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State/Territory Name: Puerto Rico

State Plan Amendment (SPA) #: 26-0001

This file contains the following documents in the order listed:

- 1) Approval Letter
- 2) CMS 179 Form/Summary Form (with 179-like data)
- 3) Approved SPA Pages

DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S3-14-28
Baltimore, Maryland 21244-1850



Financial Management Group

March 17, 2026

Carlos Santiago Rosario
Executive Medical Director
Puerto Rico Medicaid Program,
Puerto Rico Department of Health
PO BOX 70184
San Juan, PR 00936-8184

RE: TN 26-0001

Dear Director Rosario

The Centers for Medicare & Medicaid Services (CMS) has reviewed the proposed Puerto Rico state plan amendment (SPA) to Attachment 4.19-A PR 26-0001, which was submitted to CMS on December 23, 2025. This plan amendment proposes to implement diagnosis related group (DRG) reimbursement methodology for inpatient hospital services.

We reviewed your SPA submission for compliance with statutory requirements, including in sections 1902(a)(2), 1902(a)(13), 1902(a)(30), 1903 as it relates to the identification of an adequate source for the non-federal share of expenditures under the plan, as required by 1902(a)(2), of the Social Security Act and the applicable implementing Federal regulations.

Based upon the information provided by the state, we have approved the amendment with an effective date of January 1, 2026. We are enclosing the approved CMS-179 and a copy of the new state plan pages.

If you have any additional questions or need further assistance, please contact Sudev Varma at 301-448-3916 or via email at sudev.varma@cms.hhs.gov

Sincerely,



Rory Howe
Director
Financial Management Group

Enclosures

TRANSMITTAL AND NOTICE OF APPROVAL OF STATE PLAN MATERIAL FOR: CENTER FOR MEDICARE & MEDICAID SERVICES	1. TRANSMITTAL NUMBER 2 6 0 0 0 1	2. STATE Puerto Rico
	3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID) TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID)	
TO: REGIONAL ADMINISTRATOR CENTERS FOR MEDICARE & MEDICAID SERVICES DEPARTMENT OF HEALTH AND HUMAN SERVICES	4. PROPOSED EFFECTIVE DATE January 1, 2026	

5. TYPE OF PLAN MATERIAL (Check One)

NEW AMENDMENT TO CONSIDERED AS NEW PLAN AMENDMENT
STATE PLAN

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate transmittal for each amendment)

6. FEDERAL STATUTE/REGULATION CITATION 42 CFR 447 Subpart C	7. FEDERAL BUDGET IMPACT a. FFY 2026 \$ 0 b. FFY 2027 \$ 0
8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT Attachment 4.19-A, Pages 1-3, 3a, and 3b	9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable) Attachment 4.19-A, Pages 1-3

This amendment proposes to implement diagnosis related group (DRG) reimbursement methodology for inpatient hospital services.

11. GOVERNOR'S REVIEW (Check One)

GOVERNOR'S OFFICE REPORTED NO COMMENT OTHER, AS SPECIFIED
 COMMENTS OF GOVERNOR'S OFFICE ENCLOSED Designated to the State Medicaid Director
 NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL

12. SIGNATURE OF STATE AGENCY OFFICIAL 	16. RETURN TO PUERTO RICO MEDICAID PROGRAM PUERTO RICO DEPARTMENT OF HEALTH PO BOX 70184 SAN JUAN PR 00936-8184
13. TYPE NAME Carlos Santiago Rojario	
14. TITLE Executive Medicaid Director	
15. DATE SUBMITTED December 23, 2025	

FOR REGIONAL OFFICE USE ONLY	
17. DATE RECEIVED December 23, 2025	18. DATE APPROVED March 17, 2026

PLAN APPROVED - ONE COPY ATTACHED	
19. EFFECTIVE DATE OF APPROVED MATERIAL January 1, 2026	20. SIGNATURE OF REGIONAL OFFICIAL
21. TYPED NAME Rory Howe	22. TITLE Director of Financial Management Group
23. REMARKS	

STATE: COMMONWEALTH OF PUERTO RICO

[PR 26-0001 DRG Cover Letter.docx](#)

Methods and Standards for Payment of Inpatient Medical Hospital Services

ACUTE CARE HOSPITALS

The payment methodology in this section applies to inpatient stays in acute care hospitals. The payment methodology described is based on diagnosis related groups (DRGs). A DRG payment is a single prospectively established payment covering a complete hospital stay – from admission to discharge. DRG payments cover virtually all services and items furnished during the inpatient stay; excluded services are listed below.

Scope

For the purposes of this section:

- Acute care hospitals include all short-term acute care hospitals, children’s hospitals, and cancer hospitals as certified by both Medicare and Medicaid.
- An inpatient stay is a stay where the admission date does not equal the discharge date, except in the case of death. A stay in an observation bed where the patient is not admitted is paid as an outpatient visit, even if greater than or equal to 24 hours.

Prospective Payment System Selection

Puerto Rico uses the All Patient Refined Diagnosis Related Groups (APR DRG) (Version 42) system developed by Solventum Health Information Systems, formerly 3M Health Information Systems, to pay a prospectively established amount for each Medicaid inpatient acute care hospital discharge. This system includes APR DRG codes, national APR DRG relative weights, average lengths of stay, and geometric standard deviations as defined below. DRG payments cover all services and items furnished during the inpatient stay that are billed using a UB-04 paper claim form or 837I electronic claim, other than the exclusions referenced below. All calculations (other than the national APR DRG relative weights) are done using data from Medicaid patients only.

General Definitions

- **Adjusted total discharges:** All valid discharges minus any discharges related to transfers from the hospital.
- **Adjusted total payments:** Medicaid payments during the base period for inpatient hospital encounter data:
 - increased to reflect the rate changes between the date of discharge and January 1, 2026
 - plus, a portion of the federal fiscal year 2025 state directed payments that the hospital received
 - adjusted for expected outlier payments and transfers, as defined below
- **Average length of stay (ALOS):** The national geometric trimmed ALOS associated with each selected DRG, calculated by Solventum Health Information Systems from the Nationwide Inpatient Sample (NIS).
- **Base period:** The period of the inpatient hospital encounter data that is used to determine initial payment parameters for the APR DRG system. For APR DRG rates effective January 1, 2026, the base period is inpatient hospital encounter claims with date of discharge from October 1, 2021, through September 30, 2023, with paid dates through September 30, 2024.
- **Base rate:** A hospital-specific rate calculated using hospital inpatient encounter claims during the base period using the following formula:

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(Adjusted total payments/adjusted total discharges)/Case Mix Index

- **Case Mix Index (CMI):** The average DRG relative weight for a hospital. It is calculated by summing the APR DRG relative weights for adjusted total discharges during the base period from a specific hospital and dividing by the count of adjusted total discharges for that hospital. It is a measure of the average severity of inpatient stays at the hospital.
- **DRG base payment:** Hospital specific base rate multiplied by the selected DRG's relative weight and then multiplied by the appropriate policy adjuster, if applicable.
- **DRG Per Diem:** DRG base payment divided by the selected DRG's ALOS.
- **Length of stay (LOS):** The inpatient days of the stay, which equals the date of discharge minus the date of admission.
- **Outlier day threshold:** The greater of the selected DRG ALOS plus 15 days, or the selected DRG ALOS plus three times the DRG standard deviation, rounded up to the nearest whole number.
- **Outlier days:** Length of stay minus the outlier day threshold for the selected DRG.
- **Outlier stays:** Stays where the length of stay exceeds the outlier day threshold. These stays qualify for an outlier payment.
- **Policy adjuster:** A numeric factor intended to enhance payment for select DRG service lines.
- **Relative weights:** These weights reflect the typical resources consumed per discharge. The APR DRG relative weights are the national hospital specific relative value (HSRV) weights calculated by Solventum Health Information Systems from the NIS.
- **Selected DRG:** The combination of the DRG category and the Severity of Illness (SOI) level. Every valid inpatient admission is assigned a selected DRG.
- **Severity of Illness (SOI):** A level of severity that ranges from one through four within each DRG. Every valid inpatient admission is assigned an SOI.
- **Standard deviation:** The national geometric untrimmed standard deviation associated with each selected DRG, calculated by Solventum Health Information Systems from the NIS.
- **Transfers:** Cases where a hospital transfers a patient to another inpatient facility to receive or continue treatment.

DRG Payment Methodology

Payment under the APR DRG system in Puerto Rico is described below.

Hospital Base Rates

Puerto Rico's APR DRG reimbursement system uses hospital-specific base rates. Initial base rates and other initial DRG payment parameters are calculated using historical claims data from the Government Health Plan managed care program with dates of discharge in the base period from October 1, 2021, through September 30, 2023. The hospital specific base rate equals the hospital adjusted total payments divided by the hospital adjusted total discharges; this ratio is then divided by the hospital's CMI. The initial DRG base rates and associated DRG payment parameters are based on the historical Medicaid payments from the base period plus a portion of the federal fiscal year 2025 short-term acute care state directed payments, with standard

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adjustments for rate changes. The hospital DRG base rates are available on the Puerto Rico Health Insurance Administration (PRHIA or ASES for its initials in Spanish) website at [ASES APR DRG Webpage](#).

DRG Base Payment Calculation

The DRG base payment equals the hospital-specific DRG base rate multiplied by the relative weight of the selected DRG and SOI associated with the inpatient acute care hospital discharge and then multiplied by the appropriate policy adjuster, if applicable. The hospital receives the base payment for an inpatient discharge without adjustment, except in the instances listed below.

Transfers

Transfers are subject to the transfer payment methodology.

DRGs 580 and 581 (neonate transfers) will not be considered for transfer reimbursement, as those DRGs already reflect the resources consumed for transferring a newborn.

Billing Requirements

To be considered a transfer, the claim must have one of the following discharge codes:

- 02 – Discharged/transferred to a short-term general hospital for inpatient care.
- 05 – Discharged/transferred to a designated cancer center or children's hospital.
- 07 – Left against medical advice or discontinued care.
- 82 – Discharged/transferred to a short-term general hospital for inpatient care with a planned acute care hospital inpatient readmission.
- 85 – Discharged/transferred to a designated cancer center or children's hospital with a planned acute care hospital inpatient readmission.

Payment Methodology

- The **transferring hospital** is paid the lesser of
 - the DRG base payment as calculated above or
 - the DRG per diem multiplied by the (LOS + 1) at the transferring hospital (transfer per diem payment).
- The **receiving hospital** is paid as though the patient were a new admission.

Outlier Stays

When hospital stays are longer than the ALOS for that DRG, the claim is reviewed for potential additional outlier reimbursement.

Payment Methodology

The outlier add-on payment, which is paid in addition to the DRG base payment, is calculated as follows:

- 80% of the DRG per diem multiplied by outlier days

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Policy Adjusters

Policy adjusters are applied at the claim level based on the service provided and DRG assignment.

Payment Methodology

For the DRG Service Lines below, multiply the corresponding policy adjuster factor by the product of the hospital specific base rate and the relative weight of the selected DRG/SOI combination to determine reimbursement.

DRG Service Line	Policy Adjuster Factor
Oncology	1.370
Mental Health and Substance Abuse	1.270
Dermatology	1.230
Pediatrics	1.130
Internal Medicine	1.080

These policy adjusters apply to the DRG service lines as published on the Solventum APR DRG version 42 HSRV table.

Excluded Services

Payments for the following services are made outside of the DRG base payment:

1. A separate claim may be submitted by the hospital for reimbursement for Long-Acting Removable Contraceptives (LARCs) and their insertion at the time of delivery
2. Professional services, which must be provided by a separately certified provider and billed on the CMS 1500 or 837p claim form
3. Durable medical equipment and supplies for non-hospital use
4. Specialized medical vehicle transportation, including initial transportation to the hospital, transportation after discharge, and transfers
5. Certain High Investment Drugs. These high investment drugs will be billed separately and are listed on the territory's website at [ASES APR DRG Webpage](#).
6. For University Pediatric Hospital and Puerto Rico Women's and Children's Hospital, inpatient drugs that exceed \$5,000 per invoice cost will be billed and paid separately from the APR DRG payment.
7. Implant devices will be billed and paid separately from the APR DRG payment.

Out of Territory Hospitals

For inpatient hospital discharges performed in hospitals not located in Puerto Rico, the base rate equals the Puerto Rico island-wide base rate. The Puerto Rico island-wide base rate is calculated in the same manner as the Puerto Rico hospital base rates, aggregating all

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Medicaid adjusted payments, adjusted discharges, and the island's APR DRG case mix index. Single case rates are allowable in limited instances.

Change of Ownership

A change in ownership will not change the DRG base rate for the facility unless the hospital is merged with another facility. If a merger takes place, the DRG base rate of the hospital that remains will be the base rate in effect until the next rebasing of the DRG base rates.

New Hospitals

A new acute care hospital that begins providing services shall receive 80% of the Puerto Rico island-wide base rate until the next rebasing of the DRG base rates.

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