

medicaid
and the uninsured

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Program Affect State Efforts to Facilitate Enrollment
of Eligible Children and Parents in Medicaid and SCHIP?**

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kaiser commission medicaid and the uninsured

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Executive Summary

The federal government has launched a new initiative to estimate the number of errors states make in determining eligibility for Medicaid and the State Children's Health Insurance Program (SCHIP). Through the Payment Error Rate Measurement (PERM) program, the Centers for Medicare and Medicaid Services (CMS) will be reporting the rate of eligibility errors in all states over the next three years.

This paper presents the findings of targeted interviews conducted in summer 2007 with state officials from 11 states about PERM's potential impact on policies states adopt under federal law to simplify Medicaid and SCHIP enrollment. In recent years, federal and state officials have placed a high priority on enrolling eligible individuals in these programs in order to help address the growth in the number of Americans lacking health insurance. Longstanding federal rules allow states considerable flexibility — which they have used — to design streamlined enrollment and renewal procedures that make it easier for eligible people to obtain coverage.

Both the federal and state governments have a stake in ensuring that benefits go only to people who qualify, and estimating errors can serve as a useful program integrity metric. However, the *way* in which errors are measured and reported can have a significant impact on states' policy decisions, either supporting or hampering policies meant to enroll eligible people who would otherwise remain uninsured.

In the interviews conducted for this paper during the summer of 2007, we asked state officials how the PERM eligibility review process could affect particular simplification policies that states adopt under federal law. In addition to their responses to these questions, Medicaid and SCHIP officials raised concerns about the administrative burden that conducting PERM reviews will impose on states. Our primary findings are:

- **State officials generally find measuring errors to ensure program integrity a worthwhile goal.** Most participants said that efforts to evaluate the accuracy of eligibility determinations are useful and the results could help shed light on how to improve state practices.
- **Most of the state officials responsible for executing PERM reviews remain unclear about what PERM requires — and about key elements of the PERM process.** The potential impact of PERM on eligibility simplifications may depend on whether the PERM review will assess the state's compliance with its own eligibility policies, or whether eligibility is evaluated using standards different from those used during the eligibility determination process. In places, the guidance is unclear, but most states interpret the CMS guidance to mean they will be judged against their own policies. If PERM reviews do focus on states' compliance with their own policies, most of the officials interviewed reported that PERM would accurately measure error rates for their states. However, if PERM reviews measure errors using standards different from those used during the eligibility determination process, there may appear to be errors even though the case complies with the state's eligibility

policies. The PERM process could overestimate errors for these cases, perhaps significantly. This could lead state policymakers to revisit or retract these policies in order to get their error rates down.

States reported that they expect PERM to accurately measure — and thus support — two key simplification policies that some states have adopted: providing children with continuous eligibility for 12 months regardless of changes in family income during that period, and granting presumptive eligibility to some beneficiaries who are preliminarily determined to be eligible. Guidance in these areas appears to be clear. Some states expressed greater concern about how PERM may affect the procedures states use to verify income because the guidance appears to be less clear here and also appears to be internally inconsistent. Many states have adopted an option allowed under federal law to eliminate documentation of income (such as pay stubs) at the time of application. Several states that have elected this option are concerned that some cases could be classified as errors because of the lack of paper documentation. That could have a chilling effect on state decisions to elect options under federal law to ease verification requirements as a means of reducing barriers to coverage for eligible people.

- **Most states expect PERM to significantly increase their focus on maintaining documentation, which could undermine longstanding efforts to facilitate the enrollment of eligible people.** Many participants expressed concern that PERM could cause the eligibility process to become more complicated for both eligibility staff and applicants, diverting attention and resources away from encouraging Medicaid and SCHIP enrollment and toward ensuring that paperwork is completed.

“We’ve been focused on outreach and getting children enrolled and reducing the number of uninsured, but now it’s not going to be about that. It will be all about the process,” one state official observed. Another warned:

“[O]ur previous approach to eligibility was designed to keep ineligible people out of the program. . . . Caseworkers are now equally focused on ensuring that eligible people get the health benefits they need and qualify for. If PERM is implemented in a way that reverses this culture change, it will turn back the clock on ten years of hard work and progress.”

- **Implementing the new Medicaid citizenship documentation requirement could lead to high PERM errors in some states.** Some states are concerned that PERM is estimating eligibility error rates at the same time states are implementing a major new citizenship and identity documentation requirement. The new rule, which became law in 2006, requires U.S. citizens to produce proof of their citizenship and identity to obtain and keep Medicaid coverage.

The new requirement presents a “huge” implementation challenge, according to some states. They expressed strong concerns that difficulties in implementing the rule could cause their states to have unusually high error rates under PERM.

“Citizenship documentation will absolutely contribute to our error rate,” reported one state; “It will take a long time to straighten out [the new requirements] and reduce errors.” Other states, however, said that they do not expect the new rule to have a significant impact on their PERM error rate.

- **How policymakers and the public interpret PERM results could significantly affect the future of state simplification efforts.** Several states cautioned that the way PERM results are framed and publicized could make a big difference in their effect on state policy. “As soon as you start publishing error rates, there are political implications,” one official noted. Especially in PERM’s early years, extreme care needs to be taken to explain that PERM error rates are not simply a measurement of “fraud and abuse.” The error rates include instances of incomplete documentation, clerical error, and other inadvertent administrative mistakes.
- **PERM reviews are generally considered extremely burdensome and expensive and could divert resources from enrollment efforts.** Although the interviews did not initially touch on this subject, several state officials volunteered concerns about costs and administrative burdens. Some suggested that PERM will divert significant attention and resources from efforts to simplify the enrollment process and conduct outreach. As one explained, “The PERM review is . . . costly and it’s used an enormous amount of resources that could be used elsewhere. . . . [Y]ou could be dispatching talented staff to do other things, like enrolling children.”

States also complained that PERM largely duplicates existing Medicaid Eligibility Quality Control (MEQC) programs, through which states estimate their eligibility error rates after reviewing the eligibility of a sample of cases.

In sum, the state officials we interviewed generally support PERM’s underlying goal of ensuring the quality of eligibility determinations. But at a time when protecting the health of children and families by enrolling eligible individuals in health programs is a top priority, it is important to strike a reasonable balance between this goal and the goal of ensuring program integrity. Our interviews based on states’ initial reactions regarding the impact of PERM on state eligibility policies suggest that some key areas of the PERM guidance are still unclear and that PERM may have the potential to weaken some of states’ ongoing efforts to reduce the number of uninsured children and families. Although basic simplification policies have been in place in many states for years and have been proven reliable, concerns about PERM could deter additional states from adopting them — and/or cause states already using these policies to eliminate them.

Introduction

Through a major new program integrity initiative, the Payment Error Rate Measurement (PERM) program, the Centers for Medicare and Medicaid Services (CMS) is developing state-specific and national estimates of the error rates states incur in paying providers and determining eligibility in Medicaid and SCHIP. Error rates can serve as an effective program management tool, since they focus attention on risk-prone policies and practices and can guide the development of error-prevention strategies. However, how errors are defined and measured is key to whether overall program goals will be supported or undermined by the error measurement process.

With respect to eligibility, the process for determining error rates may either support or hamper the implementation of policies designed to affirmatively enroll eligible people who would otherwise remain uninsured. Longstanding federal rules have allowed states considerable flexibility — which they have used — to implement streamlined enrollment and renewal procedures that make it easier for eligible people to secure health coverage. If during case reviews, eligibility is evaluated using different standards than those used during the eligibility determination process, there may appear to be errors. Such results could lead to a reticence to adopt or continue legitimate enrollment strategies. Two important policy goals — reducing barriers to health coverage and safeguarding the integrity of public expenditures — should not be in conflict, yet meeting both goals can create tension for program administrators.

This project examined the potential impact that measuring eligibility errors through PERM could have on state enrollment and renewal policies in Medicaid and SCHIP. Interviews with state officials responsible for implementing PERM reviews in 11 states were conducted during the summer of 2007 to gain an initial understanding of how PERM reviews are perceived and are being handled in the states.¹ The focus of each interview was the extent to which PERM reviews may influence states' efforts to simplify enrollment and renewal. The impressions and early experiences of these state officials as of last summer are presented in this paper. These interviews with a limited number of states were designed to obtain preliminary information on PERM as implementation begins and are not representative of the opinions or experiences of all 50 states and the District of Columbia. Moreover, states' views about PERM are likely to evolve as they gain experience with this new program.

Background

What is PERM?

The new PERM program is part of a government wide effort to estimate “improper” payments in large federally funded programs. “Improper” payments are any payments that have been made in error, including payments that should not have been made, payments that were made in the incorrect amount, and inappropriate denials of payment or services.² With the enactment of the Improper Payments Information Act (IPIA) in 2002, federal agencies were required to report annually to Congress on estimates of errors

in programs that are susceptible to significant improper payments. If the estimated amount of the agency's improper payments exceeds both 2.5 percent of total program payments and \$10 million, the agency must also report on causes of improper payments and the actions it is taking to reduce them. CMS developed PERM to meet the IPIA requirements.³

The PERM program will estimate payment errors for a sample of claims or cases in three areas — fee for service payments, managed care payments, and program eligibility — in state Medicaid and SCHIP programs. Each year, PERM will review payment error rates for a rotating subset of one-third of all states, or about 17 states each year (see Table 1). States will estimate their eligibility error rates for Medicaid and SCHIP for a sample of cases and report them to CMS. The error rates that are computed from the sample will be used to project payment errors to the state's entire Medicaid and SCHIP populations.⁴ CMS' contractor will use these rates to calculate national eligibility payment error rates for Medicaid and SCHIP. CMS does not define what constitutes a high or low error rate, but CMS assumed an error rate of five percent in developing its sample size requirements for a state's first year in measuring eligibility errors in Medicaid and SCHIP. CMS has stated that it expects states to implement corrective actions to reduce their error rates, and that over time these corrective actions should reduce the state and national Medicaid and SCHIP error rates.

In fiscal year 2006, PERM reviewed only Medicaid fee-for-service payments. Beginning in fiscal year 2007, PERM is reviewing payments in both Medicaid and SCHIP and will estimate error rates for all three components of these programs, namely, fee-for-service, managed care, and eligibility. CMS contractors, working with the states, will conduct the fee-for-service and managed care claims reviews. States will conduct the eligibility reviews, employing guidelines CMS established. The CMS 2007 eligibility review guidance specifies that "All case reviews must be conducted by an agency independent (i.e., agency and personnel must be functionally and physically separate) of the State agency responsible for Medicaid and SCHIP policies, operations, and program eligibility determinations.)" CMS says that this requirement will ensure "the independence of the reviews." States may contract out the eligibility review, including sampling.

PERM eligibility reviews will operate in addition to existing Medicaid Eligibility Quality Control (MEQC) programs, the longstanding program the states and federal government operate to ensure the accuracy of eligibility determinations. According to the regulations that establish MEQC, the program is "designed to reduce erroneous expenditures by monitoring eligibility determinations and a claims processing assessment system that monitors claims processing operations."⁵ Under MEQC, states must keep their total erroneous payments at or under three percent of the state's total benefits payments or risk having the Federal portion of erroneous payments that total over three percent disallowed.

States are required to recover erroneous SCHIP overpayments made through a stand-alone SCHIP program and identified through PERM, but erroneous payments made through Medicaid and Medicaid-expansion programs and identified through PERM are

subject to disallowance under the Social Security Act. According to CMS, “SCHIP improper payments identified through the PERM eligibility reviews are subject to recovery” under the Social Security Act, the federal law that establishes and governs the Medicaid and SCHIP programs. However, CMS also states that the Medicaid Eligibility Quality Control program, not PERM, governs recovery of the Federal portion of erroneous payments made for Medicaid and Medicaid-expansion cases based on eligibility. (Specifically, the final PERM regulations state that “any recoveries due to Medicaid eligibility errors that fall within the scope of the MEQC program would be recouped through the MEQC program.”)⁶

Table 1: States Undergo PERM Reviews Once Every Three Years

Fiscal Year	States Going through PERM Review
2006	Pennsylvania, Ohio, Illinois, Michigan, Minnesota, Arkansas, Connecticut, New Mexico, Virginia, Wisconsin, Oklahoma, North Dakota, Wyoming, Kansas, Idaho, Delaware
2007	North Carolina, Georgia, California, Massachusetts, Tennessee, New Jersey, Kentucky, West Virginia, Maryland, Alabama, South Carolina, Colorado, Utah, Vermont, Nebraska, New Hampshire, Rhode Island
2008	New York, Florida, Texas, Louisiana, Indiana, Mississippi, Iowa, Maine, Oregon, Arizona, Washington, District of Columbia, Alaska, Hawaii, Montana, South Dakota, Nevada

Note: PERM eligibility reviews begin in FY 2007. The three year PERM cycle repeats in future years.

How will PERM measure eligibility errors in Medicaid and SCHIP?

Eligibility reviews under the PERM program estimate improper payments based on eligibility errors by reviewing the documentation on a sample of cases to verify program eligibility. The review is based on information that is contained in a beneficiary’s case file and obtaining missing information if necessary. This can be done through state database matches, contacting beneficiaries, or making “collateral” contacts with landlords, neighbors, relatives or employers of the beneficiary. States will review cases in which eligibility was granted (“active” cases), as well as cases in which eligibility was denied or terminated (“negative” cases).

Highlights of CMS' Sampling Requirements for Medicaid and SCHIP PERM Eligibility Reviews

According to CMS' guidance, to identify the sample from which the PERM eligibility measurements will be based, states must first identify an appropriate universe of eligibility cases from which the sample is pulled. Each state must develop a sampling plan that CMS' statistical contractor must approve. The sample, which the state must pull each month, includes both active cases and negative cases. The sample size for active cases in Medicaid and SCHIP, which must be stratified into three groups, will be 504 cases for each program over the course of the review year, or about 42 cases per program per month. The sample size for negative cases in each program will be about 204 cases for each program, or about 17 cases per month. States with SCHIP or Medicaid populations that are smaller than 10,000 people can use smaller samples. Over time, sample sizes for individual states could be reduced depending on the size of the state's error rate and the sample size that is needed to obtain a reliable error rate.

Using information from the cases that are reviewed, the state will report a case error rate, or the number of cases with erroneous determinations as a share of the sample of claims reviewed. For active cases only, states and CMS will also compute a payment error rate, which includes all of the payments made on behalf of an ineligible individual over the course of the review month as a share of all payments made that month. States will also report the number of "undetermined" cases, or cases that were reviewed but for which eligibility could not be determined. Before a state can count a case as "undetermined," the CMS eligibility review guidance requires it, at a minimum, to make three phone calls to all known beneficiary phone numbers, send the beneficiary a letter, and make two collateral contacts. CMS also says that state reviewers can opt to make "an unannounced in-person visit" to the beneficiary's home and can contact neighbors to determine whether the beneficiary still resides there as a means to verify program eligibility.

What flexibility do states have in determining eligibility?

Federal guidelines dictate the categories of individuals states are required to cover under the Medicaid program (including children, parents, pregnant women, seniors and people with disabilities). SCHIP focuses on covering "targeted low-income children" not eligible for Medicaid. Under both Medicaid and SCHIP, states have broad discretion to determine financial eligibility guidelines and the methods for counting income and assets. Consequently, eligibility rules vary widely from state to state.

States also have significant freedom to design enrollment and renewal procedures. This includes whether they will adopt explicit federal options such 12-month continuous eligibility, under which eligible children are guaranteed a full year of benefits, and presumptive eligibility, under which children or pregnant women who appear to qualify for coverage can receive benefits temporarily while they are completing the full application process. Other than proof of the immigration status of a non-citizen applicant, which has long been required under federal law, and proof of citizenship and identity for U.S. citizens, which recently became a federal requirement, states are allowed to determine the amount of documentation they require applicants to submit to verify

other statements on their applications. Thus, income verification policies vary, with some states conducting database checks but not requiring applicants to submit documents proving their income and other states requiring paystubs or other proof for the several preceding months. States also have different protocols related to how eligibility workers document case files to support their eligibility determination decisions.

Over the past ten years, states have made efforts to simplify enrollment and eligibility in their children's health insurance programs — and to some extent for parents — to make it easier for eligible individuals to enroll. Sixteen states have adopted 12-month continuous eligibility for children, and 14 states have adopted presumptive eligibility for children's Medicaid. Many have been moving in the direction of reducing administrative barriers by requiring applicants to provide less documentation.⁷ For example, ten states do not require families to provide pay stubs or other verification of their income when they enroll their children in health coverage, relying instead on administrative verification of the income the beneficiary reports. And forty-six states do not require a face-to-face interview to apply for children's coverage. These efforts have helped Medicaid and SCHIP offset the erosion of employer-sponsored insurance and prevented additional growth in the uninsured, especially uninsured children.

The Tension Between PERM Goals and State Eligibility Procedures

PERM is intended to identify instances in which state decisions do not comply with federal rules or the state's own eligibility policies, and to measure the rate at which such problems occur. As noted, PERM reviewers rely on documentation they find in case files or that they obtain themselves to decide whether eligibility decisions were made correctly.

This may create challenges for PERM reviewers and for states. During the past ten years, many states have adopted federal options that preclude the need for applicants to produce a large amount of documentation or have taken steps within federally sanctioned parameters to require less documentation. However, a mismatch between such policies and error measurement procedures could lead to cases being identified as erroneous when they are actually in compliance with legitimate state policy. This would produce overstated error rates. In response, states could institute a post-determination error review process to ensure that the necessary documentation is obtained for the cases in the PERM sample. Alternatively, states could respond by changing eligibility policies for many or all beneficiaries to ensure that documentation is provided at the time of application. Either response could place at risk policies that have helped make it easier for eligible individuals to become eligible and enroll in coverage. Moreover, although error rates can be mistakenly interpreted as cases of "fraud and abuse," they include instances of incomplete documentation, clerical error, and other inadvertent administrative error.⁸

Project Goals and Methodology

To examine the impact that PERM may have on state eligibility policies, and particularly policies states elect under federal law that have made it easier for eligible children and families to enroll in Medicaid and SCHIP, interviews were conducted with officials in 11 states who were actively involved in implementing PERM eligibility reviews. These officials were familiar with Medicaid, SCHIP, or both. The interviews took place in July and August of 2007 and included states with PERM reviews scheduled to take place in 2007, 2008, and 2009. Interviewed officials commented on their experience with the PERM reviews as of the date of the interview, although even states with 2007 reviews were in the early stages of the process. (See Appendix A for the interview guide.)

At the time of the interviews, state officials were relying on the following documents as guidance on conducting the PERM eligibility reviews: a proposed rule issued by CMS in August 2004, an October 2005 interim rule, an August 2006 interim final rule, and October 2006 guidance CMS issued to states on verifying eligibility for Medicaid and SCHIP under PERM.⁹ On August 31, 2007, after all interviews were completed, CMS published a final PERM rule.¹⁰ Thus, these interviews do not reflect the final rule, although it differed very modestly from the 2006 interim final rule. In addition, CMS released updated eligibility guidance for states in October 2007. The sections of the guidance that pertain to the issues we discussed with states during the summer 2007 interviews changed very little from the October 2006 guidance.

The interviews focused primarily on the potential impact that PERM could have on state eligibility policies generally, and simplifications in particular. During the course of the interviews, state officials offered a number of observations about PERM that are not directly related to its impact on eligibility policy. These also are presented in this paper.

State Officials Discuss their Perceptions and Observations About PERM: What the Interviews Revealed

1) State officials generally support PERM's underlying goal of ensuring the quality of eligibility determinations. The majority of the states interviewed expressed support for efforts to measure errors, and viewed error measurement as a useful program management tool. *"Anything that puts the quality of government programs at the forefront is a good thing,"* one state official commented. Several states said that they plan to use the information obtained through the PERM review to evaluate and improve their programs. However, despite their support, most of the states interviewed expressed strong concerns about the process that PERM is using to measure errors. According to one state official: *"We have been measuring for years. We're for measurement, but there are more effective ways to do it. And it's very important that the results be put in some kind of context."*

2) Many of the officials interviewed reported that the PERM guidelines were unclear. How CMS and states proceed in key areas could have significant implications for the future of state eligibility simplification efforts. States expressed

concern that they were being asked to implement the PERM program without what they consider to be firm CMS guidance. “*We are trying to interpret things as we go along. We’re figuring out scenarios as they develop,*” one official observed. Another commented: “*We’re nervous. We don’t have a good understanding of what we are supposed to do.*” Some states that were in the midst of PERM eligibility reviews in 2007 noted they were required to make initial error estimates in the summer of 2007, but did so without the benefit of final written PERM guidance from CMS. Some states were worried that the PERM rules would change midstream. States also expressed concern that due to the lack of clear guidance from CMS, states were interpreting PERM requirements differently, which could lead to difficulty aggregating results or comparing them among states.

Some states are unclear about whether PERM reviews will measure the extent to which eligibility has been determined in accordance with state policy. States reported differing interpretations about whether the PERM reviewers are expected to review states’ eligibility decisions strictly in accordance with policies states elect under federal law, or whether CMS expected the reviewers to obtain documentation of some eligibility elements even if the state’s policy does not require beneficiaries to provide such documentation when they apply for or renew Medicaid eligibility. A large majority of the interviewed states interpreted the available guidance to mean that PERM would measure whether the state had made decisions in accordance with the state’s own policies. This approach is a “reasonable position for the federal government,” one official said, noting that states should be able to validate their own compliance with state policies.

A small number of states, however, interpreted the same guidance to mean that the PERM review would require case files to contain documentation of eligibility elements — such as income, residence, and household composition — even if the state does not, as a matter of policy, require beneficiaries to provide such documentation. One state expressed major concern that unless its reviewers or eligibility workers obtained documentation for eligibility elements that the state does not require beneficiaries to provide (or eligibility workers to review), the PERM review would estimate an unusually high error rate. The state also expressed skepticism that much of this documentation could be obtained if the PERM review took place long after the eligibility determination in question had been made.

The concerns of some states were illustrated by one official with the following hypothetical: If CMS were to require states to verify household composition, which states do not routinely verify, “*We would have close to a 100 percent error rate, because we don’t verify household composition*” unless there is a clear reason to do so.

Whether PERM reviews are conducted in accordance with state policy will have significant implications for the future of efforts to simplify Medicaid and SCHIP eligibility. The lack of clarity among states about whether PERM reviews will assess the extent to which eligibility decisions have been made in accordance with state policy made it difficult to determine the impact that PERM will have on particular eligibility

simplifications. How CMS and states proceed with this central issue will have major implications for states' ability to maintain and improve eligibility simplifications.

If PERM reviewers measure whether a state's eligibility determinations comply with its own policies, then they will simply need to examine whether the documentation of the eligibility decisions supports the state policy. If the PERM reviews are not focused solely on existing state policy, however, then reviewers may expect states to have documentation that the state does not normally require applicants and beneficiaries to supply. To complete the review, the state will have to help obtain that documentation well after the eligibility determination has been made, or risk having the case counted either as an error or as "undetermined." Under this scenario, in future years, states would likely try to avert cases from being counted as erroneous by requiring the higher level of documentation, essentially abandoning the simplification policies they previously adopted.

For example, a few states said that if CMS required them to obtain documentation beyond what the state routinely requires, the state might revisit many eligibility policies that are aimed at reducing paperwork to facilitate the enrollment of eligible children and parents in the program. One state envisioned a significant increase in bureaucratic obstacles for beneficiaries and eligibility workers. *"If they require us to start verifying household composition, then there will be lots more documentation from clients and work on the part of eligibility staff,"* one state said.

CMS' Policy on Which Eligibility Elements States Must Review for PERM

Here are some key selections from CMS' 2007 PERM regulation and PERM eligibility review guidance that pertain to how PERM will review states' eligibility decisions:

CMS's October 2007 eligibility review guidance states that "The purpose of the case review is to verify eligibility following State policies in effect at the time of the review (so long as the policies comply with the State plan or, if the plan is silent, Federal laws and regulations)." CMS notes that presumptive eligibility cases "are reviewed according to State policies as long as they comply with the State plan and Federal law. Verify whether the case is in within the presumptive eligibility period..." With regards to state policies that provide for continuous eligibility, CMS states "To review cases in continuous eligibility status, verify eligibility as of the date the State took action to grant continuous eligibility based on application or redetermination. However, if the State's last action occurred 12 months before the sample month, eligibility is verified as of the sample month, unless the State is operating under a CMS approved demonstration waiver."

The guidance also states that "the [state] agency must examine the evidence in the case file and, if needed, independently verify elements of eligibility where evidence is (1) missing; or (2) outdated (i.e., older than 12 months from the sample month) and likely to change." CMS defines the eligibility elements that it considers "likely to change" as residency, household composition, resources in bank accounts, and earned and unearned income. CMS states that acceptable documentation includes third-party information (such as an employer wage statement), caseworker notes, and "permanent documents" like a birth certificate or Social Security card. CMS also states that "self declaration is considered acceptable verification for meeting categorical and financial requirements listed as unlikely to change... and are not required by Federal law and regulation." If the self-declaration is more than 12 months beyond the sample month, inconsistent with other information in the case file, or not in a state-approved format, it must be verified. Verification includes documentation as of the month for which eligibility is being verified or a new beneficiary self-declaration statement as of the month for which eligibility is "being verified for SCHIP that meets the State's official written policy." The guidance goes on to say: "If the new self-declaration is not acceptable and the agency cannot verify eligibility through other means, cite the case as 'undetermined.' through documentation for Medicaid or through documentation or a new self-declaration for SCHIP."

In the guidance CMS goes on to list "Required verifications for PERM eligibility reviews (regardless of whether these criteria were self declared)..." This list says: "For Medicaid, States must always verify through documentation: Citizenship; Residency; Household composition; Bank accounts; Earned and unearned income; Actual enrollment in the plan for managed care beneficiaries." CMS also says: "For SCHIP, the agency can verify these elements through documentation or through a new self declaration that meets the self-declaration criteria."

Similarly, the final PERM regulations state that "The PERM eligibility reviews provide for a State to verify eligibility according to the State's policies to determine if the case meets the eligibility criteria set by the State. These instructions were developed to allow States to use their own policies to the maximum extent possible while ensuring a consistent methodology nationwide." In the regulations CMS goes on to refer to its PERM eligibility guidance, saying, "These instructions provide for the acceptance of self-declaration under certain circumstances."

However, later in the regulation CMS responds to a comment asking CMS to clarify that PERM reviewers do not need to consult information sources other than those the State consulted in making the eligibility determination. If the state's procedures comply with federal law and the eligibility worker followed the state procedures, the commenter argues, the PERM reviewers should not need to independently verify the information the state used in making its determination of eligibility. The commenter expressed concern that requiring more than this would overstate errors, possibly compelling states to impose more restrictive procedural requirements, which could discourage eligible people from enrolling.

CMS responds: "The purpose of the eligibility review is to verify that the individual is actually eligible for the program, not to verify that the State's policies comply with Federal law or to determine that the caseworker conducted the review appropriately. Therefore, in some instances, the PERM review may necessarily go beyond the State's procedures and caseworker's actions to verify eligibility."

The state officials who were interviewed for this report did not express concern that PERM posed an immediate risk to policies states have adopted under federal law to provide twelve-month continuous eligibility or presumptive eligibility. States that have adopted continuous eligibility guarantee eligible children a full year of coverage, without regard to changes in family income or other circumstances that take place during that period. Presumptive eligibility gives states the option of temporarily enrolling some applicants (pregnant women, children, and women diagnosed with breast and cervical cancer) who appear to be eligible. The person is able to receive benefits while the full application and eligibility determination process is completed.

Officials who interpreted CMS' PERM guidance as measuring compliance with state policy said that they expected the PERM eligibility measurements to support and be consistent with states' continuous and presumptive eligibility policies. State officials' expectation that PERM will accurately measure compliance with these policies may reflect that the PERM guidance's description of how the measurements associated with these policies are to be carried out seems designed to support these policies. A few state officials even speculated that PERM might encourage additional states to adopt twelve-month continuous eligibility, because having fewer eligibility redeterminations would reduce the risk of errors taking place.

However, states expressed greater concern about PERM's implications for policies states elect under federal law that provide for administrative verification of beneficiary income. Some of the officials interviewed expressed concern that CMS' PERM guidance appears to require states to verify income in Medicaid, but not in SCHIP, regardless of policies that states have adopted under federal law that do not require applicants to present documentation of their income. The state then verifies the applicant's income through state database matches. Five of the states participating in the interviews permit applicants for their Medicaid and SCHIP (or both) programs have administrative verification policies at the time of application.

Several of these states expressed concern that PERM would not accurately review eligibility determinations made in accordance with the states' administrative verification policies. One official worried that if verification of a beneficiary's income could not be obtained for the PERM review through a data match, the state would have to contact the beneficiary to ask for pay stubs from the time the beneficiary applied, which the beneficiary was very unlikely to still possess. Without this documentation, the case would likely be counted as erroneous or "undetermined" despite the initial eligibility determination's accuracy. In a different state that does not currently have a policy to permit administrative verification of income, officials said that they thought PERM could deter the state from adopting such a policy. States' greater concern about the impact of PERM on these policies may reflect that the PERM guidance with respect to these cases is unclear and appears internally inconsistent in some places, stating that PERM is designed to measure compliance with policies states elect under federal law, but also stating that verification will be required for some self-declared elements, including income (see box on page 15).

3) PERM will intensify states' focus on obtaining and maintaining documentation supporting eligibility determinations. All of the interviewed states agreed that the PERM eligibility reviews will significantly increase states' focus on maintaining documentation in beneficiaries' case files. States said that they believed this would be the case regardless of how the aspects of PERM that they considered to be unclear are ultimately interpreted.

Most states reported that obtaining the documentation needed for PERM reviews would be time-consuming and resource-intensive. Some states anticipated needing to go to a lot of effort to ensure that the documentation was available for PERM reviews, while other states felt more confident that the required documentation was already available.¹¹ *“If the documentation is not there we’ll have to go get it,”* one state said. However, states that interpreted CMS’s PERM eligibility review guidance as requiring documentation for eligibility elements even when documentation of these elements is not required by the state were very concerned that about the extreme difficulty of obtaining the paperwork that would be needed to complete PERM reviews.

One state expressed concern that PERM’s focus on maintaining documentation could lead states to reinstate face-to-face interviews. On the other hand, several state officials noted that technically, the most effective way to avoid errors in a system that measures errors against existing state policy could be to implement policies to require less documentation, rather than more. However, they thought that in a quest to reduce eligibility error rates, the more likely instinctive political reaction would be to make eligibility requirements more, not less, restrictive.

How will states obtain the documentation that is required under PERM?

State officials reported that they intend to use a variety of strategies to obtain the documentation they believe is required for the PERM review. Many reported that they planned to use automated methods to obtain verification of eligibility elements, such as data matching with vital records, employer wage information, or state motor vehicles departments. The degree to which such information is available electronically varies from state to state. When information that is needed for a PERM review is not in the case file or available electronically or through other means, some states plan to contact beneficiaries or make “collateral” contacts with employers, landlords, or neighbors to verify information, and some of these contacts are required under the PERM eligibility review guidance. Some states, though, had a negative view of collateral contacts, saying that such efforts rarely yielded beneficial information. Others had concerns about making home visits to obtain information from beneficiaries. One official noted that his state moved from doing a large number of home visits to doing very few, because they had a “chilling effect” on beneficiaries, at times posed risks to state employees, and found that the same information could be obtained more efficiently through electronic verification. Another state official, however, said that his state’s PERM reviewers would do whatever it took to obtain the needed information. “When you [the beneficiary] sign the application you are allowing the agency to conduct an investigation,” this official said. A few states identified obstacles like obtaining information from other government agencies as impediments to completing PERM reviews.

4) Some states consider PERM to be at odds with states' longstanding efforts to identify eligible individuals and facilitate their enrollment in Medicaid and SCHIP.

Some state officials described PERM as more focused on ensuring that paperwork is complete than on ensuring that a correct eligibility determination was made. Although this concern was not universally expressed, for some states, PERM's emphasis on complying with eligibility procedures and verifying documentation could conflict with their efforts to provide health coverage to eligible people who remain uninsured. Both enrollment streamlining and outreach efforts could be jeopardized. In addition, states expressed concern that PERM's emphasis on obtaining and maintaining documentation could undermine longstanding efforts to encourage eligibility workers to focus on helping eligible people enroll in Medicaid and SCHIP.

One state official observed: *"We've been focused on outreach and getting children enrolled and reducing the number of uninsured, but now it's not going to be about that. It will be all about the process. We'll have to be sure that everything in the file is darn right because the stakes are so high. We won't be able to trust computer matches... It will be a whole new framework in which to manage."*

"Our state wants to do outreach," an official from another state noted. *"In the PERM environment, if we are getting the word out about our program and we get lots of applicants, many of those will not be eligible. But you will need to document why in every case. So, outreach will come at a very high price."*

A third official explained why putting too strong a focus on documenting compliance with procedures is a misplaced goal. According to this official, eligibility quality reviews should focus on determining whether eligible people got services and ineligible people did not. *"If there are lots of procedural errors, people will interpret that as taxpayer dollars being wasted,"* the official said. *"But at the end of the day, the question should be, 'Did people get what they were entitled to?'"*

Some states expressed concern that PERM's emphasis on collecting and maintaining all appropriate documentation could shift eligibility workers' focus from enrolling eligible individuals to maintaining documentation. *"Life will change for the eligibility staff because they will have to be more detailed and focused on the process,"* one state official noted. Some states expressed concern that if eligibility workers focus on avoiding errors and maintaining documentation, it could take longer for workers to process applications, potentially leading to longer wait times for beneficiaries or failure on the part of the state to meet federal application processing standards. *"Eligibility workers shouldn't be so scared to make an error that they are afraid to do their job,"* one state official said.

One state official expressed serious concern about the impact that PERM could have on states' efforts to encourage eligibility workers and processes to focus on helping to enroll eligible people:

"Over the last ten years we have placed a high priority on reducing the unacceptable number of uninsured children in our state. Nothing has been more important in

achieving success than the fundamental culture change we have seen in eligibility. In retrospect we recognize that our previous approach to eligibility was designed to keep ineligible people out of the program. We have continually revised eligibility policy and administrative practices to reduce the barriers families encountered, while still maintaining the integrity of our eligibility decisions. Caseworkers are now equally focused on ensuring that eligible people get the health benefits they need and qualify for. If PERM is implemented in a way that reverses this culture change, it will turn back the clock on ten years of hard work and progress"

5) Some states are concerned that implementing new citizenship documentation requirements could lead to high PERM errors. A new federal requirement that became effective July 2006 has added a layer of concern in the PERM context. Under the new law, states must require applicants and beneficiaries who are U.S. citizens to produce proof of their citizenship and identity to obtain and keep their Medicaid coverage. In states that undergo PERM reviews in 2007 or 2008, PERM is estimating eligibility error rates at the same time that this new requirement is still being implemented. A few of the state officials interviewed for this report described the new citizenship and identity requirement as a “huge” policy change and implementation challenge. These states expressed strong concerns that difficulties that occur as states implement this new requirement could lead to their states having unusually high error rates under PERM.

One state official compared making the policy changes that are required to implement the citizenship and identity requirements to “turning a semi[trailer] on a little country road.” The official explained, “*We have a huge infrastructure that’s done things the same way for a very long time. So it takes a long time for that infrastructure to understand the requirement. There are many places in the process where that can break down.*” Another state official noted the challenges that the citizenship and identity documentation requirements place on states and beneficiaries, despite the state having made major systems changes, trained eligibility workers, and issued new instructions: “*Citizenship documentation will absolutely contribute to our error rate. ...It will take a long time to straighten out [the new requirements] and reduce errors.*”

Other states reported that although they consider implementing the new citizenship and identity documentation requirements challenging, they do not anticipate that the requirements will have a significant impact on their PERM eligibility error rate. These states tended to have a greater ability to conduct automated records matches, making citizenship and documentation requirements easier to implement, or were not scheduled to have PERM reviews in 2009. Even officials who do not expect the new documentation requirements to have a big impact on their error rates, said that by requiring beneficiaries to provide, and eligibility workers to collect, more paperwork, these requirements create more opportunity for errors to occur under PERM. One state noted that the new documentation requirements had significantly increased eligibility workers’ caseloads, slowing application processing times, and worried that PERM could further increase workloads and delay application processing.

6) Several states reported concern that error rates could be misinterpreted, and that public attention to error rates could have a negative political impact on efforts to simplify eligibility. Several states noted that it can be difficult for the public and policymakers to accurately interpret eligibility error rates, and expressed concern that the manner in which errors are reported could have a negative political impact on efforts to simplify program eligibility. One official said: *“As soon as you start publishing error rates, there are political implications. No error rate is tolerable in a program like Medicaid.”* Other state officials described error rates as being easy to misinterpret: *“If people were to hear that there is, for example, a five percent error rate, they will think that five percent of people on the program were not eligible ...but of course this is not the case with PERM; it could just be that the right documentation is not there.”* One official expressed concern that there could be “misplaced scrutiny” of any error rate. *“The public has the wrong view,”* this official noted. *“People want to believe we are shoveling taxpayer dollars out the window.”*

7) All of the state officials interviewed were extremely concerned about the administrative burden and cost PERM imposes on their states. Some questioned whether this burden would divert resources from efforts to help eligible people enroll. In addition to discussing the potential impact of the PERM eligibility review on state eligibility policies, all of the interviewed states volunteered strong concerns about the cost and administrative burden that the PERM reviews will impose on states.¹² They explained that the PERM reviews required them to engage in a set of activities geared to achieving only one goal: implementing PERM. These activities include: hiring or redeploying staff, contracting with outside organizations to conduct the PERM reviews, statistical sampling, training reviewers to ensure that they understand the state’s eligibility policies well enough to conduct the PERM reviews and obtaining the necessary case records and data.¹³ Several of the state officials described the PERM eligibility reviews as an “unfunded mandate.” Interviewees noted that conducting the PERM reviews every three years makes it difficult to plan, budget, and maintain the necessary staff for the reviews. A few states also said that they were undergoing significant organizational changes (like a putting major new computer systems in place or reorganizations of their Medicaid agencies) that made it very difficult to implement a major new program like PERM.

Finally, states noted that the increased costs and workload that PERM imposes could come at the expense of other program improvements, including efforts to enroll eligible beneficiaries. *“The PERM review is an enormous burden.... It’s costly and it’s used an enormous amount of resources that could be used elsewhere. It’s an intensive effort and you could be dispatching talented staff to do other things, like enrolling children,”* one state official noted.¹⁴

8) Many states said they are concerned that PERM largely duplicates existing programs that measure Medicaid eligibility quality. Most of the states interviewed for this report said that PERM’s eligibility review duplicates states’ existing Medicaid Eligibility Quality Control (MEQC) programs. Through MEQC, states review the eligibility of a sample of cases and estimate eligibility error rates for the state.¹⁵ In the

words of one official interviewed for this report, “*PERM is diverting resources from or duplicating what’s already being done by MEQC. Having two such processes doesn’t make sense.*” Federal regulations require states to operate MEQC programs, but states may also instead operate pilot programs to develop alternative ways to identify and reduce payment errors.¹⁶ In 2000, CMS (then the Health Care Financing Administration) stated that 31 states operated MEQC pilot programs.¹⁷ Because MEQC programs vary significantly state to state, it would be difficult to use MEQC to develop a national payment error rate, as CMS is trying to do through PERM.

Most of the states interviewed operate MEQC pilots and consider them to be more useful than PERM since they target high-priority error-prone areas. The MEQC pilots can pinpoint sources of error and test ways to address them. One official in a state that uses MEQC pilots to target high risk or emerging areas of concern commented, “*With PERM, the blunt instrument replaced the surgical instrument.*” A few other states noted that for them, MEQC pilots are more efficient than PERM. Through the pilots they are able focus eligibility quality control resources on particular regions of their state that have high concentrations of Medicaid beneficiaries. Because PERM requires a broad, statewide sample, PERM reviews cannot be targeted in this manner.

Although many states described PERM as duplicating MEQC, a few states reported that PERM would be broader than their MEQC pilot programs, because those states’ pilots focus only on relatively narrow areas of eligibility. Similarly, some states with relatively small populations said that the sample size PERM requires would be larger than the sample size employed under MEQC, and for that reason, PERM’s error estimates would be more precise. A few states also noted that they did not have quality control programs for their SCHIP programs, so that PERM would be providing those for the first time.¹⁸

Conclusion

States are beginning to implement the eligibility review component of the new PERM program, and in interviews officials in 11 states offered initial reactions to the potential impact of PERM on state eligibility policies. State officials interviewed for this paper reported that they support the goal of error measurement, which could help ensure the efficiency and effectiveness of state eligibility policy.

However, these officials also reported that they are unclear about some central elements of the guidance CMS has established for conducting these reviews, and some states are interpreting some of these elements in different ways. In terms of PERM’s potential impact on state eligibility policies, the most important question on which there was confusion was whether PERM will assess the extent to which states have complied with eligibility processes they elect under federal law, or whether PERM reviews might exceed a state’s eligibility documentation requirements. How this issue is ultimately resolved could have major implications for PERM’s impact on states’ efforts to design and maintain policies that facilitate the enrollment of eligible people in Medicaid and SCHIP.

A key issue that remains unclear is whether PERM will assess the states' compliance with policies that states elect under federal law. In general, however, states did not expect error measurement to place at risk policies that many states have used to simplify the enrollment process for beneficiaries, like twelve-month continuous eligibility and presumptive eligibility. However, some states raised concerns that PERM could have a negative impact on policies that allow administrative verification of beneficiary income.

Most of the states interviewed reported that they expect PERM to substantially increase states' focus on obtaining and maintaining paperwork and other documentation. Several states expressed concern that this increased emphasis on documentation could undermine states' significant efforts to make it easier for eligible people enroll in public programs. A few states described PERM as putting at risk efforts undertaken over many years to help retool the eligibility process to help eligible people enroll. Several states said that error rates are difficult to interpret and could potentially trigger an adverse political reaction that might lead to more restrictive eligibility policies.

Some of the interviewed states also anticipate that implementing new citizenship and identity documentation requirements will lead to unusually high error rates under PERM. All the interviewed states volunteered that they consider the PERM reviews to be extremely burdensome and expensive to conduct and many said that the PERM reviews duplicate existing and longstanding programs the federal government and states have operated to ensure the quality of Medicaid eligibility determinations. Some states predicted that the burden and cost of implementing PERM would come at the expense of states' efforts to simplify the enrollment process and conduct outreach to beneficiaries.

APPENDIX A
Participants in PERM Eligibility Review Interviews

This list identifies the lead person or people in each state who were interviewed for this report. In most cases, additional state staff joined these individuals for the interview.

Arkansas

Joni Jones, Director

Arkansas Department of Human Services, Division of County Operations:

California

Stan Rosenstein

Department of Health Care Services

Connecticut

Rose Ciarcia

Director, Husky A Program

Kevin Loveland

Director, Bureau of Assistance Programs

Connecticut Department of Social Services

Iowa

Anita Smith, Chief

Bureau of Medical Services

Shellie Goldman

SCHIP Policy Specialist

Louisiana

J. Ruth Kennedy

Deputy Medicaid Director

Missouri

Darla Herigon

Missouri Quality Control Supervisor

Family Support Division

Nebraska

George Kahlandt, Administrator

Public Assistance Unit

Office of Economic and Family Support

Nebraska Department of Health and Human Services

New York

Judith Arnold
Director
Division of Coverage and Enrollment
Office of Health Insurance Programs
New York State Department of Health

Pennsylvania

George Hoover
Deputy Commissioner
CHIP and AdultBasic Programs
Pennsylvania Insurance Department

Suzanne Connolly
Director, Division of Quality Control
Office of Income Maintenance
Pennsylvania Department of Public Welfare

Utah

Steven Gatzemeier
PERM Coordinator

Vermont

Marybeth McCaffrey, Esq.
Health Care Policy Analyst
Agency for Human Services

APPENDIX B

10-State Survey of PERM and state eligibility policies: Interview guide

The Kaiser Commission on Medicaid and the Uninsured is undertaking a project to analyze the potential impact of the new CMS Payment Error Rate Measurement program on policies that states elect under federal law that are designed to simplify the application and enrollment processes for Medicaid and SCHIP beneficiaries. As you know, part of the PERM program will estimate Medicaid and SCHIP eligibility errors. We are interviewing approximately ten state officials to determine how estimating eligibility errors through PERM may affect policies to simplify the application and enrollment process, particularly as they relate to children and families. We appreciate your participating in this process as an interviewee.

Below are the key questions that will guide our discussion with you over the phone. In developing the questions for this interview guide, we relied primarily on the August 28, 2006 interim final PERM rule and CMS' October 1, 2006 eligibility review guidance. We expect our discussion to take one hour of your time. If you wish to invite other individuals with relevant expertise on your state's eligibility policies and PERM reviews to join in the discussion, please feel free to do so. The results of these interviews will be contained in a report the Kaiser Commission plans to release later this year.

A) Background information on PERM eligibility reviews in your state

1) At what stage in the PERM review process is your state at this point in time? How would you describe the level of effort your state has undertaken with regard to PERM's eligibility review component so far?

B) PERM's documentation requirements

According to CMS' 2006 guidance, for Medicaid cases that are reviewed under PERM, states must verify the following elements through documentation: citizenship, residency, household composition, bank accounts, earned and unearned income. For SCHIP, reviewers can rely on self-declaration of these elements.

1) Is it your expectation that your state case files will contain the documentation that will be necessary to review each sampled case to determine whether eligibility was determined correctly? Are some types of cases more or less likely to have the necessary documentation?

2) In cases where the case file does not include all required documentation, states are required to contact beneficiaries by phone and mail and contact "collateral" sources (such as employers, landlords or neighbors). What action does your state plan to take to obtain the necessary documentation? To what extent can this documentation be obtained through administrative data matching with other state databases?

3) Through MEQC, is your state collecting similar documentation to that which is required by PERM? Overall, is the documentation required for PERM similar to or different from that your state obtains for MEQC? Are the state's efforts to obtain needed documentation from beneficiaries similar or different under PERM and MEQC?

C) Potential impact of PERM on some eligibility policies in your state

1) Please briefly describe what simplification efforts your state has in place. Does PERM affect what simplification policies that you have in existence now or that you plan to undertake in the future? How?

2) When did your state implement the new citizenship documentation requirements that took effect in 2006 after the enactment of the Deficit Reduction Act? How is documentation of citizenship and identify being maintained in case files? Will implementation of this new requirement affect your state's ability to accurately estimate eligibility errors under PERM, and if so, how?

D) Wrap up questions

1) In your view, what will be the short term impact, if any, of estimating the accuracy of eligibility determinations through PERM? What could be the long-term impact, if any?

2) What do you consider the strengths of the PERM system in estimating eligibility/accuracy errors?

3) Are there potential improvements that could be made to PERM to ensure that eligibility errors are measured accurately and state eligibility policies are interpreted correctly?

4) What other issues are relevant to the benefits and challenges of measuring eligibility accuracy through PERM? Are there important issues that we've not yet addressed?

ENDNOTES

¹ These states are Arkansas, California, Connecticut, Iowa, Louisiana, Missouri, Nebraska, New York, Pennsylvania, Utah, and Vermont.

² U.S. Office of Management and Budget, Memorandum for Heads of Executive Departments and Agencies M-06-23: Issuance of Appendix C to OMB Circular A-123, August 10, 2006. This guidance interprets the IPIA as applying to state-administered programs that are at least in part federally-funded, including Medicaid.

³ Although CMS has not previously reported estimated nationwide error rates for Medicaid or SCHIP, it has, through experiments CMS undertook with a number of states, piloted error rate measurements in these two programs. This pilot effort, which began as the Payment Accuracy Measurement (PAM) project and was later renamed the PERM project, operated between fiscal years 2001 and 2005. Although PAM did not initially estimate errors related to eligibility determinations, CMS and some pilot states began to estimate eligibility errors in the later years of the project. In addition, in 2001, CMS stated in a letter to state Medicaid directors that “the national average Medicaid eligibility error rate has been below two percent for over ten years... See letter from Timothy M. Westmoreland, Director, Center for Medicaid and State Operations and Michael Mangano, Acting Inspector General, to State Medicaid Directors, January 19, 2001, <http://www.cms.hhs.gov/SMDL/SMD/list.asp#TopOfPage>. In addition, CMS has, for about ten years, estimated Medicare payment errors through a program that is currently known as the Comprehensive Error Rate Testing Program (CERT). CERT only measures errors in payments made to providers, not errors related to Medicare eligibility

⁴ Centers for Medicare and Medicaid Services, Payment Error Rate Measurement Verifying Eligibility for Medicaid and SCHIP Benefits, October 2007, <http://www.cms.hhs.gov/PERM/PERMCD/list.asp#TopOfPage>.

⁵ 42 CFR, Subpart P, Section 431.800.

⁶ Department of Health and Human Services, Centers for Medicare and Medicaid Services, Medicaid Program and State Children’s Health Insurance Program (SCHIP); Payment Error Rate Measurement; Final Rule, Federal Register, August 31, 2007.

⁷ Donna Cohen Ross and Laura Cox, *Resuming the Path to Health Coverage for Children and Parents: A 50-State Update on Eligibility Rules, Enrollment and Renewal Procedures, and Cost-Sharing Practices in Medicaid and SCHIP in 2006*, Kaiser Commission on Medicaid and the Uninsured, www. Kff.org., January 2007.

⁸ Victoria Wachino, *The New Medicaid Integrity Program: Issues and Challenges in Ensuring Program Integrity in Medicaid*, Kaiser Commission on Medicaid and the Uninsured, June 2007, <http://www.kff.org/medicaid/7650.cfm>.

⁹ See Medicaid Program and State Children’s Health Insurance Programs: Payment Error Rate Measurement, Proposed Rule *Federal Register*, Vol. 69, No. 166, August 27, 2004; Medicaid Program and State Children’s Health Insurance Programs: Payment Error Rate Measurement, Interim Rule *Federal Register*, Vol. 70, No. 192, October 5, 2005; Medicaid Program and State Children’s Health Insurance Programs: Payment Error Rate Measurement, Interim Final Rule *Federal Register*, Vol. 71, No. 166, August 28, 2006 and Payment Error Rate Measurement (PERM) Verifying Eligibility for Medicaid and SCHIP benefits, Fiscal Year 2007, which is available at <http://www.cms.hhs.gov/PERM/PERMCD/list.asp#TopOfPage> (accessed June 15, 2007).

¹⁰ Medicaid Program and State Children’s Health Insurance Programs: Payment Error Rate Measurement, Final Rule *Federal Register*, Vol. 72, No. 169.

¹¹ The interviewed states also generally reported that the extent to which the documentation PERM requires will be available does not vary significantly by beneficiary population group or application status. A few states noted that because their eligibility requirements vary by population group (for example, in some states children are exempt from an assets test while other groups are not), the documentation maintained in the case file would vary as well, reflecting these different requirements. A few states also noted that the type of documentation PERM requires is more likely to be available for initial applications than it is for cases for which eligibility is being redetermined. One state expressed concern that verifying eligibility for individuals who are considered “medically needy” could be extremely challenging because it

was difficult for the state to maintain documentation of spend-down amounts. But for other states, this was not a concern.

¹² CMS has stated that it will reimburse states for their Medicaid PERM-related expenses at the administrative matching rate of 50 percent. This rate applies across all states (in contrast to the standard federal matching rate, which varies by state. SCHIP PERM-related expenses will be reimbursed at the standard SCHIP matching rate and included in the calculation of a state's SCHIP administrative costs, which are capped at ten percent of a state's SCHIP expenditures.

¹³ States expressed similar concerns to CMS in comments they made on the August 2006 interim final PERM rule. In responses accompanying the publication of the August 31, 2007 final PERM rule, CMS responded by saying that compared to earlier version of the rule were published it had diminished the burden on states by providing that each state only undergo PERM reviews once every three years and hiring a federal contractor to conduct the PERM fee-for-service and managed care reviews. CMS also noted that states are able to plan for their reviews in advance and can contract the reviews out, which CMS said could reduce costs for states. CMS stated that depending on states' initial error rates, their future PERM eligibility sample sizes could be reduced. CMS also said the agency would consider additional measures to reduce the burden PERM places on states.

¹⁴ One state comment on the interim final rule said that PERM would require experienced caseworkers to serve as PERM reviewers, depleting field offices of needed staff and potentially affecting Medicaid and other programs. CMS responded by saying that the PERM rule "does not require experienced case workers to conduct the reviews" and "we do not believe that States will need to commit significant resources to the reviews, particularly to the extent that other programs would be negatively impacted."

¹⁵ MEQC has not been used to compute national error rates.

¹⁶ In 2000, CMS reported that 31 states operate MEQC pilots. See Letter from Timothy W. Westmoreland, Director, Center for Medicaid and State Operations, Health Care Financing Administration, to State Quality Control Directors, September 12, 2000.

¹⁷ Letter from Timothy W. Westmoreland, Director, Center for Medicaid and State Operations, to State Quality Control Directors, September 12, 2000. <http://www.cms.hhs.gov/SMDL/>.

¹⁸ In comparing PERM and MEQC, a few state officials stated that MEQC gave them more opportunity during the review process to correct missing documentation or processing errors to prevent a case from being counted as an error than PERM does.

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