

## **Inpatient Hospital Narrative Instructions**

### **I. The Basis of the UPL Formula**

States generally demonstrate, and CMS has accepted as a reasonable estimate of, the upper payment limit (UPL) based on a comparison of Medicaid payments to equivalent Medicare payment or Medicaid cost using Medicare principles. States may apply different UPL formulas for state government owned or operated facilities, non-state government owned or operated facilities and private facilities; however, the formula should be consistently applied to each provider within each category.

- Check-off boxes are provided for states to indicate if the demonstration is a cost based demonstration, payment based demonstration, or Medicare DRG demonstration.
- States that limit providers to actual incurred Medicaid cost and demonstrate the UPL using the incurred cost methodology should select the cost basis and detail the cost finding methodology in the narrative. Note that incurred Medicaid cost is typically found using Medicare cost principles but entails matching Medicaid charges to individual cost centers on the Medicare cost report (rather than using a single cost-to-charge ratio for each hospital).
- States that choose to deviate from those accepted methodologies should detail the alternative methodology in the “other” text box. Any alternative methodology must present a reasonable estimate of Medicare payment and be must accepted by CMS.
- Within the formula a state should provide a high-level overview of the UPL calculations and enter it in the text box. For instance: (Inpatient cost-to-charge ratio X Medicaid MMIS inpatient charge = UPL).

### **II. Source of the UPL Medicare Equivalent Data**

This section describes the source of the data used to estimate a Medicare amount for equivalent Medicaid services. We are using the term “Medicare equivalent” to broadly describe the various methods that states will use to determine the UPL, since the regulations describe the amount that Medicare would pay for equivalent Medicaid services.

- States may use the most recently filed or settled CMS 2552 hospital cost report as the source of the Medicare data. Check-off boxes are provided to indicate if the cost reports are filed or settled.
- If a state uses Medicare priced based data the state should use the check-off boxes to confirm and describe the application of the DRG data.

- If a state uses other data sources for the UPL calculation, the “other” text box should describe the data source and application. The state should explain how the other data sources link or cross-walk to Medicare payment or cost reporting principles.
- To calculate a reasonable Medicare estimate, the data should be from cost reports that are from a reporting period that is no more than two years prior to the current rate year. States should indicate the time period of base year data (the cost report data) and the rate year data.

### III. Cost Report References

Source data from the Medicare cost report is used to calculate cost-to-charge ratios or payment-to-charge ratios from the cost centers on the CMS 2552 that are used to report inpatient facility cost, payment and charge data. The specific cost reports referenced are explained in this section.

For cost-based demonstrations:

- Inpatient cost to charge ratios are listed on worksheets B, C, and D-1 of the CMS 2552. Check-off boxes are provided for states to indicate whether worksheet B, C, or D-1 is used for a cost-based demonstration.
- States should specify the columns and lines from worksheet B, C, or D-1 that are used to determine the cost to charge ratio. A single cost-to-charge ratio for each demonstration hospital may be derived for a cost-based UPL demonstration. Though, as noted above, more precision must be applied to UPLs that are limited to Medicaid cost.

For payment-based demonstrations:

- Worksheet E, part A (payments) and worksheet D-4 (charges) include the appropriate reporting lines to calculate inpatient payment to charge ratios. States will need to match the appropriate payment lines from worksheet E to the applicable charges from worksheet D. A text box is provided to specify the columns and lines used to determine payment-to-charge ratios. A single payment-to-charge ratio may be derived for each hospital facility within the demonstration.
- State should indicate whether the Medicare payment-to-charge data is reported as a gross payment or whether adjustments are made to isolate the net Medicare payment amount.
- A text box is provided to describe the adjustments based on primary care payments, deductibles, co-insurance and reimbursable bad debt that are made to determine the net Medicare payment amount.

For alternative demonstrations:

- A text box is provided to explain methodology that deviate from the standard Medicare cost report cost-to-charge or payment-to-charge references described above. Within the text box, states will need to describe the basis for deviating from the standard references, how the references are applied, and the basis for included additional or alternative cost reporting worksheets, columns or lines.

#### IV. Medicaid Charge Data

Medicaid adjudicated inpatient hospital facility charge data from each of the hospitals in the demonstration is applied to each hospital's specific cost-to-charge or payment-to-charge data. This determines a reasonable Medicare equivalent cost or payment amount for Medicaid equivalent services. The source, adjustments and exclusions applicable to the Medicaid charge data are described in this section.

- A check-off box is provided for states to indicate that the Medicaid charge data is reported from the MMIS. If the data is from another source, the state should indicate the source of the charge data. Note that CMS will request clarification of the basis for using data that is not adjudicated through the MMIS.
- The Medicaid charge data should be from the same dates of services as the cost reporting period used to derive the cost-to-charge or payment to charge ratios. It is important to ensure that the UPL is a reasonable estimate of Medicare payment since the hospital charges will be uniform for all payers for the reporting period. If the dates of services do not match states should provide an explanation of the discrepancy.
- Only charge data from in-state Medicaid residents should be included in the UPL calculation. This ensures that applied charges are not duplicative among state UPL demonstrations.
- CMS recommends that states exclude cross-over claims, for which Medicare is the primary payer, from the UPL calculation. A state's payment obligation for those claims is governed by the state's third party liability policies rather than the inpatient hospital reimbursement methodology. In addition, states have struggled to develop a Medicaid payment proxy for those claims that would reasonably compare to the Medicare equivalent estimate and not overstate the UPL. If a state selects that cross-over claims are included, CMS will need to discuss how the Medicare estimate is not overstated by the inclusion.
- The inpatient hospital benefit covers services billed and paid to inpatient hospital facility providers. Professional services that are covered, billed and paid under the Medicaid state plan should be excluded from the inpatient hospital UPL. States should confirm that professional services that are covered, billed and paid outside of the inpatient hospital state plan authority are excluded from the UPL calculation and explain the inclusion of any professional service charges.

## V. Medicaid Payment Data

The Medicare estimate for equivalent Medicaid services is compared to the Medicaid payment data from the demonstration rate year. If the Medicaid payment data is at or below the Medicare estimate, the state's inpatient hospital reimbursement methodology complies with the UPL regulations. The source, adjustments and exclusions applicable to the Medicaid payment data are described in this section.

- The Medicaid payment data should be from adjudicated Medicaid service claims from the MMIS. A check-box is provided to confirm that the source of the payment data is the MMIS. If the state uses a source other than the MMIS for the payment data, please explain the other source in the text box.
- The Medicaid payment data should be from the same dates of service period as the Medicaid charge and the Medicare cost report data. If the state uses a different Medicaid payment time period, states should an explanation in the text box.
- Many states make base payments for inpatient hospital services and additional supplemental payments that are lump-sum adjustments or add-ons to the base payments. The UPL must include total inpatient hospital payments made to inpatient hospital providers (base and supplemental). States must identify the base and supplemental payments separately within the demonstration. If any payments are made outside of the MMIS, we ask the state to explain those payments in the text box that is provided.
- Consistent with the Medicaid charge data, we recommend that states exclude cross-over claims from the Medicaid payment data. There is a check box provided where states should confirm that cross-over claims are excluded..
- Consistent with the Medicaid charge data any net adjustments to the Medicaid payment data should be noted in the methodology. If adjustments are made to the Medicaid payment data to consider primary care payments, deductibles and copays, adjustments should also be made to the Medicare payment data.
- As part of the calculation, states should make adjustments for changes in inpatient hospital payments that occurred between the demonstration period and the current rate year. For instance, if a state has implemented or intends to implement a new supplement payment, the amounts associated with the supplemental payment should be reflected in the Medicaid payment data.
- The amounts reported on the CMS-64 expenditure system for inpatient hospital payments should match or closely align with the amounts reflected in the base period for the UPL demonstration. States should verify the consistency with the reported expenditures and the UPL payment data and explain any inconsistencies.

## VI. Trends and Adjustments to the UPL Data

Because UPL calculations rely on data from prior periods, states often trend the data to the current rate year using inflationary and volume adjustments. In addition, states may use completion factors for charge and payment data to compensate for claiming lags. All trend sources and trending applications to the UPL data are described in this section.

- States should verify that trends are used for inflation and describe the inflationary trend source and application. CMS has accepted the Medicare economic index inflationary factor for inpatient services as an appropriate UPL trend. The trend data should be applied as a “mid-point to mid-point” application in order to accurately project the trended historic data into the current rate year.
- Volume adjustments may be made to reflect changes in the Medicaid program that have occurred between the base and current rate year periods. The volume adjustment source should be based on data that reflects real program experience and the adjustment must be equally applied to the Medicaid payment and Medicare equivalent data. Within the narrative, states should verify that adjustments are used to account for increases (or decreases) in volume and describe the volume adjustment source and application.
- If the state adjusts UPL data using additional or alternative factors, we have requested an explanation and the basis for those adjustments in the text box provided.
- States occasionally apply completion factors to the Medicaid charge and payment data to account for lags in claims adjudication. The narrative requests that states indicate when claims completion factors are used for charge and payment data, the application of the factors and an assurance that the factors are applied consistently for the charge and payment data.

## VII. State UPL Data Demonstration Structure

Though the UPL is an aggregate demonstration for state government owned or operated facilities, non-state government owned or operated facilities and privately owned or operated facilities, the data is presented for each hospital provider that receives Medicaid payments. This section describes the structure of the UPL data and the treatment of critical access hospitals, which are paid at 101% of cost by Medicare.

- The state is asked to assure that the UPL data demonstrates UPL compliance in the aggregate for state government-owned or operated facilities, non-state government owned or operated facilities, and privately owned or operated facilities. The state must demonstrate compliance distinctly for each hospital category. The designation of providers as state government-owned or operated facilities, non-state government owned or operated facilities, and privately owned or operated facilities must be consistent between UPL demonstrations.

- All Medicaid payments made to inpatient hospital facility providers for services that are covered and paid under the inpatient hospital benefit category must be included in the demonstration. Base and supplemental payments must be separately identified.
- All service providers that receive Medicaid payments under the applicable UPL service category must be included within the UPL calculations. States should confirm the inclusion of all providers in the UPL demonstration.
- States may include private facilities in the UPL calculation. If private facilities are included they must be included in the “private” hospital category.
- Critical access hospitals (CAHs) are paid 101% of cost by Medicare. Since these providers are paid on a different basis from other providers, states may deviate from the UPL formula used for other providers with a hospital category or separately calculate the UPL for CAHs. State should indicate how CAHs are treated either within the outpatient hospital calculation or as a separate UPL calculation.