(C), for discharges in cost reporting periods beginning on or after January 1, 2005, high cost outlier payments may be reconciled at 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. FIs or MACs will use either the most recent settled IPF cost report or the most recent tentatively settled IPF cost report, whichever is later, to obtain the applicable IPF cost-to-charge ratio.

In addition, under 42 CFR § 412.424(d)(3)(i)(C), effective for discharges in cost reporting periods beginning on or after January 1, 2005, at the time of reconciliation, outlier payments may be adjusted to account for the time value of any underpayments or overpayments. Any adjustment will be based upon a widely available index to be established in advance by the Secretary, and will be applied from the midpoint of the cost reporting period to the date of reconciliation.

**OPPS**

Section 1833(t)(5) of the Act provides for Medicare payments to Medicare-participating hospitals in addition to the basic prospective payments for outpatient services furnished when they incur extraordinarily high costs. This additional payment, known as an "outlier," is designed to mitigate the financial risk associated with extremely costly and complex services. In order to qualify for outlier payments, services must have estimated cost above a fixed-dollar threshold and a multiple threshold, which are published in the annual Outpatient Prospective Payment System final rule. The regulations governing payments for outlier cases are located at 42 CFR 419.43.

Under 42 CFR 419.43(d)(6)(i), for hospital outpatient services furnished during cost reporting periods beginning on or after January 1, 2009, 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 service was furnished. Since OPPS outlier payments are no longer final payments, CMS will consider reprocessing claims for errors in CCRs or outlier payments on a case by case basis.

In addition, under 42 CFR 419.43(d)(6)(ii), for hospital outpatient services furnished during cost reporting periods beginning on or after January 1, 2009, at the time of reconciliation under 42 CFR 419.43(d)(6)(i), outlier payments may be adjusted to account for the time value of any underpayments or overpayments. Any adjustment will be based on a widely available index to be established in advance by the Secretary, and will be applied from the midpoint of the cost reporting period to the date of reconciliation.

## II. BUSINESS REQUIREMENTS TABLE

| Number | Requirement | Responsibility | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | A/B MAC | DME MAC | FI | CARRIER | RHHI | Shared-System Maintainers | | | | OTHER |
| | | | | | | | FISS | MCS | VMS | CWF | |
| 7464.1 | For hospitals paid under the IPPS, IRF PPS, LTCH PPS, IPF PPS and OPPS that meet the criteria for outlier reconciliation, Medicare contractors shall calculate the amount attributable to the time value using the instructions in the Medicare Claims Processing Manual, Chapter 3, section 20.1.2.6 for IPPS hospitals; Medicare Claims Processing Manual, Chapter 3, Section 140.2.9 for IRFs; Medicare Claims Processing Manual, Chapter 3, Section 150.27 for LTCHs; Medicare Claims Processing Manual, Chapter 3, Section 190.7.2.4 for IPFs; and Medicare Claims Processing Manual, Chapter 4, Section 10.7.2.3 for OPPS hospitals. | X | | X | | | | | | | |

## III. PROVIDER EDUCATION TABLE

| Number | Requirement | Responsibility | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | A/B MAC | DME MAC | FI | CARRIER | RHHI | Shared-System Maintainers | | | | OTHER |
| | | | | | | | FISS | MCS | VMS | CWF | |
| | None. | | | | | | | | | | |

## IV. SUPPORTING INFORMATION

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

| X-Ref Requirement Number | Recommendations or other supporting information: |
|---|---|
| | **N/A** |

**Section B: All other recommendations and supporting information: N/A**

## V. CONTACTS

**Pre-Implementation Contact(s):** For IPPS and LTCH PPS: Michael Treitel 410-786-4552 michael.treitel@cms.hhs.gov ; For IRF PPS Julie Stankivic 410-786-5725 julie.stankivic@cms.hhs.gov ; For IPF PPS Dorothy Myrick 410-786-9671 dorothy.myrick@cms.hhs.gov ; For OPPS Erick Chuang 410-786-1816 erick.chuang@cms.hhs.gov

**Post-Implementation Contact(s):** Contact your Contracting Officer's Technical Representative (COTR) or Contractor Manager, as applicable.

## VI. FUNDING

**Section A: For *Fiscal Intermediaries (FIs), Regional Home Health Intermediaries (RHHIs),* and/or *Carriers*:**

No additional funding will be provided by CMS; contractor activities are to be carried out within their operating budgets.

**Section B: *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.

## 20.1.2.6 - Time Value of Money

***(Rev.2242, Issued: 06-17-11, Effective: 07-01-11, Implementation: 07-01-11)***

Effective for discharges occurring on or after August 8, 2003, at the time of any reconciliation under §20.1.2.5, outlier payment may be adjusted to account for the time value of money of any adjustments to outlier payments as a result of reconciliation. The time value of money is applied from the midpoint of the hospital's cost reporting period being settled to the date on which the CMS Central Office receives notification from the Medicare contractor that reconciliation should be performed.

If a hospital's outlier payments have met the criteria for reconciliation, CMS will calculate the aggregate adjustment using the instructions below concerning reprocessing claims and determine the additional amount attributable to the time value of money of that adjustment. The index that will be used to calculate the time value of money is the monthly rate of return that the Medicare trust fund earns. This index can be found at http://www.ssa.gov/OACT/ProgData/newIssueRates.html.

The following formula will be used to calculate the rate of the time value of money.

(Rate from Web site as of the midpoint of the cost report being settled / *365*) * # of days from that midpoint until date of reconciliation. **NOTE**: The time value of money can be a positive or negative amount depending if the provider is owed money by CMS or if the provider owes money to CMS.

For purposes of calculating the time value of money, the "date of reconciliation" is the day on which the CMS Central Office receives notification. This date is either the postmark from the written notification sent to the CMS Central Office via mail by the Medicare contractor, or the date an email was received from the Medicare contractor by the CMS Central Office, whichever date is earlier.

The following is an example of the computation of the adjustment to account for the time value of money:

**EXAMPLE**

Cost Reporting Period: 01/01/2004-12/31/2004
Midpoint of Cost Reporting Period: 07/01/2004
Date of Reconciliation: 12/31/2005

Number of days from Midpoint until date of Reconciliation: 549

Rate from Social Security Web site: 4.625%

Operating CCR used to pay actual original claims in cost reporting period: 0.40 (This CCR could be from the tentatively settled 2002 or 2003 cost report)

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

Total outlier payout in 01/01/2004-12/31/2004 cost reporting period: $600,000.

Because the CCR fluctuated from .40 at the time the claims were originally paid to 0.50 at the time of final settlement and the provider has total outlier payments greater than $500,000, the criteria have been met to trigger reconciliation. The Medicare contractor notifies the CMS Regional and Central Office.

The Medicare contractor reprocesses and reconciles the claims. The reprocessing indicates the revised outlier payments are $700,000.

Using the values above, determine the rate that will be used for the time value of money: (4.625 / 365) * 549 = 6.9565%

Based on the claims reconciled, the provider is owed $100,000 ($700,000-$600,000) for the reconciled amount and $6,956.50 ($100,000 * 6.9565 %) for the time value of money.

## 140.2.9 - Time Value of Money

***(Rev.2242, Issued: 06-17-11, Effective: 07-01-11, Implementation: 07-01-11)***

Effective for discharges occurring on or after September 30, 2003, at the time of any reconciliation under §140.2.9.10, outlier payment may be adjusted to account for the time value of money of any adjustments to outlier payments as a result of reconciliation. The time value of money is applied from the midpoint of the IRF's cost reporting period being settled to the date on which the CMS Central Office receives notification from the Medicare contractor that reconciliation should be performed.

If the IRF's outlier payments have met the criteria for reconciliation, the Medicare contractor shall follow the process in §140.2.10. The index that will be used to calculate the time value of money is the monthly rate of return that the Medicare trust fund earns. This index can be found at http://www.ssa.gov/OACT/ProgData/newIssueRates.html.

The following formula will be used to calculate the rate of the time value of money.

(Rate from Web site as of the midpoint of the cost report being settled / *365*) * # of days from that midpoint until date of reconciliation. NOTE: The time value of money can be a positive or negative amount depending if the provider is owed money by CMS or if the provider owes money to CMS.

For purposes of calculating the time value of money, the "date of reconciliation" is the day on which the CMS Central Office receives notification. This date is either the postmark from the written notification sent to the CMS Central Office via mail by the Medicare contractor, or the date an email was received from the Medicare contractor by the CMS Central Office, whichever is first.

The following is an example of the procedures for reconciliation and computation of the adjustment to account for the time value of money:

**EXAMPLE C:**

Cost Reporting Period: 01/01/2004-12/31/2004
Midpoint of Cost Reporting Period: 07/01/2004
Date of Reconciliation: 12/31/2005

Number of days from Midpoint until date of Reconciliation: 549

Rate from Social Security Web site: 4.625%

CCR used to pay actual original claims in cost reporting period: 0.40 (This CCR could be from the tentatively settled 2002 or 2003 cost report)

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

Total outlier payout in 01/01/2004-12/31/2004 cost reporting period: $600,000.

Because the CCR fluctuated from .40 at the time the claims were originally paid to 0.50 at the time of final settlement and the provider has an outlier payout greater than $500,000, the criteria have been met to trigger reconciliation. The Medicare contractor notifies the CMS Regional and Central Office.

The Medicare contractor reprocesses and reconciles the claims. The reprocessing indicates the revised outlier payments are $700,000.

Using the values above, determine the rate that will be used for the time value of money: (4.625 / 365) * 549 = 6.9565%

Based on the claims reconciled, the provider is owed $100,000 ($700,000-$600,000) for the reconciled amount and $6,956.50 ($100,000 * 6.9565 %) for the time value of money.

## 150.27 - Time Value of Money

**(Rev.2242, Issued: 06-17-11, Effective: 07-01-11, Implementation: 07-01-11)**

At the time of any reconciliation under §150.26, outlier payments may be adjusted to account for the time value of money of any adjustments to outlier payments as a result of reconciliation. The time value of money is applied from the midpoint of the LTCH's cost reporting period being settled to the date on which the CMS Central Office receives notification from the Medicare contractor that reconciliation should be performed.

If a LTCH's outlier payments have met the criteria for reconciliation, the Medicare contractor shall follow the process in §150.28. The index that will be used to calculate the time value of money is the monthly rate of return that the Medicare trust fund earns. This index can be found

at http://www.ssa.gov/OACT/ProgData/newIssueRates.html .

The following formula will be used to calculate the rate of the time value of money.

(Rate from Web site as of the midpoint of the cost report being settled / *365*) * # of days from that midpoint until date of reconciliation.

**NOTE**: The time value of money can be a positive or negative amount depending if the provider is owed money by CMS or if the provider owes money to CMS.

For purposes of calculating the time value of money, the "date of reconciliation" is the day on which the CMS Central Office receives notification. This date is either the postmark from the written notification sent to the CMS Central Office via mail by the Medicare contractor, or the date an email was received from the Medicare contractor by the CMS Central Office, whichever is first.

The following is an example of the procedures for reconciliation and computation of the adjustment to account for the time value of money:

Example C

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

Midpoint of Cost Reporting Period: 07/01/2004

Date of Reconciliation: 12/31/2005

Number of days from Midpoint until date of Reconciliation: 549

Rate from Social Security Web site: 4.625%

CCR used to pay actual original claims in cost reporting period: 0.40 (This CCR could be from the tentatively settled 2002 or 2003 cost report)

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

Total outlier payout in 01/01/2004-12/31/2004 cost reporting period: $600,000.

Because the CCR fluctuated from 0.40 at the time the claims were originally paid to 0.50 at the time of final settlement and the provider has total outlier payments greater than $500,000, the criteria have been met to trigger reconciliation. The Medicare contractor notifies the CMS Regional Office and CMS Central Office.

The Medicare contractor reprices the claims in accordance with the process in §150.28 below. The repricing indicates the revised outlier payments are $700,000.

Using the values above, determine the rate that will be used for the time value of money: (4.625 / 365) * 549 = 6.9565%

Based on the claims reconciled, the provider is owed $100,000 ($700,000-$600,000) for the reconciled amount and $6,956.50 ($100,000 * 6.9565 %) for the time value of money.

## 190.7.2.3 - Outlier Reconciliation

***(Rev.2242, Issued: 06-17-11, Effective: 07-01-11, Implementation: 07-01-11)***

### A. General

Under §412.424 (d) (3) (i), for IPF services furnished during cost reporting periods beginning on or after January 1, 2005, IPF outlier payments may be reconciled upon cost report settlement to account for differences between the overall ancillary 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 service was furnished. IPF PPS outlier payments are reconciled if the CMS Central Office and Regional Office confirm that reconciliation is appropriate.

Effective for cost reporting periods beginning on or after April 1, 2011, subject to the approval of the CMS Central Office and Regional Office, the Medicare contractor shall reconcile an IPF's outlier claims at the time of cost report final settlement if they meet the following criteria:

1. The actual CCR is found to be plus or minus 10 percentage points from the CCR used during that time period to make outlier payments, and

2. Total IPF outlier payments in that cost reporting period exceed $500,000.

To determine if an IPF 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 overall ancillary CCR prior to issuing a Notice of Program Reimbursement (NPR). If the criteria for IPF outlier 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 §190.7.2.5 of this chapter. The NPR cannot be issued nor can the cost report be finalized until IPF outlier reconciliation is complete. These IPF cost reports will remain open until their claims have been processed for IPF PPS outlier reconciliation.

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 IPF PPS outlier reconciliation and outlier payments), Medicare contractors shall notify the CMS Central and Regional Offices for further instructions. Notification to the CMS Central Office shall be sent to the address and email address provided in §190.7.2.2(B) above.

Medicare contractors shall notify the CMS Central Office and Regional Office if a cost report was final settled and meets the qualifications for IPF PPS outlier reconciliation. Notification to the CMS Central Office shall be sent to the address and email address provided in §190.7.2.2 (B).

**B. Reconciling Outlier Payments IPFs**

Beginning with the first cost reporting period starting on or after January 1, 2005, IPF outlier payments may be reconciled at 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. Effective for cost reporting periods *beginning* on or after April 1, 2011, if an IPF meets the criteria in part A of this section, the Medicare contractor shall follow the instructions below in §190.7.2.5. The following examples demonstrate how to apply the criteria for reconciliation (as discussed in part A above):

**EXAMPLE A:**

Cost Reporting Period: 01/01/2010-12/31/2010

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 2007 cost report)

Final settled operating CCR from 01/01/2010-12/31/2010 cost report: 0.50

Total IPF PPS outlier payout in 01/01/2010-12/31/2010 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 IPF PPS outlier payments during that cost reporting period, the criteria are met for reconciliation, and therefore, the Medicare contractor notifies the Central Office and the Regional Office. The provider's IPF PPS outlier payments for this cost reporting period are reconciled using the correct CCR of 0.50.

In the event that multiple CCRs are used in a given cost reporting period to calculate outlier payments, Medicare contractors should calculate a weighted average of the CCRs in that cost reporting period. Example B below shows 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 IPF PPS outlier reconciliation is required. Total IPF PPS outlier payments for the entire cost reporting period must exceed $500,000 in order to trigger reconciliation.

**EXAMPLE B:**

Cost reporting period: 01/01/2010-12/31/2010

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

0.40 from 01/01/2010 to 03/31/2010 (This CCR could be from the tentatively settled 2006 cost report.)

0.50 from 04/01/2010 to 12/31/2010 (This CCR could be from the tentatively settled 2007 cost report.)

Final settled operating CCR from 01/01/2010 – 12/31/2010 cost report: 0.35

Total IPF outlier payout in 01/01/2010 -12/31/2010 cost reporting period: $600,000

Weighted average CCR: 0.476

| CCR | DAYS | Weight | Weighted CCR |
|---|---|---|---|
| 0.40 | 90 | 0.247 (90 Days / 365 Days) | (a) 0.099 = (0.40 * 0.247) |
| 0.50 | 275 | 0.753 (275 Days / 365 Days) | (b) 0.377 = (0.50 * 0.753) |
| **TOTAL** | 365 | 365 | (a)+(b) = 0.476 |

The IPF meets the criteria for IPF PPS outlier reconciliation in this cost reporting period because the variance from the weighted average CCR at the time the claim was originally paid compared to the CCR from the cost report at the time of settlement is greater than 10 percentage points (from 0.476 to 0.35) and the provider received total IPF outlier payments greater than $500,000 for the entire cost reporting period.

Even if the IPF does not meet the criteria for reconciliation in §190.7.2.3, subject to approval of the CMS Central and Regional Offices, the Medicare contractor has the discretion to request that IPF PPS outlier payments in a cost reporting period be reconciled if the IPF's most recent cost and charge data indicate that the IPF PPS outlier payments to the IPF were significantly inaccurate. The Medicare contractor sends notification to the CMS Regional Office and Central Office via the address and email address provided in §190.7.2.2 (B). Upon approval of the CMS Central and Regional Office that IPF's outlier claims need to be reconciled, Medicare contractors should follow the instructions in §190.7.2.3.

## 190.7.2.4 - Time Value of Money

***(Rev.2242, Issued: 06-17-11, Effective: 07-01-11, Implementation: 07-01-11)***

Effective for discharges occurring on or after January 1, 2005, at the time of any reconciliation under §190.7.2, IPF outlier payment may be adjusted to account for the time value of money of any adjustments to IPF outlier payments as a result of reconciliation. The time value of money is applied from the midpoint of the IPF's cost reporting period being settled to the date on which the CMS Central Office receives notification from the Medicare contractor that reconciliation should be performed.

If an IPF's outlier payments have met the criteria for reconciliation, Medicare contractors will calculate the aggregate adjustment using the instructions below concerning reprocessing claims and determine the additional amount attributable to the time value of money of that adjustment. The index that will be used to calculate the time value of money is the monthly rate of return that the Medicare trust fund earns. This index can be found at http://www.ssa.gov/OACT/ProgData/newIssueRates.html.

The following formula shall be used to calculate the rate of the time value of money.

(Rate from Web site as of the midpoint of the cost report being settled / *365*) * # of days from that midpoint until date of reconciliation. **NOTE**: The time value of money can be a positive or negative amount depending if the provider is owed money by CMS or if the provider owes money to CMS.

For purposes of calculating the time value of money, the "date of reconciliation" is the day on which the CMS Central Office receives notification. This date is either the postmark from the written notification sent to the CMS Central Office via mail by the Medicare contractor, or the date an email was received from the Medicare contractor by the CMS Central Office, whichever is first.

**EXAMPLE C:**
Cost reporting period: 01/01/2010 – 12/31/2010
Midpoint of cost reporting period: 07/01/2010
Date of reconciliation: 12/31/2010
Number of days from midpoint until date of reconciliation: 547

Rate from Social Security Web site: 4.625%

Overall ancillary CCR used to pay actual original claims in cost reporting period: 0.40 (This CCR could be from the tentatively settled 2006 or 2007 cost report.)

Final settled operating CCR from 01/01/2009 – 12/31/2009 cost report: 0.50

Total IPF outlier payout in 01/01/2009 – 12/31/2009 cost reporting period: $600,000

Because the CCR fluctuated from 0.40 at the time the claims were originally paid to 0.50 at the time of final settlement and the provider has an IPF outlier payout greater than $500,000, the criteria have been met to trigger reconciliation. The Medicare contractor follows the procedures in §190.7.2.4.
.
The reprocessing of claims indicates the revised IPF hospital outlier payments are $700,000.

Using the values above, the rate that is used for the time value of money is determined:
(4.625 / 365) * 548 = 6.9438%

Based on the claims reconciled, the provider is owed $100,000 ($700,000 - $600,000) for the reconciled amount and $6,943.80 for the time value of money.

## 10.7.2.3 - Time Value of Money

***(Rev.2242, Issued: 06-17-11, Effective: 07-01-11, Implementation: 07-01-11)***

Effective for hospital outpatient services furnished in the first cost reporting period on or after January 1, 2009, at the time of any reconciliation under §10.7.2.2, OPPS outlier payment may be adjusted to account for the time value of money of any adjustments to OPPS outlier payments as a result of reconciliation. As described in 42 CFR 419.43(d)(6)(ii), the time value of money is applied from the midpoint of the hospital or CMHC's cost reporting period being settled to the date on which the CMS Central Office receives notification from the Medicare contractor that reconciliation should be performed.

If a hospital or CMHC's OPPS outlier payments have met the criteria for reconciliation, CMS will calculate the aggregate adjustment using the instructions below concerning reprocessing claims and determine the additional amount attributable to the time value of money of that adjustment. The index that is used to calculate the time value of money is the monthly rate of return that the Medicare trust fund earns. This index can be found at http://www.ssa.gov/OACT/ProgData/newIssueRates.html.

The following formula is used to calculate the rate of the time value of money:

(Rate from Web site as of the midpoint of the cost report being settled / *365*) * # of days from that midpoint until date of reconciliation. **NOTE**: The time value of money can be a positive or negative amount depending if the provider is owed money by CMS or if the provider owes money to CMS.

For purposes of calculating the time value of money, the "date of reconciliation" is the day on which the CMS Central Office receives notification. This "date of reconciliation" is based solely on the date CMS Central Office receives notification and not on the date that reconciliation is approved by the CMS Central and Regional Offices. This date is either the postmark from the written notification sent to the CMS Central Office via mail by the Medicare contractor, or the date an email was received from the Medicare contractor by the CMS Central Office, whichever is first.

The following is an example of the procedures for reconciliation and computation of the adjustment to account for the time value of money:

**EXAMPLE:**

Cost reporting period: 01/01/2009 – 12/31/2009

Midpoint of cost reporting period: 07/01/2009

Date of reconciliation: 12/31/2010

Number of days from midpoint until date of reconciliation: 548

Rate from Social Security Web site: 4.625%

Overall ancillary CCR used to pay actual original claims in cost reporting period: 0.40
(This CCR could be from the tentatively settled 2006 or 2007 cost report.)

Final settled operating CCR from 01/01/2009 – 12/31/2009 cost report: 0.50
Total OPPS outlier payout in 01/01/2009 – 12/31/2009 cost reporting period: $600,000

Because the CCR fluctuated from 0.40 at the time the claims were originally paid to 0.50 at the time of final settlement and the provider has an OPPS outlier payout greater than $500,000, the criteria have been met to trigger reconciliation. The Medicare contractor notifies the CMS Central and Regional Offices.

The Medicare contractor reprices the claims in accordance with the process in §10.7.2.4 below. The repricing indicates the revised outlier payments are $700,000.

Using the values above, the rate that is used for the time value of money is determined:

(4.625 / 365) * 548 = 6.9438%

Based on the claims reconciled, the provider is owed $100,000 ($700,000 - $600,000) for the reconciled amount and $6,943.80 for the time value of money.