

Pt. 447

(b) *Subsequent termination.* The Medicaid agency must terminate a facility's provider agreement—

(1) Upon the agency's finding that the facility has been unable to achieve compliance with the conditions of participation for ICFs/IID during the period that payments for new admissions have been denied;

(2) Effective the day following the last day of the denial of payments period; and

(3) In accordance with the procedures for appeal of terminations set forth in subpart D of part 431 of this chapter.

[51 FR 24491, July 3, 1986, as amended at 59 FR 56236, Nov. 10, 1994]

Subparts D–F [Reserved]

PART 447—PAYMENTS FOR SERVICES

Subpart A—Payments: General Provisions

Sec.

447.1 Purpose.

447.10 Prohibition against reassignment of provider claims.

447.15 Acceptance of State payment as payment in full.

447.20 Provider restrictions: State plan requirements.

447.21 Reduction of payments to providers.

447.25 Direct payments to certain beneficiaries for physicians' or dentists' services.

447.26 Prohibition on payment for provider-preventable conditions.

447.30 Withholding the Federal share of payments to Medicaid providers to recover Medicare overpayments.

447.31 Withholding Medicare payments to recover Medicaid overpayments.

447.40 Payments for reserving beds in institutions.

447.45 Timely claims payment.

447.46 Timely claims payment by MCOs.

MEDICAID PREMIUMS AND COST SHARING

447.50 Premiums and cost sharing: Basis and purpose.

447.51 Definitions.

447.52 Cost sharing.

447.53 Cost sharing for drugs.

447.54 Cost sharing for services furnished in a hospital emergency department.

447.55 Premiums.

447.56 Limitations on premiums and cost sharing.

447.57 Beneficiary and public notice requirements.

42 CFR Ch. IV (10–1–23 Edition)

447.88 Options for claiming FFP payment for section 1920A presumptive eligibility medical assistance payments.

447.90 FFP: Conditions related to pending investigations of credible allegations of fraud against the Medicaid program.

Subpart B—Payment Methods: General Provisions

447.200 Basis and purpose.

447.201 State plan requirements.

447.202 Audits.

447.203 Documentation of access to care and service payment rates.

447.204 Medicaid provider participation and public process to inform access to care.

447.205 Public notice of changes in State-wide methods and standards for setting payment rates.

Subpart C—Payment For Inpatient Hospital and Long-Term Care Facility Services

447.250 Basis and purpose.

PAYMENT RATES

447.251 Definitions.

447.252 State plan requirements.

447.253 Other requirements.

447.255 Related information.

447.256 Procedures for CMS action on assurances and State plan amendments.

FEDERAL FINANCIAL PARTICIPATION

447.257 FFP: Conditions relating to institutional reimbursement.

UPPER LIMITS

447.271 Upper limits based on customary charges.

447.272 Inpatient services: Application of upper payment limits.

SWING-BED HOSPITALS

447.280 Hospital providers of NF services (swing-bed hospitals).

Subpart D [Reserved]

Subpart E—Payment Adjustments for Hospitals That Serve a Disproportionate Number of Low-Income Patients

447.294 Medicaid disproportionate share hospital (DSH) allotment reductions.

447.295 Hospital-specific disproportionate share hospital payment limit: Determination of individuals without health insurance or other third party coverage.

447.296 Limitations on aggregate payments for disproportionate share hospitals for the period January 1, 1992 through September 30, 1992.

Centers for Medicare & Medicaid Services, HHS

§ 447.10

- 447.297 Limitations on aggregate payments for disproportionate share hospitals beginning October 1, 1992.
- 447.298 State disproportionate share hospital allotments.
- 447.299 Reporting requirements.

Subpart F—Payment Methods for Other Institutional and Noninstitutional Services

- 447.300 Basis and purpose.
- 447.302 State plan requirements.
- 447.304 Adherence to upper limits; FFP.

OUTPATIENT HOSPITAL AND CLINIC SERVICES

- 447.321 Outpatient hospital and clinic services: Application of upper payment limits.

OTHER INPATIENT AND OUTPATIENT FACILITIES

- 447.325 Other inpatient and outpatient facility services: Upper limits of payment.
- 447.342 [Reserved]

PREPAID CAPITATION PLANS

- 447.362 Upper limits of payment: Nonrisk contract.

RURAL HEALTH CLINIC SERVICES

- 447.371 Services furnished by rural health clinics.

Subpart G—Payments for Primary Care Services Furnished by Physicians

- 447.400 Primary care services furnished by physicians with a specified specialty or subspecialty.
- 447.405 Amount of required minimum payments.
- 447.410 State plan requirements.
- 447.415 Availability of Federal financial participation (FFP).

Subpart H [Reserved]

Subpart I—Payment for Drugs

- 447.500 Basis and purpose.
- 447.502 Definitions.
- 447.504 Determination of average manufacturer price.
- 447.505 Determination of best price.
- 447.506 Authorized generic drugs.
- 447.507 Identification of inhalation, infusion, instilled, implanted, or injectable drugs (5i drugs).
- 447.508 Exclusion from best price of certain sales at a nominal price.
- 447.509 Medicaid drug rebates (MDR).
- 447.510 Requirements for manufacturers.
- 447.511 Requirements for States.
- 447.512 Drugs: Aggregate upper limits of payment.
- 447.514 Upper limits for multiple source drugs.

- 447.516 Upper limits for drugs furnished as part of services.

- 447.518 State plan requirements, findings, and assurances.

- 447.520 Federal Financial Participation (FFP): Conditions relating to physician-administered drugs.

- 447.522 Optional coverage of investigational drugs and other drugs not subject to rebate.

AUTHORITY: 42 U.S.C. 1302 and 1396r-8.

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Subpart A—Payments: General Provisions

§ 447.1 Purpose.

This subpart prescribes State plan requirements, FFP limitations and procedures concerning payments made by State Medicaid agencies for Medicaid services.

§ 447.10 Prohibition against reassignment of provider claims.

(a) *Basis and purpose.* This section implements section 1902(a)(32) of the Act which prohibits State payments for Medicaid services to anyone other than a provider or beneficiary, under an assignment, power of attorney, or similar arrangement, except in specified circumstances.

(b) *Definitions.* For purposes of this section:

Facility means an institution that furnishes health care services to inpatients.

Factor means an individual or an organization, such as a collection agency or service bureau, that advances money to a provider for accounts receivable that the provider has assigned, sold or transferred to the individual organization for an added fee or a deduction of a portion of the accounts receivable. Factor does not include a business representative as described in paragraph (f) of this section.

Organized health care delivery system means a public or private organization for delivering health services. It includes, but is not limited to, a clinic, a group practice prepaid capitation plan, and a health maintenance organization.

§ 447.15

(c) *State plan requirements.* A State plan must provide that the requirements of paragraphs (d) through (h) of this section are met.

(d) *Who may receive payment.* Payment may be made only—

(1) To the provider; or

(2) To the beneficiary if he is a noncash beneficiary eligible to receive the payment under § 447.25; or

(3) In accordance with paragraphs (e), (f), and (g) of this section.

(e) *Reassignments.* Payment may be made in accordance with a reassignment from the provider to a government agency or reassignment by a court order.

(f) *Business agents.* Payment may be made to a business agent, such as a billing service or an accounting firm, that furnishes statements and receives payments in the name of the provider, if the agent's compensation for this service is—

(1) Related to the cost of processing the billing;

(2) Not related on a percentage or other basis to the amount that is billed or collected; and

(3) Not dependent upon the collection of the payment.

(g) *Individual practitioners.* Payment may be made to—

(1) The employer of the practitioner, if the practitioner is required as a condition of employment to turn over his fees to the employer;

(2) The facility in which the service is provided, if the practitioner has a contract under which the facility submits the claim; or

(3) A foundation, plan, or similar organization operating an organized health care delivery system, if the practitioner has a contract under which the organization submits the claim.

(h) *Prohibition of payment to factors.* Payment for any service furnished to a beneficiary by a provider may not be made to or through a factor, either directly or by power of attorney.

(i) The payment prohibition in section 1902(a)(32) of the Act and paragraph (d) of this section does not apply to payments to a third party on behalf of an individual practitioner for benefits such as health insurance, skills training, and other benefits customary

42 CFR Ch. IV (10–1–23 Edition)

for employees, in the case of a class of practitioners for which the Medicaid program is the primary source of revenue, if the practitioner voluntarily consents to such payments to third parties on the practitioner's behalf.

[43 FR 45253, Sept. 29, 1978, as amended at 46 FR 42672, Aug. 24, 1981; 61 FR 38398, July 24, 1996; 79 FR 3039, Jan. 16, 2014; 84 FR 19728, May 6, 2019; 87 FR 29690, May 16, 2022]

§ 447.15 Acceptance of State payment as payment in full.

A State plan must provide that the Medicaid agency must limit participation in the Medicaid program to providers who accept, as payment in full, the amounts paid by the agency plus any deductible, coinsurance or copayment required by the plan to be paid by the individual. The provider may only deny services to any eligible individual on account of the individual's inability to pay the cost sharing amount imposed by the plan in accordance with § 447.52(e). The previous sentence does not apply to an individual who is able to pay. An individual's inability to pay does not eliminate his or her liability for the cost sharing charge.

[78 FR 42307, July 15, 2013]

§ 447.20 Provider restrictions: State plan requirements.

A State plan must provide for the following:

(a) In the case of an individual who is eligible for medical assistance under the plan for service(s) for which a third party or parties is liable for payment, if the total amount of the established liability of the third party or parties for the service is—

(1) Equal to or greater than the amount payable under the State plan (which includes, when applicable, cost-sharing payments provided for in §§ 447.52 through 447.54), the provider furnishing the service to the individual may not seek to collect from the individual (or any financially responsible relative or representative of that individual) any payment amount for that service; or

(2) Less than the amount payable under the State plan (including cost sharing payments set forth in §§ 447.52 through 447.54), the provider furnishing

the service to that individual may collect from the individual (or any financially responsible relative or representative of the individual) an amount which is the lesser of—

(i) Any cost-sharing payment amount imposed upon the individual under §§ 447.52 through 447.54; or

(ii) An amount which represents the difference between the amount payable under the State plan (which includes, where applicable, cost-sharing payments provided for in §§ 447.52 through 447.54) and the total of the established third party liability for the services.

(b) A provider may not refuse to furnish services covered under the plan to an individual who is eligible for medical assistance under the plan on account of a third party's potential liability for the service(s).

[55 FR 1433, Jan. 16, 1990, as amended at 78 FR 42307, July 15, 2013]

§ 447.21 Reduction of payments to providers.

If a provider seeks to collect from an individual (or any financially responsible relative or representative of that individual) an amount that exceeds an amount specified under § 447.20(a)—

(a) The Medicaid agency may provide for a reduction of any payment amount otherwise due to the provider in addition to any other sanction available to the agency; and

(b) The reduction may be equal to up to three times the amount that the provider sought to collect in violation of § 447.20(a).

[55 FR 1433, Jan. 16, 1990]

§ 447.25 Direct payments to certain beneficiaries for physicians' or dentists' services.

(a) *Basis and purpose.* This section implements section 1905(a) of the Act by prescribing requirements applicable to States making direct payments to certain beneficiaries for physicians' or dentists' services.

(b) *State plan requirements.* Except for groups specified in paragraph (c) of this section, a State may make direct payments to beneficiaries for physicians' or dentists' services. If it does so, the State plan must—

(1) Provide for direct payments; and

(2) Specify the conditions under which payments are made.

(c) *Federal financial participation.* No FFP is available in expenditures for direct payment for physicians' or dentists' services to any beneficiary—

(1) Who is receiving assistance under the State's approved plan under title I, IV-A, X, XIV or XVI (AABD) of the Act; or

(2) To whom supplemental security benefits are being paid under title XVI of the Act; or

(3) Who is receiving or eligible for a State supplementary payment or would be eligible if he were not in a medical institution, and who is eligible for Medicaid as a categorically needy beneficiary.

(d) *Federal requirements.* (1) Direct payments to beneficiaries under this section are an alternative to payments directly to providers and are subject to the same conditions; for example, the State's reasonable charge schedules are applicable.

(2) Direct payments must be supported by providers' bills for services.

§ 447.26 Prohibition on payment for provider-preventable conditions.

(a) *Basis and purpose.* The purpose of this section is to protect Medicaid beneficiaries and the Medicaid program by prohibiting payments by States for services related to provider-preventable conditions.

(1) Section 2702 of the Affordable Care Act requires that the Secretary exercise authority to prohibit Federal payment for certain provider preventable conditions (PPCs) and health care-acquired conditions (HCACs).

(2) Section 1902(a)(19) of the Act requires that States provide care and services consistent with the best interests of the beneficiaries.

(3) Section 1902(a)(30) of the Act requires that State payment methods must be consistent with efficiency, economy, and quality of care.

(b) *Definitions.* As used in this section—

Health care-acquired condition means a condition occurring in any inpatient hospital setting, identified as a HAC by the Secretary under section 1886(d)(4)(D)(iv) of the Act for purposes of the Medicare program identified in

§ 447.30

42 CFR Ch. IV (10–1–23 Edition)

the State plan as described in section 1886(d)(4)(D)(ii) and (iv) of the Act; other than Deep Vein Thrombosis (DVT)/Pulmonary Embolism (PE) as related to total knee replacement or hip replacement surgery in pediatric and obstetric patients.

Other provider-preventable condition means a condition occurring in any health care setting that meets the following criteria:

- (i) Is identified in the State plan.
- (ii) Has been found by the State, based upon a review of medical literature by qualified professionals, to be reasonably preventable through the application of procedures supported by evidence-based guidelines.
- (iii) Has a negative consequence for the beneficiary.
- (iv) Is auditable.
- (v) Includes, at a minimum, wrong surgical or other invasive procedure performed on a patient; surgical or other invasive procedure performed on the wrong body part; surgical or other invasive procedure performed on the wrong patient.

Provider-preventable condition means a condition that meets the definition of a “health care-acquired condition” or an “other provider-preventable condition” as defined in this section.

(c) *General rules.* (1) A State plan must provide that no medical assistance will be paid for “provider-preventable conditions” as defined in this section; and as applicable for individuals dually eligible for both the Medicare and Medicaid programs.

(2) No reduction in payment for a provider preventable condition will be imposed on a provider when the condition defined as a PPC for a particular patient existed prior to the initiation of treatment for that patient by that provider.

(3) Reductions in provider payment may be limited to the extent that the following apply:

- (i) The identified provider-preventable conditions would otherwise result in an increase in payment.
- (ii) The State can reasonably isolate for nonpayment the portion of the payment directly related to treatment for, and related to, the provider-preventable conditions.

(4) FFP will not be available for any State expenditure for provider-preventable conditions.

(5) A State plan must ensure that non-payment for provider-preventable conditions does not prevent access to services for Medicaid beneficiaries.

(d) *Reporting.* State plans must require that providers identify provider-preventable conditions that are associated with claims for Medicaid payment or with courses of treatment furnished to Medicaid patients for which Medicaid payment would otherwise be available.

[76 FR 32837, June 6, 2011]

§ 447.30 Withholding the Federal share of payments to Medicaid providers to recover Medicare overpayments.

(a) *Basis and purpose.* This section implements section 1914 of the Act, which provides for withholding the Federal share of Medicaid payments to a provider if the provider has not arranged to repay Medicare overpayments or has failed to provide information to determine the amount of the overpayments. The intent of the statute and regulations is to facilitate the recovery of Medicare overpayments. The provision enables recovery of overpayments when institutions have reduced participation in Medicare or when physicians and suppliers have submitted few or no claims under Medicare, thus not receiving enough in Medicare reimbursement to permit offset of the overpayment.

(b) *When withholding occurs.* The Federal share of Medicaid payments may be withheld from any provider specified in paragraph (c) of this section to recover Medicare overpayments that CMS has been unable to collect if the provider participates in Medicaid and—

(1) The provider has not made arrangements satisfactory to CMS to repay the Medicare overpayment; or

(2) CMS has been unable to collect information from the provider to determine the existence or amount of Medicare overpayment.

(c) The Federal share of Medicaid payments may be withheld with respect to the following providers:

(1) An institutional provider that has or previously had in effect a Medicare

provider agreement under section 1866 of the Act; and

(2) A Medicaid provider who has previously accepted Medicare payment on the basis of an assignment under section 1842(b)(3)(B)(ii) of the Act; and during the 12 month period preceding the quarter in which the Federal share is to be withheld for a Medicare overpayment, submitted no claims under Medicare or submitted claims which total less than the amount of overpayment.

(d) *Order to reduce State payment.* (1) CMS may, at its discretion, issue an order to the Medicaid agency of any State that is using the provider's services, to reduce its payment to the provider by the amount specified in paragraph (f) of this section.

(2) The order to reduce payment to the provider will remain in effect until—

(i) The Medicaid agency determines that the overpayment has been completely recovered; or

(ii) CMS terminates the order.

(3) CMS may withhold FFP from any State that does not comply with the order specified in paragraph (d)(1) of this section to reduce payment to the provider and claims FFP for the expenditure on its quarterly expenditure report.

(e) *Notice of withholding.* (1) Before the Federal share of payments may be withheld under this section, CMS will notify the provider and the Medicaid agency of each State that CMS believes may use the overpaid provider's services under Medicaid.

(2) The notice will include the instruction to reduce State payments, as provided under paragraph (d) of this section.

(3) CMS will send the notice referred to in paragraph (e)(1) by certified mail, return receipt requested.

(4) Each Medicaid agency must identify the amount of payment due the provider under Medicaid and give that information to CMS in the next quarterly expenditure report.

(5) The Medicaid agency may appeal any disallowance of FFP resulting from the withholding decision to the Grant Appeals Board, in accordance with 45 CFR part 16.

(f) Amount to be withheld. CMS may require the Medicaid agency to reduce the Federal share of its payment to the provider by the lesser of the following amounts.

(1) The Federal matching share of payments to the provider, or

(2) The total Medicare overpayment to the provider.

(g) *Effective date of withholding.* Withholding of payment will become effective no less than 60 days after the day on which the agency receives notice of withholding.

(h) *Duration of withholding.* No Federal funds are available in expenditures for services that are furnished by a provider specified in paragraph (c) of this section from the date on which the withholding becomes effective until the termination of withholding under paragraph (i) of this section.

(i) *Termination of withholding.* (1) CMS will terminate the order to reduce State payment if it determines that any of the following has occurred:

(i) The Medicare overpayment is completely recovered;

(ii) The institution or person makes an agreement satisfactory to CMS to repay the overpayment; or

(iii) CMS determines that there is no overpayment based on newly acquired evidence or a subsequent audit.

(2) CMS will notify each State that previously received a notice ordering the withholding that the withholding has been terminated.

(j) *Procedures for restoring excess withholding.* If an amount ultimately determined to be in excess of the Medicare overpayment is withheld, CMS will restore any excess funds withheld.

(k) *Recovery of funds from Medicaid agency.* A provider is not entitled to recover from the Medicaid agency the amount of payment withheld by the agency in accordance with a CMS order issued under paragraph (d) of this section.

[50 FR 19688, May 10, 1985; 50 FR 23307, June 3, 1985]

§ 447.31 Withholding Medicare payments to recover Medicaid overpayments.

(a) *Basis and purpose.* Section 1885 of the Act provides authority for CMS to

withhold Medicare payments to a Medicaid provider in order to recover Medicaid overpayments to the provider. Section 405.377 of this chapter sets forth the Medicare rules implementing section 1885, and specifies under what circumstances withholding will occur and the providers that are subject to withholding. This section establishes the procedures that the Medicaid agency must follow when requesting that CMS withhold Medicare payments.

(b) *Agency notice to providers.* (1) Before the agency requests recovery of a Medicaid overpayment through Medicare, the agency must send either or both of the following notices, in addition to that required under paragraph (b)(2) of this section, to the provider.

(i) Notice that—

(A) There has been an overpayment;

(B) Repayment is required; and

(C) The overpayment determination is subject to agency appeal procedures, but we may withhold Medicare payments while an appeal is in progress.

(ii) Notice that—

(A) Information is needed to determine the amount of overpayment if any; and

(B) The provider has at least 30 days in which to supply the information to the agency.

(2) Notice that, 30 days or later from the date of the notice, the agency intends to refer the case to CMS for withholding of Medicare payments.

(3) The agency must send all notices to providers by certified mail, return receipt requested.

(c) *Documentation to be submitted to CMS.* The agency must submit the following information or documentation to CMS (unless otherwise specified) with the request for withholding of Medicare payments.

(1) A statement of the reason that withholding is requested.

(2) The amount of overpayment, type of overpayment, date the overpayment was determined, and the closing date of the pertinent cost reporting period (if applicable).

(3) The quarter in which the overpayment was reported on the quarterly expenditure report (Form CMS 64).

(4) As needed, and upon request from CMS, the names and addresses of the provider's officers and owners for each

period that there is an outstanding overpayment.

(5) A statement of assurance that the State agency has met the notice requirements under paragraph (b) of this section.

(6) As needed, and upon request for CMS, copies of notices (under paragraph (b) of this section), and reports of contact or attempted contact with the provider concerning the overpayment, including any reduction or suspension of Medicaid payments made with respect to that overpayment.

(7) A copy of the provider's agreement with the agency under § 431.107 of this chapter.

(d) *Notification to terminate withholding.* (1) If an agency has requested withholding under this section, it must notify CMS if any of the following occurs:

(i) The Medicaid provider makes an agreement satisfactory to the agency to repay the overpayment;

(ii) The Medicaid overpayment is completely recovered; or

(iii) The agency determines that there is no overpayment, based on newly acquired evidence or subsequent audit.

(2) Upon receipt of notification from the State agency, CMS will terminate withholding.

(e) *Accounting for returned overpayment.* The agency must treat as a recovered overpayment the amounts received from CMS to offset Medicaid overpayments.

(f) *Procedures for restoring excess withholding.* The agency must establish procedures satisfactory to CMS to assure the return to the provider of amounts withheld under this section that are ultimately determined to be in excess of overpayments. Those procedures are subject to CMS review.

[50 FR 19689, May 10, 1985, as amended at 61 FR 63749, Dec. 2, 1996]

§ 447.40 Payments for reserving beds in institutions.

(a) The Medicaid agency may make payments to reserve a bed during a beneficiary's temporary absence from an inpatient facility, if—

(1) The State plan provides for such payments and specifies any limitations on the policy; and

(2) Absences for purposes other than required hospitalization (which cannot be anticipated and planned) are included in the patient's plan of care.

(b) An agency that pays for reserved beds in an inpatient facility may pay less for a reserved bed than an occupied bed if there is a cost differential between the two beds. (Section 1102 of the Act.)

[43 FR 45253, Sept. 29, 1978, as amended at 51 FR 24491, July 3, 1986]

§ 447.45 Timely claims payment.

(a) *Basis and purpose.* This section implements section 1902(a)(37) of the Act by specifying—

(1) State plan requirements for—

(i) Timely processing of claims for payment;

(ii) Prepayment and postpayment claims reviews; and

(2) Conditions under which the Administrator may grant waivers of the time requirements.

(b) *Definitions.* *Claim* means (1) a bill for services, (2) a line item of service, or (3) all services for one beneficiary within a bill.

Clean claim means one that can be processed without obtaining additional information from the provider of the service or from a third party. It includes a claim with errors originating in a State's claims system. It does not include a claim from a provider who is under investigation for fraud or abuse, or a claim under review for medical necessity.

A *shared health facility* means any arrangement in which—

(1) Two or more health care practitioners practice their professions at a common physical location;

(2) The practitioners share common waiting areas, examining rooms, treatment rooms, or other space, the services of supporting staff, or equipment;

(3) The practitioners have a person (who may himself be a practitioner)—

(i) Who is in charge of, controls, manages, or supervises substantial aspects of the arrangement or operation for the delivery of health or medical services at the common physical location other than the direct furnishing of professional health care services by the practitioners to their patients; or

(ii) Who makes available to the practitioners the services of supporting staff who are not employees of the practitioners; and

(iii) Who is compensated in whole or in part, for the use of the common physical location or related support services, on a basis related to amounts charged or collected for the services rendered or ordered at the location or on any basis clearly unrelated to the value of the services provided by the person; and

(4) At least one of the practitioners received payments on a fee-for-service basis under titles V, XVIII, and XIX in an amount exceeding \$5,000 for any one month during the preceding 12 months or in an aggregate amount exceeding \$40,000 during the preceding 12 months.

The term does not include a provider of services (as specified in § 489.2(b) of this chapter), a health maintenance organization (as defined in section 1301(a) of the Public Health Service Act), a hospital cooperative shared services organization meeting the requirements of section 501(e) of the Internal Revenue Code of 1954, or any public entity.

Third party is defined in § 433.135 of this chapter.

(c) *State plan requirements.* A State plan must (1) provide that the requirements of paragraphs (d), (e)(2), (f) and (g) of this section are met; and

(2) Specify the definition of a claim, as provided in paragraph (b) of this section, to be used in meeting the requirements for timely claims payment. The definition may vary by type of service (e.g., physician service, hospital service).

(d) *Timely processing of claims.* (1) The Medicaid agency must require providers to submit all claims no later than 12 months from the date of service.

(2) The agency must pay 90 percent of all clean claims from practitioners, who are in individual or group practice or who practice in shared health facilities, within 30 days of the date of receipt.

(3) The agency must pay 99 percent of all clean claims from practitioners, who are in individual or group practice or who practice in shared health facilities, within 90 days of the date of receipt.

(4) The agency must pay all other claims within 12 months of the date of receipt, except in the following circumstances:

(i) This time limitation does not apply to retroactive adjustments paid to providers who are reimbursed under a retrospective payment system, as defined in § 447.272 of this part.

(ii) If a claim for payment under Medicare has been filed in a timely manner, the agency may pay a Medicaid claim relating to the same services within 6 months after the agency or the provider receives notice of the disposition of the Medicare claim.

(iii) The time limitation does not apply to claims from providers under investigation for fraud or abuse.

(iv) The agency may make payments at any time in accordance with a court order, to carry out hearing decisions or agency corrective actions taken to resolve a dispute, or to extend the benefits of a hearing decision, corrective action, or court order to others in the same situation as those directly affected by it.

(5) The date of receipt is the date the agency receives the claim, as indicated by its date stamp on the claim.

(6) The date of payment is the date of the check or other form of payment.

(e) *Waivers.* (1) The Administrator may waive the requirements of paragraphs (d) (2) and (3) of this section upon request by an agency if he finds that the agency has shown good faith in trying to meet them. In deciding whether the agency has shown good faith, the Administrator will consider whether the agency has received an unusually high volume of claims which are not clean claims, and whether the agency is making diligent efforts to implement an automated claims processing and information retrieval system.

(2) The agency's request for a waiver must contain a written plan of correction specifying all steps it will take to meet the requirements of this section.

(3) The Administrator will review each case and if he approves a waiver, will specify its expiration date, based on the State's capability and efforts to meet the requirements of this section.

(f) *Prepayment and postpayment claims review.* (1) For all claims, the agency

must conduct prepayment claims review consisting of—

(i) Verification that the beneficiary was included in the eligibility file and that the provider was authorized to furnish the service at the time the service was furnished;

(ii) Checks that the number of visits and services delivered are logically consistent with the beneficiary's characteristics and circumstances, such as type of illness, age, sex, service location;

(iii) Verification that the claim does not duplicate or conflict with one reviewed previously or currently being reviewed;

(iv) Verification that a payment does not exceed any reimbursement rates or limits in the State plan; and

(v) Checks for third party liability within the requirements of § 433.137 of this chapter.

(2) The agency must conduct post-payment claims review that meets the requirements of parts 455 and 456 of this chapter, dealing with fraud and utilization control.

(g) *Reports.* The agency must provide any reports and documentation on compliance with this section that the Administrator may require.

(Secs. 1102 and 1902(a)(37) of the Social Security Act (42 U.S.C. 1302, 1396a(a)(37)))

[44 FR 30344, May 25, 1979, as amended at 55 FR 1434, Jan. 16, 1990]

§ 447.46 Timely claims payment by MCOs.

(a) *Basis and scope.* This section implements section 1932(f) of the Act by specifying the rules and exceptions for prompt payment of claims by MCOs.

(b) *Definitions.* "Claim" and "clean claim" have the meaning given those terms in § 447.45.

(c) *Contract requirements.*—(1) *Basic rule.* A contract with an MCO must provide that the organization will meet the requirements of § 447.45(d)(2) and (d)(3), and abide by the specifications of § 447.45(d)(5) and (d)(6).

(2) *Exception.* The MCO and its providers may, by mutual agreement, establish an alternative payment schedule.

Centers for Medicare & Medicaid Services, HHS

§ 447.51

(3) *Alternative schedule.* Any alternative schedule must be stipulated in the contract.

[67 FR 41115, June 14, 2002]

MEDICAID PREMIUMS AND COST SHARING

SOURCE: 78 FR 42307, July 15, 2013, unless otherwise noted.

§ 447.50 Premiums and cost sharing: Basis and purpose.

Sections 1902(a)(14), 1916 and 1916A of the Act permit states to require certain beneficiaries to share in the costs of providing medical assistance through premiums and cost sharing. Sections 447.52 through 447.56 specify the standards and conditions under which states may impose such premiums and or cost sharing.

§ 447.51 Definitions.

As used in this part—

Alternative non-emergency services provider means a Medicaid provider, such as a physician's office, health care clinic, community health center, hospital outpatient department, or similar provider that can provide clinically appropriate services in a timely manner.

Contract health service means any health service that is:

(1) Delivered based on a referral by, or at the expense of, an Indian health program; and

(2) Provided by a public or private medical provider or hospital that is not a provider or hospital of the IHS or any other Indian health program

Cost sharing means any copayment, coinsurance, deductible, or other similar charge.

Emergency services has the same meaning as in § 438.114 of this chapter.

Federal poverty level (FPL) means the Federal poverty level updated periodically in the FEDERAL REGISTER by the Secretary of Health and Human Services under the authority of 42 U.S.C. 9902(2).

Indian means any individual defined at 25 U.S.C. 1603(13), 1603(28), or 1679(a), or who has been determined eligible as an Indian, under 42 CFR 136.12. This means the individual:

(1) Is a member of a Federally-recognized Indian tribe;

(2) Resides in an urban center and meets one or more of the following four criteria:

(i) Is a member of a tribe, band, or other organized group of Indians, including those tribes, bands, or groups terminated since 1940 and those recognized now or in the future by the State in which they reside, or who is a descendant, in the first or second degree, of any such member;

(ii) Is an Eskimo or Aleut or other Alaska Native;

(iii) Is considered by the Secretary of the Interior to be an Indian for any purpose; or

(iv) Is determined to be an Indian under regulations promulgated by the Secretary;

(3) Is considered by the Secretary of the Interior to be an Indian for any purpose; or

(4) Is considered by the Secretary of Health and Human Services to be an Indian for purposes of eligibility for Indian health care services, including as a California Indian, Eskimo, Aleut, or other Alaska Native.

Indian health care provider means a health care program operated by the Indian Health Service (IHS) or by an Indian Tribe, Tribal Organization, or Urban Indian Organization (otherwise known as an I/T/U) as those terms are defined in section 4 of the Indian Health Care Improvement Act (25 U.S.C. 1603).

Inpatient stay means the services received during a continuous period of inpatient days in either a single medical institution or multiple medical institutions, and also includes a return to an inpatient medical institution after a brief period when the return is for treatment of a condition that was present in the initial period. Inpatient has the same meaning as in § 440.2 of this chapter.

Non-emergency services means any care or services that are not considered emergency services as defined in this section. This does not include any services furnished in a hospital emergency department that are required to be provided as an appropriate medical screening examination or stabilizing examination and treatment under section 1867 of the Act.

§ 447.52

42 CFR Ch. IV (10–1–23 Edition)

Outpatient services for purposes of imposing cost sharing means any service or supply not meeting the definition of an inpatient stay.

Preferred drugs means drugs that the state has identified on a publicly available schedule as being determined by a pharmacy and therapeutics committee for clinical efficacy as the most cost effective drugs within each therapeutically equivalent or therapeutically similar class of drugs, or all drugs within such a class if the agency does not differentiate between preferred and non-preferred drugs.

Premium means any enrollment fee, premium, or other similar charge.

§ 447.52 Cost sharing.

(a) *Applicability.* Except as provided in § 447.56(a) (exemptions), the agency

may impose cost sharing for any service under the state plan.

(b) *Maximum Allowable Cost Sharing.*

(1) At State option, cost sharing imposed for any service (other than for drugs and non-emergency services furnished in an emergency department, as described in §§ 447.53 and 447.54 respectively) may be established at or below the amounts shown in the following table (except that the maximum allowable cost sharing for individuals with family income at or below 100 percent of the FPL shall be increased each year, beginning October 1, 2015, by the percentage increase in the medical care component of the CPI-U for the period of September to September of the preceding calendar year, rounded to the next higher 5-cent increment):

Services	Maximum allowable cost sharing		
	Individuals with family income ≤100% of the FPL	Individuals with family income 101–150% of the FPL	Individuals with family income >150% of the FPL
Outpatient Services (<i>physician visit, physical therapy, etc.</i>)	\$4	10% of cost the agency pays	20% of cost the agency pays.
Inpatient Stay	75	10% of total cost the agency pays for the entire stay.	20% of total cost the agency pays for the entire stay.

(2) States with cost sharing for an inpatient stay that exceeds \$75, as of July 15, 2013, must submit a plan to CMS that provides for reducing inpatient cost sharing to \$75 on or before July 1, 2017.

(3) In states that do not have fee-for-service payment rates, any cost sharing imposed on individuals at any income level may not exceed the maximum amount established, for individuals with income at or below 100 percent of the FPL described in paragraph (b)(1) of this section.

(c) *Maximum cost sharing.* In no case shall the maximum cost sharing established by the agency be equal to or exceed the amount the agency pays for the service.

(d) *Targeted cost sharing.* (1) Except as provided in paragraph (d)(2) of this section, the agency may target cost sharing to specified groups of individuals with family income above 100 percent of the FPL.

(2) For cost sharing imposed for non-preferred drugs under § 447.53 and for

non-emergency services provided in a hospital emergency department under § 447.54, the agency may target cost sharing to specified groups of individuals regardless of income.

(e) *Denial of service for nonpayment.*

(1) The agency may permit a provider, including a pharmacy or hospital, to require an individual to pay cost sharing as a condition for receiving the item or service if—

(i) The individual has family income above 100 percent of the FPL,

(ii) The individual is not part of an exempted group under § 447.56(a), and

(iii) For cost sharing imposed for non-emergency services furnished in an emergency department, the conditions under § 447.54(d) of this part have been satisfied.

(2) Except as provided under paragraph (e)(1) of this section, the state plan must specify that no provider may deny services to an eligible individual on account of the individual's inability to pay the cost sharing.

Centers for Medicare & Medicaid Services, HHS

§ 447.53

(3) Nothing in this section shall be construed as prohibiting a provider from choosing to reduce or waive such cost sharing on a case-by-case basis.

(f) *Prohibition against multiple charges.* For any service, the agency may not impose more than one type of cost sharing.

(g) *Income-related charges.* Subject to the maximum allowable charges specified in §§ 447.52(b), 447.53(b) and 447.54(b), the plan may establish different cost sharing charges for individuals at different income levels. If the agency imposes such income-related charges, it must ensure that lower income individuals are charged less than individuals with higher income.

(h) *Services furnished by a managed care organization (MCO).* Contracts with MCOs must provide that any cost-sharing charges the MCO imposes on Medicaid enrollees are in accordance with the cost sharing specified in the state plan and the requirements set forth in §§ 447.50 through 447.57.

(i) *State Plan Specifications.* For each cost sharing charge imposed under this part, the state plan must specify—

(1) The service for which the charge is made;

(2) The group or groups of individuals that may be subject to the charge;

(3) The amount of the charge;

(4) The process used by the state to—

(i) Ensure individuals exempt from cost sharing are not charged,

(ii) Identify for providers whether cost sharing for a specific item or service may be imposed on an individual and whether the provider may require the individual, as a condition for receiving the item or service, to pay the cost sharing charge; and

(5) If the agency imposes cost sharing under § 447.54, the process by which hospital emergency room services are identified as non-emergency service.

§ 447.53 Cost sharing for drugs.

(a) The agency may establish differential cost sharing for preferred and non-preferred drugs. The provisions in § 447.56(a) shall apply except as the agency exercises the option under paragraph (d) of this section. All drugs will be considered preferred drugs if so identified or if the agency does not differentiate between preferred and non-preferred drugs.

(b) At state option, cost sharing for drugs may be established at or below the amounts shown in the following table (except that the maximum allowable cost sharing shall be increased each year, beginning October 1, 2015, by the percentage increase in the medical care component of the CPI-U for the period of September to September of the preceding calendar year, rounded to the next higher 5-cent increment. Such increase shall not be applied to any cost sharing that is based on the amount the agency pays for the service):

Services	Maximum allowable cost sharing	
	Individuals with family income ≤150% of the FPL	Individuals with family income >150% of the FPL
Preferred Drugs	\$4	\$4.
Non-Preferred Drugs	8	20% of the cost the agency pays.

(c) In states that do not have fee-for-service payment rates, cost sharing for prescription drugs imposed on individuals at any income level may not exceed the maximum amount established for individuals with income at or below 150 percent of the FPL in paragraph (b) of this section.

(d) For individuals otherwise exempt from cost sharing under § 447.56(a), the agency may impose cost sharing for non-preferred drugs, not to exceed the

maximum amount established in paragraph (b) of this section.

(e) In the case of a drug that is identified by the agency as a non-preferred drug within a therapeutically equivalent or therapeutically similar class of drugs, the agency must have a timely process in place so that cost sharing is limited to the amount imposed for a preferred drug if the individual's prescribing provider determines that a preferred drug for treatment of the

§ 447.54

42 CFR Ch. IV (10–1–23 Edition)

same condition either will be less effective for the individual, will have adverse effects for the individual, or both. In such cases the agency must ensure that reimbursement to the pharmacy is based on the appropriate cost sharing amount.

§ 447.54 Cost sharing for services furnished in a hospital emergency department.

(a) The agency may impose cost sharing for non-emergency services provided in a hospital emergency department. The provisions in § 447.56(a) shall apply except as the agency exercises

the option under paragraph (c) of this section.

(b) At state option, cost sharing for non-emergency services provided in an emergency department may be established at or below the amounts shown in the following table (except that the maximum allowable cost sharing identified for individuals with family income at or below 150 percent of the FPL shall be increased each year, beginning October 1, 2015, by the percentage increase in the medical care component of the CPI-U for the period of September to September of the preceding calendar year, rounded to the next higher 5-cent increment):

Services	Maximum allowable cost sharing	
	Individuals with family income ≤150% of the FPL	Individuals with family income >150% of the FPL
Non-emergency Use of the Emergency Department	\$8	No Limit.

(c) For individuals otherwise exempt from cost sharing under § 447.56(a), the agency may impose cost sharing for non-emergency use of the emergency department, not to exceed the maximum amount established in paragraph (b) of this section for individuals with income at or below 150 percent of the FPL.

(d) For the agency to impose cost sharing under paragraph (a) or (c) of this section for non-emergency use of the emergency department, the hospital providing the care must—

(1) Conduct an appropriate medical screening under § 489.24 subpart G to determine that the individual does not need emergency services.

(2) Before providing non-emergency services and imposing cost sharing for such services:

(i) Inform the individual of the amount of his or her cost sharing obligation for non-emergency services provided in the emergency department;

(ii) Provide the individual with the name and location of an available and accessible alternative non-emergency services provider;

(iii) Determine that the alternative provider can provide services to the individual in a timely manner with the imposition of a lesser cost sharing amount or no cost sharing if the indi-

vidual is otherwise exempt from cost sharing; and

(iv) Provide a referral to coordinate scheduling for treatment by the alternative provider.

(e) Nothing in this section shall be construed to:

(1) Limit a hospital's obligations for screening and stabilizing treatment of an emergency medical condition under section 1867 of the Act; or

(2) Modify any obligations under either state or federal standards relating to the application of a prudent-layperson standard for payment or coverage of emergency medical services by any managed care organization.

§ 447.55 Premiums.

(a) The agency may impose premiums upon individuals whose income exceeds 150 percent of the FPL, subject to the exemptions set forth in § 447.56(a) and the aggregate limitations set forth in § 447.56(f) of this part, except that:

(1) Pregnant women described in described in paragraph (a)(1)(ii) of this section may be charged premiums that do not exceed 10 percent of the amount by which their family income exceeds 150 percent of the FPL after deducting expenses for care of a dependent child.

(i) The agency may use state or local funds available under other programs for payment of a premium for such pregnant women. Such funds shall not be counted as income to the individual for whom such payment is made.

(ii) Pregnant women described in this clause include pregnant women eligible for Medicaid under § 435.116 of this chapter whose income exceeds the higher of –

(A) 150 percent FPL; and

(B) If applicable, the percent FPL described in section 1902(l)(2)(A)(iv) of the Act up to 185 percent FPL.

(2) Individuals provided medical assistance only under sections 1902(a)(10)(A)(ii)(XV) or 1902(a)(10)(A)(ii)(XVI) of the Act and the Ticket to Work and Work Incentives Improvement Act of 1999 (TWWIA), may be charged premiums on a sliding scale based on income.

(3) Disabled children provided medical assistance under section 1902(a)(10)(A)(ii)(XIX) of the Act in accordance with the Family Opportunity Act, may be charged premiums on a sliding scale based on income. The aggregate amount of the child's premium imposed under this paragraph and any premium that the parent is required to pay for family coverage under section 1902(cc)(2)(A)(i) of the Act, and other cost sharing charges may not exceed:

(i) 5 percent of the family's income if the family's income is no more than 200 percent of the FPL.

(ii) 7.5 percent of the family's income if the family's income exceeds 200 percent of the FPL but does not exceed 300 percent of the FPL.

(4) Qualified disabled and working individuals described in section 1905(s) of the Act, whose income exceeds 150 percent of the FPL, may be charged premiums on a sliding scale based on income, expressed as a percentage of Medicare cost sharing described at section 1905(p)(3)(A)(i) of the Act.

(5) Medically needy individuals, as defined in §§ 435.4 and 436.3 of this chapter, may be charged on a sliding scale. The agency must impose an appropriately higher charge for each higher level of family income, not to exceed \$20 per month for the highest level of family income.

(b) *Consequences for non-payment.* (1) For premiums imposed under paragraphs (a)(1), (a)(2), (a)(3) and (a)(4) of this section, the agency may not require a group or groups of individuals to prepay.

(2) Except for premiums imposed under paragraph (a)(5) of this section, the agency may terminate an individual from medical assistance on the basis of failure to pay for 60 days or more.

(3) For premiums imposed under paragraph (a)(2) of this section—

(i) For individuals with annual income exceeding 250 percent of the FPL, the agency may require payment of 100 percent of the premiums imposed under this paragraph for a year, such that payment is only required up to 7.5 percent of annual income for individuals whose annual income does not exceed 450 percent of the FPL.

(ii) For individuals whose annual adjusted gross income (as defined in section 62 of the Internal Revenue Code of 1986) exceeds \$75,000, increased by inflation each calendar year after 2000, the agency must require payment of 100 percent of the premiums for a year, except that the agency may choose to subsidize the premiums using state funds which may not be federally matched by Medicaid.

(4) For any premiums imposed under this section, the agency may waive payment of a premium in any case where the agency determines that requiring the payment will create an undue hardship for the individual or family.

(5) The agency may not apply further consequences or penalties for non-payment other than those listed in this section.

(c) *State plan specifications.* For each premium, enrollment fee, or similar charge imposed under paragraph (a) of this section, subject to the requirements of paragraph (b) of this section, the plan must specify—

(1) The group or groups of individuals that may be subject to the charge;

(2) The amount and frequency of the charge;

(3) The process used by the state to identify which beneficiaries are subject to premiums and to ensure individuals

§ 447.56

42 CFR Ch. IV (10–1–23 Edition)

exempt from premiums are not charged; and

(4) The consequences for an individual or family who does not pay.

§ 447.56 Limitations on premiums and cost sharing.

(a) *Exemptions.* (1) The agency may not impose premiums or cost sharing upon the following groups of individuals:

(i) Individuals ages 1 and older and under age 18 eligible under § 435.118 of this chapter.

(ii) Infants under age 1 eligible under § 435.118 of this chapter whose income does not exceed the higher of—

(A) 150 percent FPL (for premiums) or 133 percent FPL (for cost sharing); and

(B) If applicable, the percent FPL described in section 1902(l)(2)(A)(iv) of the Act up to 185 percent FPL.

(iii) Individuals under age 18 eligible under §§ 435.120–435.122 or § 435.130 of this chapter.

(iv) Children for whom child welfare services are made available under Part B of title IV of the Act on the basis of being a child in foster care and individuals receiving benefits under Part E of that title, without regard to age.

(v) At state option, individuals under age 19, 20 or age 21, eligible under § 435.222 of this chapter.

(vi) Disabled children, except as provided at § 447.55(a)(4) (premiums), who are receiving medical assistance by virtue of the application of the Family Opportunity Act in accordance with sections 1902(a)(10)(A)(ii)(XIX) and 1902(cc) of the Act.

(vii) Pregnant women, except for premiums allowed under § 447.55(a)(1) and cost sharing for services specified in the state plan as not pregnancy-related, during the pregnancy and through the postpartum period which begins on the last day of pregnancy and extends through the end of the month in which the 60-day period following termination of pregnancy ends.

(viii) Any individual whose medical assistance for services furnished in an institution, or at state option in a home and community-based setting, is reduced by amounts reflecting available income other than required for personal needs.

(ix) An individual receiving hospice care, as defined in section 1905(o) of the Act.

(x) An Indian who is eligible to receive or has received an item or service furnished by an Indian health care provider or through referral under contract health services is exempt from premiums. Indians who are currently receiving or have ever received an item or service furnished by an Indian health care provider or through referral under contract health services are exempt from all cost sharing.

(xi) Individuals who are receiving Medicaid because of the state's election to extend coverage as authorized by § 435.213 of this chapter (Breast and Cervical Cancer).

(2) The agency may not impose cost sharing for the following services:

(i) Emergency services as defined at section 1932(b)(2) of the Act and § 438.114(a) of this chapter;

(ii) Family planning services and supplies described in section 1905(a)(4)(C) of the Act, including contraceptives and pharmaceuticals for which the State claims or could claim Federal match at the enhanced rate under section 1903(a)(5) of the Act for family planning services and supplies;

(iii) Preventive services, at a minimum the services specified at § 457.520 of chapter D, provided to children under 18 years of age regardless of family income, which reflect the well-baby and well child care and immunizations in the Bright Futures guidelines issued by the American Academy of Pediatrics; and

(iv) Pregnancy-related services, including those defined at §§ 440.210(a)(2) and 440.250(p) of this chapter, and counseling and drugs for cessation of tobacco use All services provided to pregnant women will be considered as pregnancy-related, except those services specifically identified in the state plan as not being related to the pregnancy.

(v) Provider-preventable services as defined in § 447.26(b).

(b) *Applicability.* Except as permitted under § 447.52(d) (targeted cost sharing), the agency may not exempt additional individuals from cost sharing obligations that apply generally to the population at issue.

(c) *Payments to providers.* (1) Except as provided under paragraphs (c)(2) and (c)(3) of this section, the agency must reduce the payment it makes to a provider by the amount of a beneficiary's cost sharing obligation, regardless of whether the provider has collected the payment or waived the cost sharing.

(2) For items and services provided to Indians who are exempt from cost sharing under paragraph (a)(1)(x) of this section, the agency may not reduce the payment it makes to a provider, including an Indian health care provider, by the amount of cost sharing that will otherwise be due from the Indian.

(3) For those providers that the agency reimburses under Medicare reasonable cost reimbursement principles, in accordance with subpart B of this part, an agency may increase its payment to offset uncollected cost sharing charges that are bad debts of providers.

(d) *Payments to managed care organizations.* If the agency contracts with a managed care organization, the agency must calculate its payments to the organization to include cost sharing established under the state plan, for beneficiaries not exempt from cost sharing under paragraph (a) of this section, regardless of whether the organization imposes the cost sharing on its recipient members or the cost sharing is collected.

(e) *Payments to states.* No FFP in the state's expenditures for services is available for—

(1) Any premiums or cost sharing amounts that recipients should have paid under §§ 447.52 through 447.55 (except for amounts that the agency pays as bad debts of providers under paragraph (c)(3) of this section; and

(2) Any amounts paid by the agency on behalf of ineligible individuals, whether or not the individual had paid any required premium, except for amounts for premium assistance to obtain coverage for eligible individuals through family coverage that may include ineligible individuals when authorized in the approved state plan.

(f) *Aggregate limits.* (1) Medicaid premiums and cost sharing incurred by all individuals in the Medicaid household may not exceed an aggregate limit of 5 percent of the family's income applied

on either a quarterly or monthly basis, as specified by the agency.

(2) If the state adopts premiums or cost sharing rules that could place beneficiaries at risk of reaching the aggregate family limit, the state plan must indicate a process to track each family's incurred premiums and cost sharing through an effective mechanism that does not rely on beneficiary documentation.

(3) The agency must inform beneficiaries and providers of the beneficiaries aggregate limit and notify beneficiaries and providers when a beneficiary has incurred out-of-pocket expenses up to the aggregate family limit and individual family members are no longer subject to cost sharing for the remainder of the family's current monthly or quarterly cap period.

(4) The agency must have a process in place for beneficiaries to request a reassessment of their family aggregate limit if they have a change in circumstances or if they are being terminated for failure to pay a premium.

(5) Nothing in paragraph (f) shall preclude the agency from establishing additional aggregate limits, including but not limited to a monthly limit on cost sharing charges for a particular service.

§ 447.57 Beneficiary and public notice requirements.

(a) The agency must make available a public schedule describing current premiums and cost sharing requirements containing the following information:

(1) The group or groups of individuals who are subject to premiums and/or cost sharing and the current amounts;

(2) Mechanisms for making payments for required premiums and cost sharing charges;

(3) The consequences for an applicant or recipient who does not pay a premium or cost sharing charge;

(4) A list of hospitals charging cost sharing for non-emergency use of the emergency department; and

(5) A list of preferred drugs or a mechanism to access such a list, including the agency Web site.

(b) The agency must make the public schedule available to the following in a

manner that ensures that affected applicants, beneficiaries, and providers are likely to have access to the notice:

(1) Beneficiaries, at the time of their enrollment and reenrollment after a redetermination of eligibility, and when premiums, cost sharing charges, or aggregate limits are revised, notice to beneficiaries must be in accordance with § 435.905(b) of this chapter;

(2) Applicants, at the time of application;

(3) All participating providers; and

(4) The general public.

(c) Prior to submitting to the Centers for Medicare & Medicaid Services for approval a state plan amendment (SPA) to establish or substantially modify existing premiums or cost sharing, or change the consequences for non-payment, the agency must provide the public with advance notice of the SPA, specifying the amount of premiums or cost sharing and who is subject to the charges. The agency must provide a reasonable opportunity to comment on such SPAs. The agency must submit documentation with the SPA to demonstrate that these requirements were met. If premiums or cost sharing is substantially modified during the SPA approval process, the agency must provide additional public notice.

§ 447.88 Options for claiming FFP payment for section 1920A presumptive eligibility medical assistance payments.

(a) The FMAP rate for medical assistance payments made available to a child during a presumptive eligibility period under section 1920A of the Act is the regular FMAP under title XIX, based on the category of medical assistance; that is, the enhanced FMAP is not available for section 1920A presumptive eligibility expenditures.

(b) States have the following 3 options for identifying Medicaid section 1920A presumptive eligibility expenditures and the application of payments for those expenditures:

(1) A State may identify Medicaid section 1920A presumptive eligibility expenditures in the quarter expended with no further adjustment based on the results of a subsequent actual eligibility determination (if any).

(2) A State may identify Medicaid section 1920A presumptive eligibility expenditures in the quarter expended but may adjust reported expenditures based on results of the actual eligibility determination (if any) to reflect the actual eligibility status of the individual, if other than presumptively eligible.

(3) A State may elect to delay submission of claims for payments of section 1920A presumptive eligibility expenditures until after the actual eligibility determination (if any) is made and, at that time identify such expenditures based on the actual eligibility status of individuals if other than presumptively eligible. At that time, the State would, as appropriate, recategorize the medical assistance expenditures made during the section 1920A presumptive eligibility period based on the results of the actual eligibility determination, and claim them appropriately.

[65 FR 33622, May 24, 2000]

§ 447.90 FFP: Conditions related to pending investigations of credible allegations of fraud against the Medicaid program.

(a) *Basis and purpose.* This section implements section 1903(i)(2)(C) of the Act which prohibits payment of FFP with respect to items or services furnished by an individual or entity with respect to which there is pending an investigation of a credible allegation of fraud except under specified circumstances.

(b) *Denial of FFP.* No FFP is available with respect to any amount expended for an item or service furnished by any individual or entity to whom a State has failed to suspend payments in whole or part as required by § 455.23 of this chapter unless—

(1) The item or service is furnished as an emergency item or service, but not including items or services furnished in an emergency room of a hospital; or

(2) The State determines and documents that good cause as specified at § 455.23(e) or (f) of this chapter exists not to suspend such payments, to suspend payments only in part, or to discontinue a previously imposed payment suspension.

[76 FR 5965, Feb. 2, 2011]

**Subpart B—Payment Methods:
General Provisions****§ 447.200 Basis and purpose.**

This subpart prescribes State plan requirements for setting payment rates to implement, in part, section 1902(a)(30) of the Act, which requires that payments for services be consistent with efficiency, economy, and quality of care.

[46 FR 48560, Oct. 1, 1981]

§ 447.201 State plan requirements.

(a) A State plan must provide that the requirements in this subpart are met.

(b) The plan must describe the policy and the methods to be used in setting payment rates for each type of service included in the State's Medicaid program.

§ 447.202 Audits.

The Medicaid agency must assure appropriate audit of records if payment is based on costs of services or on a fee plus cost of materials.

§ 447.203 Documentation of access to care and service payment rates.

(a) The agency must maintain documentation of payment rates and make it available to HHS upon request.

(b) In consultation with the medical care advisory committee under § 431.12 of this chapter, the agency must develop a medical assistance access monitoring review plan and update it, in accordance with the timeline established in paragraph (b)(5) of this section. The plan must be published and made available to the public for review and comment for a period of no less than 30 days, prior to being finalized and submitted to CMS for review.

(1) *Access monitoring review plan data requirements.* The access monitoring review plan must include an access monitoring analysis that includes: Data sources, methodologies, baselines, assumptions, trends and factors, and thresholds that analyze and inform determinations of the sufficiency of access to care which may vary by geographic location within the state and will be used to inform state policies affecting access to Medicaid services

such as provider payment rates, as well as the items specified in this section. The access monitoring review plan must specify data elements that will support the state's analysis of whether beneficiaries have sufficient access to care. The plan and monitoring analysis will consider:

(i) The extent to which beneficiary needs are fully met;

(ii) The availability of care through enrolled providers to beneficiaries in each geographic area, by provider type and site of service;

(iii) Changes in beneficiary utilization of covered services in each geographic area.

(iv) The characteristics of the beneficiary population (including considerations for care, service and payment variations for pediatric and adult populations and for individuals with disabilities); and

(v) Actual or estimated levels of provider payment available from other payers, including other public and private payers, by provider type and site of service.

(2) *Access monitoring review plan beneficiary and provider input.* The access monitoring review plan must include an analysis of data and the state's conclusion of the sufficiency of access to care that will consider relevant provider and beneficiary information, including information obtained through public rate-setting processes, the medical care advisory committees established under § 431.12 of this chapter, the processes described in paragraph (b)(7) of this section, and other mechanisms (such as letters from providers and beneficiaries to State or Federal officials), which describe access to care concerns or suggestions for improvement in access to care.

(3) *Access monitoring review plan comparative payment rate review.* For each of the services reviewed, by the provider types and sites of service (e.g., primary care physicians in office settings) described within the access monitoring analysis, the access monitoring review plan must include an analysis of the percentage comparison of Medicaid payment rates to other public (including, as practical, Medicaid managed care rates) and private health insurer

payment rates within geographic areas of the state.

(4) *Access monitoring review plan standards and methodologies.* The access monitoring review plan and analysis must, at a minimum, include: The specific measures that the state uses to analyze access to care (such as, but not limited to: Time and distance standards, providers participating in the Medicaid program, providers with open panels, providers accepting new Medicaid beneficiaries, service utilization patterns, identified beneficiary needs, data on beneficiary and provider feedback and suggestions for improvement, the availability of telemedicine and telehealth, and other similar measures), how the measures relate to the access monitoring review plan described in paragraph (b)(1) of this section, baseline and updated data associated with the measures, any issues with access that are discovered as a result of the review, and the state agency's recommendations on the sufficiency of access to care based on the review. In addition, the access monitoring review plan must include procedures to periodically monitor access for at least 3 years after the implementation of a provider rate reduction or restructuring, as discussed in paragraph (b)(6)(ii) of this section.

(5) *Access monitoring review plan timeframe.* Beginning October 1, 2016 the State agency must:

(i) Develop its access monitoring review plan by October 1 of the first review year, and update this plan by October 1 of each subsequent review period;

(ii) For all of the following, complete an analysis of the data collected using the methodology specified in the access monitoring review plan in paragraphs (b)(1) through (4) of this section, with a separate analysis for each provider type and site of service furnishing the type of service at least once every 3 years:

(A) Primary care services (including those provided by a physician, FQHC, clinic, or dental care).

(B) Physician specialist services (for example, cardiology, urology, radiology).

(C) Behavioral health services (including mental health and substance use disorder).

(D) Pre- and post-natal obstetric services including labor and delivery.

(E) Home health services.

(F) Any additional types of services for which a review is required under paragraph (b)(6) of this section;

(G) Additional types of services for which the state or CMS has received a significantly higher than usual volume of beneficiary, provider or other stakeholder access complaints for a geographic area, including complaints received through the mechanisms for beneficiary input consistent with paragraph (b)(7) of this section; and

(H) Additional types of services selected by the state.

(6) *Special provisions for proposed provider rate reductions or restructuring—(i) Compliance with access requirements.* The State shall submit with any State plan amendment that proposes to reduce provider payment rates or restructure provider payments in circumstances when the changes could result in diminished access, an access review, in accordance with the access monitoring review plan, for each service affected by the State plan amendments as described under paragraph (b)(1) of this section completed within the prior 12 months. That access review must demonstrate sufficient access for any service for which the state agency proposes to reduce payment rates or restructure provider payments to demonstrate compliance with the access requirements at section 1902(a)(30)(A) of the Act.

(ii) *Monitoring procedures.* In addition to the analysis conducted through paragraphs (b)(1) through (4) of this section that demonstrates access to care is sufficient as of the effective date of the State plan amendment, a state must establish procedures in its access monitoring review plan to monitor continued access to care after implementation of state plan service rate reduction or payment restructuring. The frequency of monitoring should be informed by the public review described in paragraph (b) of this section and should be conducted no less frequently than annually.

(A) The procedures must provide for a periodic review of state determined and clearly defined measures, baseline data, and thresholds that will serve to demonstrate continued sustained service access, consistent with efficiency, economy, and quality of care.

(B) The monitoring procedures must be in place for a period of at least 3 years after the effective date of the state plan amendment that authorizes the payment reductions or restructuring.

(7) *Mechanisms for ongoing beneficiary and provider input.* (i) States must have ongoing mechanisms for beneficiary and provider input on access to care (through hotlines, surveys, ombudsman, review of grievance and appeals data, or another equivalent mechanisms), consistent with the access requirements and public process described in § 447.204.

(ii) States should promptly respond to public input through these mechanisms citing specific access problems, with an appropriate investigation, analysis, and response.

(iii) States must maintain a record of data on public input and how the state responded to this input. This record will be made available to CMS upon request.

(8) *Addressing access questions and remediation of inadequate access to care.* When access deficiencies are identified, the state must, within 90 days after discovery, submit a corrective action plan with specific steps and timelines to address those issues. While the corrective action plan may include longer-term objectives, remediation of the access deficiency should take place within 12 months.

(i) The state's corrective actions may address the access deficiencies through a variety of approaches, including, but not limited to: Increasing payment rates, improving outreach to providers, reducing barriers to provider enrollment, providing additional transportation to services, providing for telemedicine delivery and telehealth, or improving care coordination.

(ii) The resulting improvements in access must be measured and sustainable.

[43 FR 45253, Sept. 29, 1978, as amended at 80 FR 67611, Nov. 2, 2015; 81 FR 21480, Apr. 12, 2016]

§ 447.204 Medicaid provider participation and public process to inform access to care.

(a) The agency's payments must be consistent with efficiency, economy, and quality of care and sufficient to enlist enough providers so that services under the plan are available to beneficiaries at least to the extent that those services are available to the general population. In reviewing payment sufficiency, states are required to consider, prior to the submission of any state plan amendment that proposes to reduce or restructure Medicaid service payment rates:

(1) The data collected, and the analysis performed, under § 447.203.

(2) Input from beneficiaries, providers and other affected stakeholders on beneficiary access to the affected services and the impact that the proposed rate change will have, if any, on continued service access. The state should maintain a record of the public input and how it responded to such input.

(b) The state must submit to CMS with any such proposed state plan amendment affecting payment rates:

(1) Its most recent access monitoring review plan performed under § 447.203(b)(6) for the services at issue;

(2) An analysis of the effect of the change in payment rates on access; and

(3) A specific analysis of the information and concerns expressed in input from affected stakeholders.

(c) CMS may disapprove a proposed state plan amendment affecting payment rates if the state does not include in its submission the supporting documentation described in paragraph (b) of this section, for failure to document compliance with statutory access requirements. Any such disapproval would follow the procedures described at part 430 Subpart B of this title.

(d) To remedy an access deficiency, CMS may take a compliance action

§ 447.205

using the procedures described at § 430.35 of this chapter.

[80 FR 67612, Nov. 2, 2015]

§ 447.205 Public notice of changes in Statewide methods and standards for setting payment rates.

(a) *When notice is required.* Except as specified in paragraph (b) of this section, the agency must provide public notice of any significant proposed change in its methods and standards for setting payment rates for services.

(b) *When notice is not required.* Notice is not required if—

(1) The change is being made to conform to Medicare methods or levels of reimbursement;

(2) The change is required by court order; or

(3) The change is based on changes in wholesalers' or manufacturers' prices of drugs or materials, if the agency's reimbursement system is based on material cost plus a professional fee.

(c) *Content of notice.* The notice must—

(1) Describe the proposed change in methods and standards;

(2) Give an estimate of any expected increase or decrease in annual aggregate expenditures;

(3) Explain why the agency is changing its methods and standards;

(4) Identify a local agency in each county (such as the social services agency or health department) where copies of the proposed changes are available for public review;

(5) Give an address where written comments may be sent and reviewed by the public; and

(6) If there are public hearings, give the location, date and time for hearings or tell how this information may be obtained.

(d) *Publication of notice.* The notice must—

(1) Be published before the proposed effective date of the change; and

(2) Appear as a public announcement in one of the following publications:

(i) A State register similar to the FEDERAL REGISTER.

(ii) The newspaper of widest circulation in each city with a population of 50,000 or more.

42 CFR Ch. IV (10–1–23 Edition)

(iii) The newspaper of widest circulation in the State, if there is no city with a population of 50,000 or more.

(iv) A Web site developed and maintained by the single State agency or other responsible State agency that is accessible to the general public, provided that the Web site:

(A) Is clearly titled and can be easily reached from a hyperlink included on Web sites that provide general information to beneficiaries and providers, and included on the State-specific page on the Federal Medicaid Web site.

(B) Is updated for bulletins on a regular and known basis (for example, the first day of each month), and the public notice is issued as part of the regular update;

(C) Includes the actual date it was released to the public on the Web site; or

(D) Complies with national standards to ensure access to individuals with disabilities; and

(E) Includes protections to ensure that the content of the issued notice is not modified after the initial publication and is maintained on the Web site for no less than a 3-year period.

[46 FR 58680, Dec. 3, 1981; 47 FR 8567, Mar. 1, 1982, as amended at 48 FR 56057, Dec. 19, 1983; 80 FR 67612, Nov. 2, 2015]

Subpart C—Payment for Inpatient Hospital and Long-Term Care Facility Services

SOURCE: 46 FR 47971, Sept. 30, 1981, unless otherwise noted.

§ 447.250 Basis and purpose.

(a) This subpart implements section 1902(a)(13)(A) of the Act, which requires that the State plan provide for payment for hospital and long-term care facility services through the use of rates that the State finds, and makes assurances satisfactory to the Secretary, are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated facilities to provide services in conformity with State and Federal laws, regulations, and quality and safety standards.

(b) Section 447.253(a)(2) implements section 1902(a)(30) of the Act, which requires that payments be consistent

with efficiency, economy, and quality of care;

(c) Sections 447.253 (c) and (d) implement sections 1902(a)(13)(B) and 1902(a)(13)(C) of the Act, which require a State Medicaid agency to make certain assurances to the Secretary regarding increases in payments resulting solely from changes in ownerships of hospitals, NFs, and ICFs/IID.

(d) Section 447.271 implements section 1903(i)(3) of the Act, which requires that payments for inpatient hospital services not exceed the hospital's customary charges.

(e) Section 447.280 implements section 1913(b) of the Act, which concerns reimbursement for long-term care services furnished by swing-bed hospitals.

[48 FR 56057, Dec. 19, 1983, as amended at 57 FR 43921, Sept. 23, 1992]

PAYMENT RATES

§ 447.251 Definitions.

For the purposes of this subpart—

Long-term care facility services means intermediate care facility services for Individuals with Intellectual Disabilities (ICF/IID) and nursing facility (NF) services.

Provider means an institution that furnishes inpatient hospital services or an institution that furnishes long-term care facility services.

[46 FR 47971, Sept. 30, 1981, as amended at 54 FR 5359, Feb. 2, 1989; 56 FR 48867, Sept. 26, 1991]

§ 447.252 State plan requirements.

(a) The plan must provide that the requirements of this subpart are met.

(b) The plan must specify comprehensively the methods and standards used by the agency to set payment rates in a manner consistent with § 430.10 of this chapter.

(c) If the agency chooses to apply the cost limits established under Medicare (see § 413.30 of this chapter) on an individual provider basis, the plan must specify this requirement.

(Approved by the Office of Management and Budget under control number 0938-0193)

[48 FR 56058, Dec. 19, 1983, as amended at 51 FR 34833, Sept. 30, 1986]

§ 447.253 Other requirements.

(a) *State assurances.* In order to receive CMS approval of a State plan change in payment methods and standards, the Medicaid agency must make assurances satisfactory to CMS that the requirements set forth in paragraphs (b) through (i) of this section are being met, must submit the related information required by § 447.255 of this subpart, and must comply with all other requirements of this subpart.

(b) *Findings.* Whenever the Medicaid agency makes a change in its methods and standards, but not less often than annually, the agency must make the following findings:

(1) *Payment rates.* (i) The Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers to provide services in conformity with applicable State and Federal laws, regulations, and quality and safety standards.

(ii) With respect to inpatient hospital services—

(A) The methods and standards used to determine payment rates take into account the situation of hospitals which serve a disproportionate number of low income patients with special needs;

(B) If a State elects in its State plan to cover inappropriate level of care services (that is, services furnished to hospital inpatients who require a lower covered level of care such as skilled nursing or intermediate care services) under conditions similar to those described in section 1861(v)(1)(G) of the Act, the methods and standards used to determine payment rates must specify that the payments for this type of care must be made at rates lower than those for inpatient hospital level of care services, reflecting the level of care actually received, in a manner consistent with section 1861(v)(1)(G) of the Act; and

(C) The payment rates are adequate to assure that beneficiaries have reasonable access, taking into account geographic location and reasonable travel time, to inpatient hospital services of adequate quality.

(iii) With respect to nursing facility services—

(A) Except for preadmission screening for individuals with mental illness and Intellectual Disability under § 483.20(f) of this Chapter, the methods and standards used to determine payment rates take into account the costs of complying with the requirements of part 483 subpart B of this chapter;

(B) The methods and standards used to determine payment rates provide for an appropriate reduction to take into account the lower costs (if any) of the facility for nursing care under a waiver of the requirement in § 483.35(e) of this Chapter to provide licensed nurses on a 24-hour basis;

(C) The State establishes procedures under which the data and methodology used in establishing payment rates are made available to the public.

(2) *Upper payment limits.* The agency's proposed payment rate will not exceed the upper payment limits as specified in § 447.272.

(c) *Changes in ownership of hospitals.* In determining payment when there has been a sale or transfer of the assets of a hospital, the State's methods and standards must provide that payment rates can reasonably be expected not to increase in the aggregate solely as a result of changes of ownership, more than the payments would increase under Medicare under §§ 413.130, 413.134, 413.153, and 413.157 of this chapter, insofar as these sections affect payments for depreciation, interest on capital indebtedness, return on equity capital (if applicable), acquisition costs for which payments were previously made to prior owners, and the recapture of depreciation.

(d) *Changes in ownership of NFs and ICFs/IID.* In determining payment when there has been a sale or transfer of assets of an NF or ICF/IID, the State's methods and standards must provide the following depending upon the date of the transfer.

(1) For transfers on or after July 18, 1984 but before October 1, 1985, the State's methods and standards must provide that payment rates can reasonably be expected not to increase in the aggregate, solely as the result of a change in ownership, more than payments would increase under Medicare

under §§ 413.130, 413.134, 413.153 and 413.157 of this chapter, insofar as these sections affect payment for depreciation, interest on capital indebtedness, return on equity capital (if applicable), acquisition costs for which payments were previously made to prior owners, and the recapture of depreciation.

(2) For transfers on or after October 1, 1985, the State's methods and standards must provide that the valuation of capital assets for purposes of determining payment rates for NFs and ICFs/IID is not to increase (as measured from the date of acquisition by the seller to the date of the change of ownership) solely as a result of a change of ownership, by more than the lesser of—

(i) One-half of the percentage increase (as measured from the date of acquisition by the seller to the date of the change of ownership, or, if necessary, as extrapolated retrospectively by the Secretary) in the Dodge construction index applied in the aggregate with respect to those facilities that have undergone a change of ownership during the fiscal year; or

(ii) One-half of the percentage increase (as measured from the date of acquisition by the seller to the date of the change of ownership) in the Consumer Price Index for All Urban Consumers (CPI-U) (United States city average) applied in the aggregate with respect to those facilities that have undergone a change of ownership during the fiscal year.

(e) *Provider appeals.* The Medicaid agency must provide an appeals or exception procedure that allows individual providers an opportunity to submit additional evidence and receive prompt administrative review, with respect to such issues as the agency determines appropriate, of payment rates.

(f) *Uniform cost reporting.* The Medicaid agency must provide for the filing of uniform cost reports by each participating provider.

(g) *Audit requirements.* The Medicaid agency must provide for periodic audits of the financial and statistical records of participating providers.

(h) *Public notice.* The Medicaid agency must provide that it has complied with the public notice requirements in

§ 447.205 of this part when it is proposing significant changes to its methods or standards for setting payment rates for inpatient hospital or LTC facility services.

(i) *Rates paid.* The Medicaid agency must pay for inpatient hospital and long term care services using rates determined in accordance with methods and standards specified in an approved State plan.

[48 FR 56057, Dec. 19, 1983, as amended at 52 FR 28147, July 28, 1987; 54 FR 5359, Feb. 2, 1989; 57 FR 43921, Sept. 23, 1992; 81 FR 68847, Oct. 4, 2016]

§ 447.255 Related information.

The Medicaid agency must submit, with the assurances described in § 447.253(a), the following information:

(a) The amount of the estimated average proposed payment rate for each type of provider (hospital, ICF/IID, or nursing facility), and the amount by which that estimated average rate increased or decreased relative to the average payment rate in effect for each type or provider for the immediately preceding rate period;

(b) An estimate of the short-term and, to the extent feasible, long-term effect the change in the estimated average rate will have on—

(1) The availability of services on a Statewide and geographic area basis;

(2) The type of care furnished;

(3) The extent of provider participation; and

(4) The degree to which costs are covered in hospitals that serve a disproportionate number of low income patients with special needs.

[48 FR 56058, Dec. 19, 1983, as amended at 54 FR 5359, Feb. 2, 1989; 56 FR 48867, Sept. 26, 1991; 57 FR 43924, Sept. 23, 1992; 57 FR 46431, Oct. 8, 1992]

§ 447.256 Procedures for CMS action on assurances and State plan amendments.

(a) *Criteria for approval.* (1) CMS approval action on State plans and State plan amendments, is taken in accordance with subpart B of part 430 of this chapter and sections 1116, 1902(b) and 1915(f) of the Act.

(2) In the case of State plan and plan amendment changes in payment methods and standards, CMS bases its ap-

proval on the acceptability of the Medicaid agency's assurances that the requirements of § 447.253 have been met, and the State's compliance with the other requirements of this subpart.

(b) *Time limit.* CMS will send a notice to the agency of its determination as to whether the assurances regarding a State plan amendment are acceptable within 90 days of the date CMS receives the assurances described in § 447.253, and the related information described in § 447.255 of this subpart. If CMS does not send a notice to the agency of its determination within this time limit and the provisions in paragraph (a) of this section are met, the assurances and/or the State plan amendment will be deemed accepted and approved.

(c) *Effective date.* A State plan amendment that is approved will become effective not earlier than the first day of the calendar quarter in which an approvable amendment is submitted in accordance with §§ 430.20 of this chapter and 447.253.

[48 FR 56058, Dec. 19, 1983, as amended at 52 FR 28147, July 28, 1987]

FEDERAL FINANCIAL PARTICIPATION

§ 447.257 FFP: Conditions relating to institutional reimbursement.

FFP is not available for a State's expenditures for hospital inpatient or long-term care facility services that are in excess of the amounts allowable under this subpart.

[52 FR 28147, July 28, 1987]

UPPER LIMITS

§ 447.271 Upper limits based on customary charges.

(a) Except as provided in paragraph (b) of this section, the agency may not pay a provider more for inpatient hospital services under Medicaid than the provider's customary charges to the general public for the services.

(b) The agency may pay a public provider that provides services free or at a nominal charge at the same rate that would be used if the provider charges were equal to or greater than its costs.

[75 FR 73975, Nov. 30, 2010]

§ 447.272

§ 447.272 Inpatient services: Application of upper payment limits.

(a) *Scope.* This section applies to rates set by the agency to pay for inpatient services furnished by hospitals, NFs, and ICFs/IID within one of the following categories:

(1) State government-owned or operated facilities (that is, all facilities that are either owned or operated by the State).

(2) Non-State government-owned or operated facilities (that is, all government facilities that are neither owned nor operated by the State).

(3) Privately-owned and operated facilities.

(b) *General rules.* (1) Upper payment limit refers to a reasonable estimate of the amount that would be paid for the services furnished by the group of facilities under Medicare payment principles in subchapter B of this chapter.

(2) Except as provided for in paragraph (c) of this section, aggregate Medicaid payments to a group of facilities within one of the categories described in paragraph (a) of this section may not exceed the upper payment limit described in paragraph (b)(1) of this section.

(c) *Exceptions*—(1) *Indian Health Services and tribal facilities.* The limitation in paragraph (b) of this section does not apply to Indian Health Services facilities and tribal facilities that are funded through the Indian Self-Determination and Education Assistance Act (Pub. L. 93-638).

(2) *Disproportionate share hospitals.* The limitation in paragraph (b) of this section does not apply to payment adjustments made under section 1923 of the Act that are made under a State plan to hospitals found to serve a disproportionate number of low-income patients with special needs as provided in section 1902(a)(13)(A)(iv) of the Act. Disproportionate share hospital (DSH) payments are subject to the following limits:

(i) The aggregate DSH limit using the Federal share of the DSH limit under section 1923(f) of the Act.

(ii) The hospital-specific DSH limit in section 1923(g) of the Act.

(iii) The aggregate DSH limit for institutions for mental disease (IMDs) under section 1923(h) of the Act.

42 CFR Ch. IV (10-1-23 Edition)

(d) *Compliance dates.* Except as permitted under paragraph (e) of this section, a State must comply with the upper payment limit described in paragraph (b) of this section by one of the following dates:

(1) For non-State government owned or operated hospitals,—March 19, 2002.

(2) For all other facilities—March 13, 2001.

[66 FR 3175, Jan. 12, 2001, as amended at 66 FR 46399, Sept. 5, 2001; 67 FR 2610, Jan. 18, 2002; 72 FR 29834, May 29, 2007; 75 FR 73975, Nov. 30, 2010; 77 FR 31512, May 29, 2012]

SWING-BED HOSPITALS

§ 447.280 Hospital providers of NF services (swing-bed hospitals).

(a) *General rule.* If the State plan provides for NF services furnished by a swing-bed hospital, as specified in §§ 440.40(a) and 440.150(f) of this chapter, the methods and standards used to determine payment rates for routine NF services must—

(1) Provide for payment at the average rate per patient day paid to NFs, as applicable, for routine services furnished during the previous calendar year; or

(2) Meet the State plan and payment requirements described in this subpart, as applicable.

(b) *Application of the rule.* The payment methodology used by a State to set payment rates for routine NF services must apply to all swing-bed hospitals in the State.

[59 FR 56237, Nov. 10, 1994]

Subpart D [Reserved]

Subpart E—Payment Adjustments for Hospitals That Serve a Disproportionate Number of Low-Income Patients

SOURCE: 57 FR 55143, Nov. 24, 1992, unless otherwise noted.

§ 447.294 Medicaid disproportionate share hospital (DSH) allotment reductions.

(a) *Basis and purpose.* This section sets forth the DSH health reform methodology (DHRM) for calculating State-

specific annual DSH allotment reductions as required under section 1923(f) of the Act.

(b) *Definitions.* For purposes of this section—

Aggregate DSH allotment reductions mean the amounts identified in section 1923(f)(7)(A)(ii) of the Act.

Budget neutrality factor (BNF) is a factor incorporated in the DHRM that takes into account the extent to which the DSH allotment for a State was included in the budget neutrality calculation for a coverage expansion approved under section 1115 as of July 31, 2009.

DSH payment means the amount reported in accordance with § 447.299(c)(17).

Effective DSH allotment means the amount of DSH allotment determined by subtracting the State-specific DSH allotment reduction from a State's unreduced DSH allotment.

High level of uncompensated care factor (HUF) is a factor incorporated in the DHRM that results in larger percentage DSH allotment reduction for States that do not target DSH payments on hospitals with high levels of uncompensated care.

High Medicaid volume hospital means a disproportionate share hospital that has an MIUR at least one standard deviation above the mean MIUR for hospitals receiving Medicaid payments in the State.

High uncompensated care hospital means a hospital that exceeds the mean ratio of uncompensated care costs to total Medicaid and uninsured inpatient and outpatient hospital service costs for all disproportionate share hospitals within a state.

High volume of Medicaid inpatients factor (HMF) is a factor incorporated in the DHRM that results in larger percentage DSH allotment reduction for States that do not target DSH payments on hospitals with high volumes of Medicaid inpatients.

Hospital with high volumes of Medicaid inpatients means a disproportionate share hospital that meets the requirements of section 1923(b)(1)(A) of the Act.

Low DSH adjustment factor (LDF) is a factor incorporated in the DHRM that

results in a smaller percentage DSH allotment reduction on low DSH States.

Low DSH State means a State that meets the criterion described in section 1923(f)(5)(B) of the Act.

Mean HUF reduction percentage is determined by calculating the quotient of each state's HUF reduction amount divided by its unreduced DSH allotment, then calculating the mean for each state group, then converting the result to a percentage.

Medicaid inpatient utilization rate (MIUR) means the rate defined in section 1923(b)(2) of the Act.

Non-high Medicaid volume hospital means a disproportionate share hospitals that does not meet the requirements of section 1923(b)(1)(A) of the Act.

State group means similarly situated States that are collectively identified by DHRM as defined in § 447.294(e)(1).

State-specific DSH allotment reduction means the amount of annual DSH allotment reduction for a particular State as determined by the DHRM.

Total hospital cost has the meaning given the term in § 447.299(c)(20).

Total Medicaid cost means the amount for each hospital reported in accordance with § 447.299(c)(10).

Total population means the 1-year estimates data of the total non-institutionalized population identified by United States Census Bureau's American Community Survey.

Total uninsured cost means the amount reported for each DSH in accordance with § 447.299(c)(14).

Uncompensated care cost means the amount reported for each hospital in accordance with § 447.299(c)(16).

Uncompensated care level means a hospital's uncompensated care cost divided by the sum of its total Medicaid cost and its total uninsured cost.

Unreduced DSH allotment means the DSH allotment calculated under section 1923(f) of the Act prior to annual reductions under this section.

Uninsured percentage factor (UPF) is a factor incorporated in the DHRM that results in larger percentage DSH allotment reductions for States that have the lowest percentages of uninsured individuals.

Uninsured population means 1-year estimates data of the number of uninsured identified by United States Census Bureau's American Community Survey.

(c) *Aggregate DSH allotment reduction amounts.* The aggregate DSH allotment reduction amounts are as provided in section 1923(f)(7)(A)(ii) of the Act.

(d) *State data submission requirements.* States are required to submit the mean MIUR, determined in accordance with section 1923(b)(1)(A) of the Act, for all hospitals receiving Medicaid payments in the State and the value of one standard deviation above such mean. The State must provide this data to CMS by June 30 of each year. To determine which state plan rate year's data the state must submit, subtract 3 years from the calendar year in which the data is due.

(e) *DHRM methodology.* Section 1923(f)(7) of the Act requires aggregate annual reduction amounts as specified in paragraph (f) of this section to be reduced through the DHRM. The DHRM is calculated on an annual basis based on the most recent data available to CMS at the time of the calculation. The DHRM is determined as follows:

(1) *Establishing State groups.* For each FY, CMS will separate low-DSH States and non-low DSH states into distinct State groups.

(2) *Aggregate DSH allotment reduction allocation.* CMS will allocate a portion of the aggregate DSH allotment reductions to each State group by the following:

(i) Dividing the sum of each State group's preliminary unreduced DSH allotments by the sum of both State groups' preliminary unreduced DSH allotment amounts to determine a percentage.

(ii) Multiplying the value of paragraph (e)(2)(i) of this section by the aggregate DSH allotment reduction amount under paragraph (c) of this section for the applicable fiscal year.

(iii) Applying the low DSH adjustment factor under paragraph (e)(3) of this section.

(3) *Low DSH adjustment factor (LDF) calculation.* CMS will calculate the LDF by the following:

(i) Dividing each State's preliminary unreduced DSH allotment by their re-

spective total estimated Medicaid service expenditures for the applicable fiscal year.

(ii) Calculating for each State group the mean of all values determined in paragraph (e)(3)(i) of this section.

(iii) Dividing the value of paragraph (e)(3)(ii) of this section for the low-DSH State group by the value of paragraph (e)(3)(ii) for the non-low DSH state group.

(4) *LDF application.* CMS will determine the final aggregate DSH allotment reduction allocation for each State group through application of the LDF by the following:

(i) Multiplying the LDF by the aggregate DSH allotment reduction for the low DSH State group.

(ii) Utilizing the value of paragraph (e)(4)(i) of this section as the aggregate DSH allotment reduction allocated to the low DSH State group.

(iii) Subtracting the value of paragraph (e)(4)(ii) of this section from the value of paragraph (e)(2)(ii) of this section for the low DSH State group; and

(iv) Adding the value of paragraph (e)(4)(iii) of this section to the value of paragraph (e)(2)(ii) of this section for the non-low DSH State group.

(5) *Reduction factor allocation.* CMS will allocate the aggregate DSH allotment reduction amount to three core factors by multiply the aggregate DSH allotment reduction amount for each State group by the following:

(i) UPF—50 percent.

(ii) HMF—25 percent.

(iii) HUF—25 percent.

(6) *Uninsured percentage factor (UPF) calculation.* CMS will calculate the UPF by the following:

(i) Dividing the total State population by the uninsured in State for each State.

(ii) Determining the uninsured reduction allocation component for each State as a percentage by dividing each State's value of paragraph (e)(6)(i) of this section by the sum of the values of paragraph (e)(6)(i) of this section for the respective State group (the sum of the values of all States in the State group should total 100 percent).

(iii) Determine a weighting factor by dividing each State's unreduced DSH

allotment by the sum of all preliminary unreduced DSH allotments for the respective State group.

(iv) Multiply the weighting factor calculated in (e)(6)(iii) of this section by the value of each State's uninsured reduction allocation component from paragraph (e)(6)(ii) of this section.

(v) Determine the UPF as a percentage by dividing the product of paragraph (e)(6)(iv) of this section for each State by the sum of the values of paragraph (e)(6)(iv) of this section for the respective State group (the sum of the values of all States in the State group should total 100 percent).

(7) *UPF application and reduction amount.* CMS will determine the UPF portion of the final aggregate DSH allotment reduction allocation for each State by multiplying the State's UPF by the aggregate DSH allotment reduction allocated to the UPF factor under paragraph (e)(5) of this section for the respective State group.

(8) *High volume of Medicaid inpatients factor (HMF) calculation.* CMS will calculate the HMF by determining a percentage for each State by dividing the State's total DSH payments made to non-high Medicaid volume hospitals by the total of such payments for the entire State group.

(9) *HMF application and reduction amount.* CMS will determine the HMF portion of the final aggregate DSH allotment reduction allocation for each State by multiplying the State's HMF by the aggregate DSH allotment reduction allocated to the HMF factor under paragraph (e)(5) of this section for the respective State group.

(10) *High level of uncompensated care factor (HUF) calculation.* CMS will calculate the HUF by determining a percentage for each State by dividing the State's total DSH payments made to non-High Uncompensated Care Level hospitals by the total of such payments for the entire State group.

(11) *HUF application and reduction amount.* CMS will determine the HUF portion of the final aggregate DSH allotment reduction allocation by multiplying each State's HUF by the aggregate DSH allotment reduction allocated to the HUF factor under paragraph (e)(5) of this section for the respective State group.

(12) *Section 1115 budget neutrality factor (BNF) calculation.* This factor is only calculated for States for which all or a portion of the DSH allotment was included in the calculation of budget neutrality under a section 1115 demonstration for the specific fiscal year subject to reduction pursuant to an approval on or before July 31, 2009. CMS will calculate the BNF for qualifying states by the following:

(i) For States whose DSH allotment was included in the budget neutrality calculation for a coverage expansion that was approved under section 1115 as of July 31, 2009, (without regard to approved amendments since that date) determining the amount of the State's DSH allotment included in the budget neutrality calculation for coverage expansion for the specific fiscal year subject to reduction. This amount is not subject to reductions under the HMF and HUF calculations.

(ii) Determining the amount of the State's DSH allotment included in the budget neutrality calculation for non-coverage expansion purposes for the specific fiscal year subject to reduction.

(iii) Multiplying each qualifying State's value of paragraph (e)(12)(ii) of this section by the mean HMF reduction percentage for the respective State group.

(iv) Multiplying each qualifying State's value of paragraph (e)(12)(ii) of this section by the mean HUF reduction percentage for the respective State group.

(v) For each State, calculating the sum of the value of paragraphs (e)(12)(iii) and of (e)(12)(iv) of this section.

(13) *Section 1115 budget neutrality factor (BNF) application.* This factor will be applied in the State-specific DSH allotment reduction calculation.

(14) *State-specific DSH allotment reduction calculation.* CMS will calculate the state-specific DSH reduction by the following:

(i) Taking the sum of the value of paragraphs (e)(7), (e)(9), and (e)(11) of this section for each State.

(ii) For States qualifying under paragraph (e)(12) of this section, adding the value of paragraph (e)(12)(v) of this section.

(iii) Reducing the amount of paragraph (e)(14)(i) of this section for each State that does not qualify under paragraph (e)(12)(v) of this section based on the proportion of each State's preliminary unreduced DSH allotment compared to the national total of preliminary unreduced DSH allotments so that the sum of paragraph (e)(14)(iii) of this section equals the sum of paragraph (e)(12)(v) of this section.

(iv) No state will receive a reduction as calculated in paragraph (e)(14) of this section in excess of 90 percent of its preliminary unreduced DSH allotment for the respective fiscal year. For any state assigned a reduction amount determined under paragraph (e)(14) of this section in excess of 90 percent of its unreduced DSH allotment, the reduction amount that exceeds 90 percent of that state's unreduced DSH allotment will be distributed among the remaining states in the state group that do not exceed the 90 percent reduction cap, based on the proportion of each of these remaining states' allotment reduction amount before any distribution is performed pursuant to this paragraph (e)(14)(iv) to the aggregate allotment reduction amount for the state group. This operation will be performed until all reduction amounts in excess of the 90 percent reduction cap for all states are allocated within each respective state group.

(f) *Annual DSH allotment reduction application.* For each fiscal year identified in section 1923(f)(7)(A)(ii) of the Act, CMS will subtract the State-specific DSH allotment amount determined in paragraph (e)(14) of this section from that State's final unreduced DSH allotment. This amount is the State's final DSH allotment for the fiscal year.

[78 FR 57311, Sept. 18, 2013, as amended at 84 FR 50332, Sept. 25, 2019]

§ 447.295 Hospital-specific disproportionate share hospital payment limit: Determination of individuals without health insurance or other third party coverage.

(a) *Basis and purpose.* This section sets forth the methodology for determining the costs for individuals who have no health insurance or other source of third party coverage for services furnished during the year for pur-

poses of calculating the hospital-specific disproportionate share hospital payment limit under section 1923(g) of the Act.

(b) *Definitions.*

Health insurance coverage limit means a limit imposed by a third party payer that establishes a maximum dollar value or maximum number of specific services, for benefits received by an individual.

Individuals who have no health insurance (or other source of third party coverage) for the services furnished during the year means individuals who have no source of third party coverage for the specific inpatient hospital or outpatient hospital service furnished by the hospital.

No source of third party coverage for a specific inpatient hospital or outpatient hospital service means that the service is not included in an individual's health benefits coverage through a group health plan or health insurer, and for which there is no other legally liable third party. When a health insurance coverage limit is imposed by a third party payer, specific services beyond the limit would not be within the individual's health benefit package from that third party payer. For American Indians/Alaska Natives, IHS and tribal coverage is only considered third party coverage when services are received directly from IHS or tribal health programs (direct health care services) or when IHS or a tribal health program has authorized coverage through the contract health service program (through a purchase order or equivalent document). Administrative denials of payment, or requirements for satisfaction of deductible, copayment or coinsurance liability, do not affect the determination that a specific service is included in the health benefits coverage.

(c) *Determination of an individual's third party coverage status.* Individuals who have no source of third party coverage for a specific inpatient hospital or outpatient hospital service must be considered, for purposes of that service, to be uninsured. This determination is not dependent on the receipt of payment by the hospital from the third party.

(1) The determination of an individual's status as having a source of third party coverage must be a service-specific coverage determination. The service-specific coverage determination can occur only once per individual per service provided and applies to the entire service, including all elements as that service, or similar services, would be defined in Medicaid.

(2) Individuals who are inmates in a public institution or are otherwise involuntarily in secure custody as a result of criminal charges are considered to have a source of third party coverage.

(d) *Hospital-specific DSH limit calculation.* Only costs incurred in providing inpatient hospital and outpatient hospital services to Medicaid individuals, and revenues received with respect to those services, and costs incurred in providing inpatient hospital and outpatient hospital services, and revenues received with respect to those services, for which a determination has been made in accordance with paragraph (c) of this section that the services were furnished to individuals who have no source of third party coverage for the specific inpatient hospital or outpatient hospital service are included when calculating the costs and revenues for Medicaid individuals and individuals who have no health insurance or other source of third party coverage for purposes of section 1923(g)(1) of the Act.

[79 FR 71694, Dec. 3, 2014]

§ 447.296 Limitations on aggregate payments for disproportionate share hospitals for the period January 1, 1992 through September 30, 1992.

(a) The provisions of this section apply to the 50 States and the District of Columbia, but not to any State whose entire Medicaid program is operated under a waiver granted under section 1115 of the Act.

(b) For the period January 1, 1992 through September 30, 1992, FFP is available for aggregate payments to hospitals that serve a disproportionate number of low-income patients with special needs only if the payments are made in accordance with sections

1902(a)(13)(A) and 1923 of the Act, and with one of the following:

(1) An approved State plan in effect as of September 30, 1991.

(2) A State plan amendment submitted to CMS by September 30, 1991.

(3) A State plan amendment, or modification thereof, submitted to CMS between October 1, 1991 and November 26, 1991, if the amendment, or modification thereof, was intended to limit the State's definition of disproportionate share hospitals to those hospitals with Medicaid inpatient utilization rates or low-income utilization rates (as defined in section 1923 (b) of the Act) at or above the statewide arithmetic mean.

(4) A methodology for disproportionate share hospital payments that was established and in effect as of September 30, 1991, or in accordance with a State law enacted or State regulation adopted as of September 30, 1991.

(5) A State plan amendment submitted to CMS by September 30, 1992 that increases aggregate disproportionate share hospitals payments in order to meet the minimum payment adjustments required by section 1923(c)(1) of the Act. The minimum payment adjustment is the amount required by the Medicare methodology described in section 1923(c)(1) of the Act for those hospitals that satisfy the minimum Federal definition of a disproportionate share hospital in section 1923(b) of the Act.

(6) A State plan amendment submitted to CMS by September 30, 1992 that provides for a redistribution of disproportionate share hospital payments within the State without raising total payments compared to the previously approved State plan. CMS will approve the amendment only if the State submits written documentation that demonstrates to CMS that the aggregate payments that will be made after the redistribution are no greater than those payments made before the redistribution.

(7) A State plan amendment submitted to CMS by September 30, 1992 that provides for a reduction in disproportionate share hospital payments.

§ 447.297 Limitations on aggregate payments for disproportionate share hospitals beginning October 1, 1992.

(a) *Applicability.* The provisions of this section apply to the 50 States and the District of Columbia, but not to any State whose entire Medicaid program is operated under a waiver granted under section 1115 of the Act.

(b) *National payment target.* The national payment target for disproportionate share hospital (DSH) payments for any Federal fiscal year is equal to 12 percent of the total medical assistance expenditures that will be made during the Federal fiscal year under State plans, excluding administrative costs. A preliminary national expenditure target will be published by CMS prior to October 1 of each year. This preliminary national expenditure target will be superseded by a final national expenditure target published by April 1 of each Federal fiscal year, as specified in paragraph (d) of this section.

(c) *State disproportionate share hospital allotments.* Prior to October 1 of each Federal fiscal year, CMS will publish in the FEDERAL REGISTER preliminary State DSH allotments for each State. These preliminary State DSH allotments will be determined using the most current applicable actual and estimated State expenditure information as reported to CMS and adjusted by CMS as may be necessary using the methodology described in § 447.298. CMS will publish final State DSH allotments by April 1 of each Federal fiscal year, as described in paragraph (d) of this section.

(d) *Final national disproportionate share hospitals expenditure target and State disproportionate share hospitals allotments.* (1) CMS will revise the preliminary national expenditure target and the preliminary State DSH allotments by April 1 of each Federal fiscal year. The final national DSH expenditure target and State DSH allotments will be based on the most current applicable actual and estimated expenditure information reported to CMS and adjusted by CMS as may be necessary immediately prior to the April 1 publication date. The final national expenditure target and State DSH allotments

will not be recalculated for that Federal fiscal year based upon any subsequent actual or estimated expenditure information reported to CMS.

(2) If CMS determines that at any time a State has exceeded its final DSH allotment for a Federal fiscal year, FFP attributable to the excess DSH expenditures will be disallowed.

(3) If a State's actual DSH expenditures applicable to a Federal fiscal year are less than its final State DSH allotment for that Federal fiscal year, the State is permitted, to the extent allowed by its approved State plan, to make additional DSH expenditures applicable to that Federal fiscal year up to the amount of its final DSH allotment for that Federal fiscal year.

(e) *Publication of limits.* (1) Before the beginning of each Federal fiscal year, CMS will publish in the FEDERAL REGISTER—

(i) A preliminary national DSH expenditure target for the Federal fiscal year; and

(ii) A preliminary DSH allotment for each State for the Federal fiscal year.

(2) The final national DSH expenditure target and State DSH allotments will be published in the FEDERAL REGISTER by April 1 of each Federal fiscal year.

[57 FR 55143, Nov. 24, 1992, as amended at 58 FR 43182, Aug. 13, 1993]

§ 447.298 State disproportionate share hospital allotments.

(a) *Calculation of State's base allotment for Federal fiscal year 1993.* (1) For Federal fiscal year 1993, CMS will calculate for each State a DSH allotment, using the State's "base allotment." The State's base allotment is the greater of:

(i) The total amount of the State's projected DSH payments for Federal fiscal year 1992 under the State plan applicable to Federal fiscal year 1992, calculated in accordance with paragraph (a)(2) of this section; or

(ii) \$1,000,000.

(2) In calculating the State's DSH payments applicable to Federal fiscal year 1992, CMS will derive amounts from payments applicable to the period of October 1, 1991, through September 30, 1992, under State plans or plan

amendments that meet the requirements specified in § 447.296(b). The calculation will not include—

(i) DSH payment adjustments made by the State applicable to the period October 1, 1991 through December 31, 1991 under State plans or plan amendments that do not meet the criteria described in § 447.296; and

(ii) Retroactive DSH payments made in 1992 that are not applicable to Federal fiscal year 1992.

(3) CMS will calculate a percentage for each State by dividing the DSH base allotment by the total unadjusted medical assistance expenditures, excluding administrative costs, made during Federal fiscal year 1992. On the basis of this percentage, CMS will classify each State as a “high-DSH” or “low-DSH” State.

(i) If the State’s base allotment exceeded 12 percent of its total unadjusted medical assistance expenditures made under the State plan in Federal fiscal year 1992, CMS will classify the State as a “high-DSH” State.

(ii) If the State’s base allotment was 12 percent or less of its total unadjusted medical assistance expenditures made under the State plan in Federal fiscal year 1992, CMS will classify the State as a “low-DSH” State.

(b) *State disproportionate share hospital allotments for Federal fiscal year 1993.* (1) For Federal fiscal year 1993, CMS will calculate a DSH allotment for each low-DSH State that equals the State’s base allotment described under paragraph (a) of this section, increased by State growth, as specified in paragraph (d) of this section.

(2) For high-DSH States, the dollar amount of DSH payments in Federal fiscal year 1993 may not exceed the dollar amount of DSH payments applicable to Federal fiscal year 1992 (that is, the State base allotment).

(c) *State disproportionate share hospital allotment for Federal fiscal years 1994 and after.* For Federal fiscal years 1994 and after—

(1) For low-DSH States, CMS will calculate the DSH allotment for each Federal fiscal year by increasing the prior year’s State DSHs allotment by—

(i) State growth, as specified in paragraph (d) of this section; and

(ii) A supplemental amount, if applicable, as described in paragraph (e) of this section.

(2) For high-DSH States, the dollar amount of DSH payments applicable to any Federal fiscal year may not exceed the dollar amount of payments applicable to Federal fiscal year 1992 (that is, the State base allotment). This payment limitation will apply until the Federal fiscal year in which the State’s DSH payments applicable to that Federal fiscal year, expressed as a percentage of the State’s total unadjusted medical assistance expenditures in that Federal fiscal year, equal 12 percent or less. When a high-DSH State’s percentage equals 12 percent or less, the State will be reclassified as a low-DSH State.

(d) *State growth.* (1) The State growth for a State in a Federal fiscal year is equal to the product of—

(i) The growth factor that is CMS’s projected percentage increase in the State’s total unadjusted medical assistance expenditures (including administrative costs) relative to the corresponding amount in the previous year; and

(ii) The State’s prior year DSH allotment.

(2) If the growth factor is zero or is negative, the State growth is zero.

(3) If a low-DSH State experiences a level of negative growth to the extent that its previous Federal fiscal year’s DSH allotment would be more than 12 percent of its current Federal fiscal year’s total unadjusted medical assistance expenditures (excluding administrative costs), the low-DSH State’s previous year’s DSH allotment will be reduced to the extent necessary to maintain the individual low-DSH State’s 12-percent limit and that amount will become the low-DSH State’s DSH allotment for the current Federal fiscal year. In no Federal fiscal year will a low-DSH State’s DSH allotment be allowed to exceed its individual State 12-percent limit.

(e) *Supplemental amount available for low-DSH States.* (1) A supplemental amount is the State’s share of a pool of money (referred to as a redistribution pool).

(2) CMS will calculate the redistribution pool for the appropriate Federal

§ 447.299

fiscal year by subtracting from the projected national DSH expenditure target the following:

(i) The total of the State DSH base allotments for all high-DSH States;

(ii) The total of the previous year's State DSH allotments for all low-DSH States;

(iii) The State growth amount for all low-DSH States; and

(iv) The total amount of additional DSH payment adjustments made in order to meet the minimum payment adjustments required under section 1923(c)(1) of the Act, which are made in accordance with § 447.296(b)(5).

(3) CMS will determine the percent of the redistribution pool for each low-DSH State on the basis of each State's relative share of the total unadjusted medical assistance expenditures for the Federal fiscal year compared to the total unadjusted medical assistance expenditures for the Federal fiscal year projected to be made by all low-DSH States. The percent of the redistribution pool that each State will receive is equal to the State's total unadjusted medical assistance expenditures divided by the total unadjusted medical assistance expenditures for all low-DSH States.

(4) CMS will not provide any low-DSH State a supplemental amount that would result in the State's total DSH allotment exceeding 12 percent of its projected total unadjusted medical assistance expenditures. CMS will reallocate any supplemental amounts not allocated to States because of this 12-percent limitation to other low-DSH States in accordance with the percentage determined in paragraph (e)(3) of this section.

(5) CMS will not reallocate to low-DSH States the difference between any State's actual DSH expenditures applicable to a Federal fiscal year and its State DSH allotment applicable to that Federal fiscal year. Thus, any unspent DSH allotment may not be reallocated.

(f) *Special provision.* Any increases in a State's aggregate disproportionate payments, that are made to meet the minimum payment requirements specified in § 447.296(b)(5), may exceed the State base allotment to the extent such increases are made to satisfy the minimum payment requirement. In

42 CFR Ch. IV (10–1–23 Edition)

such cases, CMS will adjust the State's base allotment in the subsequent Federal fiscal year to include the increased minimum payments.

[57 FR 55143, Nov. 24, 1992, as amended at 58 FR 43182, Aug. 13, 1993]

§ 447.299 Reporting requirements.

(a) Beginning with the first quarter of Federal fiscal year 1993, each State must submit to CMS the quarterly aggregate amount of its disproportionate share hospital payments made to each individual public and private provider or facility. States' reports must present a complete, accurate, and full disclosure of all of their DSH programs and expenditures.

(b) Each State must report the aggregate information specified under paragraph (a) of this section on a quarterly basis in accordance with procedures established by CMS.

(c) Beginning with each State's Medicaid State plan rate year 2005, for each Medicaid State plan rate year, the State must submit to CMS, at the same time as it submits the completed audit required under § 455.304 of this chapter, the following information for each DSH hospital to which the State made a DSH payment in order to permit verification of the appropriateness of such payments:

(1) *Hospital name.* The name of the hospital that received a DSH payment from the State, identifying facilities that are institutes for mental disease (IMDs) and facilities that are located out-of-state.

(2) *Estimate of hospital-specific DSH limit.* The State's estimate of eligible uncompensated care for the hospital receiving a DSH payment for the year under audit based on the State's methodology for determining such limit.

(3) *Medicaid inpatient utilization rate.* The hospital's Medicaid inpatient utilization rate, as defined in Section 1923(b)(2) of the Act, if the State does not use alternative qualification criteria described in paragraph (c)(5) of this section.

(4) *Low income utilization rate.* The hospital's low income utilization rate, as defined in Section 1923(b)(3) of the Act if the State does not use alternative qualification criteria described in paragraph (c)(5) of this section.

(5) *State defined DSH qualification criteria.* If the State uses an alternate broader DSH qualification methodology as authorized in Section 1923(b)(4) of the Act, the value of the statistic and the methodology used to determine that statistic.

(6) *IP/OP Medicaid fee-for-service (FFS) basic rate payments.* The total annual amount paid to the hospital under the State plan, including Medicaid FFS rate adjustments, but not including DSH payments or supplemental/enhanced Medicaid payments, for inpatient and outpatient services furnished to Medicaid eligible individuals.

(7) *IP/OP Medicaid managed care organization payments.* The total annual amount paid to the hospital by Medicaid managed care organizations for inpatient hospital and outpatient hospital services furnished to Medicaid eligible individuals.

(8) *Supplemental/enhanced Medicaid IP/OP payments.* Indicate the total annual amount of supplemental/enhanced Medicaid payments made to the hospital under the State plan. These amounts do not include DSH payments, regular Medicaid FFS rate payments, and Medicaid managed care organization payments.

(9) *Total Medicaid IP/OP Payments.* Provide the total sum of items identified in § 447.299(c)(6), (7) and (8).

(10) *Total Cost of Care for Medicaid IP/OP Services.* The total annual costs incurred by each hospital for furnishing inpatient hospital and outpatient hospital services to Medicaid eligible individuals. The total annual costs are determined on a hospital-specific basis, not a service-specific basis. For purposes of this section, costs—

(i) Are defined as costs net of third-party payments, including, but not limited to, payments by Medicare and private insurance.

(ii) Must capture the total burden on the hospital of treating Medicaid eligible patients prior to payment by Medicaid. Thus, costs must be determined in the aggregate and not by estimating the cost of individual patients. For example, if a hospital treats two Medicaid eligible patients at a cost of \$2,000 and receives a \$500 payment from a third party for each individual, the total cost to the hospital for purposes

of this section is \$1,000, regardless of whether the third party payment received for one patient exceeds the cost of providing the service to that individual.

(11) *Total Medicaid Uncompensated Care.* The total amount of uncompensated care attributable to Medicaid inpatient and outpatient services. The amount should be the result of subtracting the amount identified in § 447.299(c)(9) from the amount identified in § 447.299(c)(10). The uncompensated care costs of providing Medicaid physician services cannot be included in this amount.

(12) *Uninsured IP/OP revenue.* Total annual payments received by the hospital by or on behalf of individuals with no source of third party coverage for inpatient and outpatient hospital services they receive. This amount does not include payments made by a State or units of local government, for services furnished to indigent patients.

(13) *Total Applicable Section 1011 Payments.* Federal Section 1011 payments for uncompensated inpatient and outpatient hospital services provided to Section 1011 eligible aliens with no source of third party coverage for the inpatient and outpatient hospital services they receive.

(14) *Total cost of IP/OP care for the uninsured.* Indicate the total costs incurred for furnishing inpatient hospital and outpatient hospital services to individuals with no source of third party coverage for the hospital services they receive.

(15) *Total uninsured IP/OP uncompensated care costs.* Total annual amount of uncompensated IP/OP care for furnishing inpatient hospital and outpatient hospital services to individuals with no source of third party coverage for the hospital services they receive.

(i) The amount should be the result of subtracting paragraphs (c)(12) and (c)(13), from paragraph (c)(14) of this section.

(ii) The uncompensated care costs of providing physician services to the uninsured cannot be included in this amount.

(iii) The uninsured uncompensated amount also cannot include amounts associated with unpaid co-pays or deductibles for individuals with third

§ 447.300

party coverage for the inpatient and/or outpatient hospital services they receive or any other unreimbursed costs associated with inpatient and/or outpatient hospital services provided to individuals with those services in their third party coverage benefit package.

(iv) The uncompensated care costs do not include bad debt or payer discounts related to services furnished to individuals who have health insurance or other third party payer.

(16) *Total annual uncompensated care costs.* The total annual uncompensated care cost equals the total cost of care for furnishing inpatient hospital and outpatient hospital services to Medicaid eligible individuals and to individuals with no source of third party coverage for the hospital services they receive less the sum of regular Medicaid FFS rate payments, Medicaid managed care organization payments, supplemental/enhanced Medicaid payments, uninsured revenues, and Section 1011 payments for inpatient and outpatient hospital services. This should equal the sum of paragraphs (c)(9), (c)(12), and (c)(13) subtracted from the sum of paragraphs (c)(10) and (c)(14) of this section.

(17) *Disproportionate share hospital payments.* Indicate total annual payment adjustments made to the hospital under Section 1923 of the Act.

(18) *Medicaid provider number.* The provider identification number assigned by the Medicaid program.

(19) *Medicare provider number.* The provider identification number assigned by the Medicare program.

(20) *Total hospital cost.* The total annual costs incurred by each hospital for furnishing inpatient hospital and outpatient hospital services.

(21) *Reporting.* States must report DSH payments made to all hospitals under the authority of the approved Medicaid State plan. This includes both in-State and out-of-State hospitals. For out-of-State hospitals, States must report, at a minimum, the information identified in § 447.299(c)(1) through (c)(6), (c)(8), (c)(9), (c)(17), (c)(18), and (c)(19).

(d) Each State must maintain, in readily reviewable form, supporting documentation that provides a detailed description of each DSH program, the

42 CFR Ch. IV (10–1–23 Edition)

legal basis of each DSH program, and the amount of DSH payments made to each individual public and private provider or facility each quarter. This information must be made available to Federal reviewers upon request.

(e) If a State fails to comply with the reporting requirements contained in this section, future grant awards will be reduced by the amount of FFP CMS estimates is attributable to the expenditures made to the disproportionate share hospitals as to which the State has not reported properly, until such time as the State complies with the reporting requirements. Deferrals and/or disallowances of equivalent amounts may also be imposed with respect to quarters for which the State has failed to report properly. Unless otherwise prohibited by law, FFP for those expenditures will be released when the State complies with all reporting requirements.

[46 FR 47971, Sept. 30, 1981, as amended at 73 FR 77950, Dec. 19, 2008; 74 FR 18657, Apr. 24, 2009; 77 FR 31512, May 29, 2012; 78 FR 57313, Sept. 18, 2013; 82 FR 16122, Apr. 3, 2017; 85 FR 72909, Nov. 16, 2020]

Subpart F—Payment Methods for Other Institutional and Non-institutional Services

SOURCE: 43 FR 45253, Sept. 29, 1978, unless otherwise noted. Redesignated at 46 FR 47973, Sept. 30, 1981, and further redesignated at 58 FR 6095, Jan. 26, 1993.

§ 447.300 Basis and purpose.

In this subpart, §§ 447.302 through 447.325 and 447.361 implement section 1902(a)(30) of the Act, which requires that payments be consistent with efficiency, economy and quality of care. Section 447.371 implements section 1902(a)(15) of the Act, which requires that the State plan provide for payment for rural health clinic services in accordance with regulations prescribed by the Secretary.

[72 FR 39239, July 17, 2007]

§ 447.302 State plan requirements.

A State plan must provide that the requirements of this subpart are met.

[46 FR 48560, Oct. 1, 1981]

Centers for Medicare & Medicaid Services, HHS

§ 447.362

§ 447.304 Adherence to upper limits; FFP.

(a) The Medicaid agency must not pay more than the upper limits described in this subpart.

(b) In the case of payments made under the plan for deductibles and co-insurance payable on an assigned Medicare claim for noninstitutional services, those payments may be made only up to the reasonable charge under Medicare.

(c) FFP is not available for a State's expenditures for services that are in excess of the amounts allowable under this subpart.

NOTE: The Secretary may waive any limitation on reimbursement imposed by subpart F of this part for experiments conducted under section 402 of Pub. L. 90-428, Incentives for Economy Experimentation, as amended by section 222(b) of Pub. L. 92-603, and under section 222(a) of Pub. L. 92-603.

[46 FR 48560, Oct. 1, 1981; 46 FR 54744, Nov. 4, 1981, as amended at 66 FR 3176, Jan. 12, 2001]

OUTPATIENT HOSPITAL AND CLINIC SERVICES

§ 447.321 Outpatient hospital and clinic services: Application of upper payment limits.

(a) *Scope.* This section applies to rates set by the agency to pay for outpatient services furnished by hospitals and clinics within one of the following categories:

(1) State government-owned or operated facilities (that is, all facilities that are owned or operated by the State.)

(2) Non-State government owned or operated facilities (that is, all government operated facilities that are neither owned nor operated by the State).

(3) Privately-owned and operated facilities.

(b) *General rules.* (1) Upper payment limit refers to a reasonable estimate of the amount that would be paid for the services furnished by the group of facilities under Medicare payment principles in subchapter B of this chapter.

(2) Except as provided in paragraph (c) of this section, aggregate Medicaid payments to a group of facilities within one of the categories described in paragraph (a) of this section may not exceed the upper payment limit de-

scribed in paragraph (b)(1) of this section.

(c) *Exceptions.* Indian Health Services and tribal facilities. The limitation in paragraph (b) of this section does not apply to Indian Health Services facilities and tribal facilities that are funded through the Indian Self-Determination and Education Assistance Act (Pub. L. 93-638).

(d) *Compliance dates.* Except as permitted under paragraph (e) of this section, a State must comply with the upper payment limit described in paragraph (b)(1) of this section by one of the following dates:

(1) For non-State government-owned or operated hospitals—March 19, 2002.

(2) For all other facilities—March 13, 2001.

[66 FR 3176, Jan. 12, 2001, as amended at 66 FR 46399, Sept. 5, 2001; 67 FR 2611, Jan. 18, 2002; 72 FR 29835, May 29, 2007; 75 FR 73975, Nov. 30, 2010; 77 FR 31513, May 29, 2012]

OTHER INPATIENT AND OUTPATIENT FACILITIES

§ 447.325 Other inpatient and outpatient facility services: Upper limits of payment.

The agency may pay the customary charges of the provider but must not pay more than the prevailing charges in the locality for comparable services under comparable circumstances.

§ 447.342 [Reserved]

PREPAID CAPITATION PLANS

§ 447.362 Upper limits of payment: Nonrisk contract.

Under a nonrisk contract, Medicaid payments to the contractor may not exceed—

(a) What Medicaid would have paid, on a fee-for-service basis, for the services actually furnished to beneficiaries: plus

(b) The net savings of administrative costs the Medicaid agency achieves by contracting with the plan instead of purchasing the services on a fee-for-service basis.

[48 FR 54025, Nov. 30, 1983]

§ 447.371

RURAL HEALTH CLINIC SERVICES

§ 447.371 Services furnished by rural health clinics.

The agency must pay for rural health clinic services, as defined in § 440.20(b) of this subchapter, and for other ambulatory services furnished by a rural health clinic, as defined in § 440.20(c) of this subchapter, as follows:

(a) For provider clinics, the agency must pay the reasonable cost of rural health clinic services and other ambulatory services on the basis of the cost reimbursement principles in part 413 of this chapter. For purposes of this section, a provider clinic is an integral part of a hospital, skilled nursing facility, or home health agency that is participating in Medicare and is licensed, governed, and supervised with other departments of the facility.

(b) For clinics other than provider clinics that do not offer any ambulatory services other than rural health clinic services, the agency must pay for rural health clinic services at the reasonable cost rate per visit determined by a Medicare carrier under §§ 405.2426 through 405.2429 of this chapter.

(c) For clinics other than provider clinics that do offer ambulatory services other than rural health clinic services, the agency must pay for the other ambulatory services by one of the following methods:

(1) The agency may pay for other ambulatory services and rural health clinic services at a single rate per visit that is based on the cost of all services furnished by the clinic. The rate must be determined by a Medicare carrier under §§ 405.2426 through 405.2429 of this chapter.

(2) The agency may pay for other ambulatory services at a rate set for each service by the agency. The rate must not exceed the upper limits in this subpart. The agency must pay for rural health clinic services at the Medicare reimbursement rate per visit, as specified in § 405.2426 of this chapter.

(3) The agency may pay for dental services at a rate per visit that is based on the cost of dental services furnished by the clinic. The rate must be determined by a Medicare carrier under §§ 405.2426 through 405.2429 of this chapter. The agency must pay for ambula-

42 CFR Ch. IV (10–1–23 Edition)

tory services other than dental services under paragraph (c) (1) or (2) of this section.

(d) For purposes of paragraph (c) (1) and (3) of this section, “visit” means a face-to-face encounter between a clinic patient and any health professional whose services are reimbursed under the State plan. Encounters with more than one health professional, and multiple encounters with the same health professional, that take place on the same day and at a single location constitute a single visit, except when the patient, after the first encounter, suffers illness or injury requiring additional diagnosis or treatment.

[43 FR 45253, Sept. 29, 1978, as amended at 51 FR 34833, Sept. 30, 1986]

Subpart G—Payments for Primary Care Services Furnished by Physicians

SOURCE: 77 FR 66700, Nov. 6, 2012, unless otherwise noted.

§ 447.400 Primary care services furnished by physicians with a specified specialty or subspecialty.

(a) States pay for services furnished by a physician as defined in § 440.50 of this chapter, or under the personal supervision of a physician who self-attests to a specialty designation of family medicine, general internal medicine or pediatric medicine or a subspecialty recognized by the American Board of Medical Specialties (ABMS), the American Board of Physician Specialties (ABPS) or the American Osteopathic Association (AOA). Such physician then attests that he/she:

(1) Is Board certified with such a specialty or subspecialty and/or

(2) Has furnished evaluation and management services and vaccine administration services under codes described in paragraph (b) of this section that equal at least 60 percent of the Medicaid codes he or she has billed during the most recently completed CY or, for newly eligible physicians, the prior month.

(b) At the end of CY 2013 and 2014 the Medicaid agency must review a statistically valid sample of physicians who received higher payments to verify

that they meet the requirements of paragraph (a)(1) or (2) of this section.

(c) Primary care services designated in the Healthcare Common Procedure Coding System (HCPCS) are as follows:

(1) Evaluation and Management (E&M) codes 99201 through 99499.

(2) Current Procedural Terminology (CPT) vaccine administration codes 90460, 90461, 90471, 90472, 90473 and 90474, or their successor codes.

(d)(1) The state must submit to CMS, in such form and at such time as CMS specifies, information relating to participation by physicians described in paragraph (a) of this section and the utilization of E&M codes described in paragraph (c) of this section (whether furnished by or under the supervision of a physician described in paragraph (a)) of this section for the following periods—

(i) As of July 1, 2009, and

(ii) CY 2013

(2) As soon as practicable after receipt, CMS will post this information on *www.Medicaid.gov*.

[77 FR 66700, Nov. 6, 2012, as amended at 77 FR 74382, Dec. 14, 2012]

§ 447.405 Amount of required minimum payments.

(a) For CYs 2013 and 2014, a state must pay for physician services described in § 447.400 based on the lower of:

(1) The Medicare Part B fee schedule rate that is applicable to the specific site of service or, at the state's option, the office setting and is also adjusted for either the specific geographic location of the service or reflects the mean over all counties of the rate for each E&M code. If there is no applicable rate, the rate specified in a fee schedule established and announced by CMS (that is, the product of multiplying the Medicare CF in effect at the beginning of CYs 2013 or 2014 (or the CY 2009 CF, if higher) and the CY 2013 and 2014 relative value units (RVUs)).

(2) The provider's actual billed charge for the service.

(b) For vaccines provided under the Vaccines for Children Program in CYs 2013 and 2014, a State must pay the lesser of:

(1) The Regional Maximum Administration Fee; or,

(2) The Medicare fee schedule rate in CY 2013 or 2014 (or, if higher, the rate using the 2009 conversion factor and the 2013 and 2014 RVUs) for code 90460.

[77 FR 66700, Nov. 6, 2012, as amended at 77 FR 74382, Dec. 14, 2012]

§ 447.410 State plan requirements.

The state must amend its state plan to reflect the increase in fee schedule payments in CYs 2013 and 2014 unless, for each of the billing codes eligible for payment, the state currently reimburses at least as much as the higher of the CY 2013 and CY 2014 Medicare rate or the rate that would be derived using the CY 2009 conversion factor and the CY 2013 and 2014 Medicare relative value units (RVUs). The amendment must:

(a) Identify all eligible codes that the state will reimburse at the Medicare rate in CYs 2013 and 2014.

(b) Identify all codes that were not reimbursed under the Medicaid program as of July 1, 2009.

(c) Specify either that the state will make all adjustments applicable to the specific site of service or, at the state's option, the office setting and will also either adjust for the specific geographic location of the service or pay rates that reflect the mean over all counties of the rate for each E&M code. The state must specify the formula that the state will use to determine the mean rate for each E&M code.

§ 447.415 Availability of Federal financial participation (FFP).

(a) For primary care services furnished by physicians specified in § 447.400, FFP will be available at the rate of 100 percent for the amount by which the payment required to comply with § 447.405 exceeds the Medicaid payment that would have been made under the approved state plan in effect on July 1, 2009.

(b) For purposes of calculating the payment that would have been made under the approved State plan in effect on July 1, 2009, the state must exclude incentive, bonus, and performance-based payments but must include supplemental payments for which the approved methodology is linked to volume and payment for specific codes.

§ 447.500

(c) For vaccine administration, the state must impute the payment that would have been made for code 90460 under the approved Medicaid state plan. The imputed rate for July 1, 2009, for code 90460 equals the payment rates for codes 90465 and 90471 weighted by service volume.

(d) For any payment made under a bundled rate methodology, including bundled rates for vaccines and vaccine administration, the amount directly attributable to the applicable primary care service must be isolated for purposes of determining the availability of the 100 percent FFP rate. Bundled rates, for purposes of this provision, do not include encounter and per diem rates.

Subpart H [Reserved]

Subpart I—Payment for Drugs

SOURCE: 81 FR 5347, Feb. 1, 2016, unless otherwise noted.

§ 447.500 Basis and purpose.

(a) *Basis.* This subpart:

(1) Interprets those provisions of section 1927 of the Act that set forth requirements for drug manufacturers' calculating and reporting average manufacturer prices (AMPs) and best prices and that set upper payment limits for covered outpatient drugs.

(2) Implements section 1903(i)(10) of the Act with regard to the denial of Federal financial participation (FFP) in expenditures for certain physician-administered drugs.

(3) Implements section 1902(a)(54) of the Act with regard to a State plan that provides covered outpatient drugs.

(4) Implements section 1903(m)(2)(A)(xiii) of the Act, in part, and section 1927(b) of the Act with regard to rebates for covered outpatient drugs dispensed to individuals eligible for medical assistance who are enrolled in Medicaid managed care organizations (MCOs).

(5) Implements section 1902(a)(30)(A) of the Act with regard to the efficiency, economy, and quality of care in the context of payments for covered outpatient drugs.

(b) *Purpose.* This subpart specifies certain requirements in the Social Se-

42 CFR Ch. IV (10–1–23 Edition)

curity Act, including changes from the Affordable Care Act and other requirements pertaining to Medicaid payment for drugs.

§ 447.502 Definitions.

For the purpose of this subpart, the following definitions apply:

Actual acquisition cost (AAC) means the agency's determination of the pharmacy providers' actual prices paid to acquire drug products marketed or sold by specific manufacturers.

Authorized generic drug means any drug sold, licensed, or marketed under a new drug application (NDA) approved by the Food and Drug Administration (FDA) under section 505(c) of the Federal Food, Drug and Cosmetic Act (FFDCA) that is marketed, sold or distributed under a different labeler code, product code, trade name, trademark, or packaging (other than repackaging the listed drug for use in institutions) than the brand name drug.

Bona fide service fee means a fee paid by a manufacturer to an entity that represents fair market value for a bona fide, itemized service actually performed on behalf of the manufacturer that the manufacturer would otherwise perform (or contract for) in the absence of the service arrangement, and that is not passed on in whole or in part to a client or customer of an entity, whether or not the entity takes title to the drug. The fee includes, but is not limited to, distribution service fees, inventory management fees, product stocking allowances, and fees associated with administrative service agreements and patient care programs (such as medication compliance programs and patient education programs).

Brand name drug means a single source or innovator multiple source drug.

Bundled sale means any arrangement regardless of physical packaging under which the rebate, discount, or other price concession is conditioned upon the purchase of the same drug, drugs of different types (that is, at the nine-digit national drug code (NDC) level) or another product or some other performance requirement (for example,

the achievement of market share, inclusion or tier placement on a formulary), or where the resulting discounts or other price concessions are greater than those which would have been available had the bundled drugs been purchased separately or outside the bundled arrangement.

(1) The discounts in a bundled sale, including those discounts resulting from a contingent arrangement, are allocated proportionally to the total dollar value of the units of all drugs or products sold under the bundled arrangement.

(2) For bundled sales where multiple drugs are discounted, the aggregate value of all the discounts in the bundled arrangement must be proportionally allocated across all the drugs or products in the bundle.

(3) Value-based purchasing (VBP) arrangements may qualify as a bundled sale.

Clotting factor means a hemophilia clotting factor for which a separate furnishing payment is made under section 1842(o)(5) of the Act and which is included on a list of such factors specified and updated regularly by CMS and posted on the CMS Web site.

CMS-authorized supplemental rebate agreement means an agreement that is approved through a state plan amendment (SPA) by CMS, which allows a state to enter into single and/or multi-state supplemental drug rebate arrangements that generate rebates that are at least as large as the rebates set forth in the Secretary's national rebate agreement with drug manufacturers. Revenue from these rebates must be paid directly to the state and be used by the state to offset a state's drug expenditures resulting in shared savings with the Federal Government.

Consumer Price Index—Urban (CPI-U) means the index of consumer prices developed and updated by the U.S. Department of Labor. It is the CPI for all urban consumers (U.S. average) for the month before the beginning of the calendar quarter for which the rebate is paid.

Covered outpatient drug means, of those drugs which are treated as a prescribed drug for the purposes of section 1905(a)(12) of the Act, a drug which may be dispensed only upon a prescription

(except as provided in paragraphs (2) and (3) of this definition).

(1) A drug can only be considered a covered outpatient drug if it:

(i) Is approved for safety and effectiveness as a prescription drug by the FDA under section 505 or 507 of the FFDCA or under section 505(j) of the FFDCA;

(ii) Was commercially used or sold in the United States before the enactment of the Drug Amendments of 1962 or which is identical, similar, or related (within the meaning described in FDA regulations at 21 CFR 310.6(b)(1)) to such a drug, and which has not been the subject of a final determination by the Secretary that it is a "new drug" (within the meaning of section 201(p) of the FFDCA) or an action brought by the Secretary under sections 301, 302(a), or 304(a) of FFDCA to enforce section 502(f) or 505(a) of the FFDCA;

(iii) Is described in section 107(c)(3) of the Drug Amendments of 1962 and for which the Secretary has determined there is a compelling justification for its medical need or is identical, similar, or related (within the meaning described in FDA regulations at 21 CFR 310.6(b)(1)) to such a drug or for which the Secretary has not issued a notice for an opportunity for a hearing under section 505(e) of the FFDCA on a proposed order of the Secretary to withdraw approval of an application for such drug under section 505(e) of the FFDCA because the Secretary has determined that the drug is less than effective for some or all conditions of use prescribed, recommended, or suggested in its labeling;

(iv) Is a biological product other than a vaccine that may only be dispensed upon a prescription and is licensed under section 351 of the Public Health Service Act (PHSA) and is produced at an establishment licensed under section 351 of the PHSA to produce such product; or

(v) Is insulin certified under section 506 of the FFDCA.

(2) A covered outpatient drug does not include any drug, biological product, or insulin provided as part of or incident to and in the same setting as any of the following services (and for which payment may be made as part of

that service instead of as a direct reimbursement for the drug):

- (i) Inpatient Services;
 - (ii) Hospice Services;
 - (iii) Dental Services, except that drugs for which the State plan authorizes direct reimbursement to the dispensing dentist are covered outpatient drugs;
 - (iv) Physician services;
 - (v) Outpatient hospital services;
 - (vi) Nursing facility and services provided by an intermediate care facility for individuals with intellectual disabilities;
 - (vii) Other laboratory and x-ray services; or
 - (viii) Renal dialysis.
- (3) A covered outpatient drug does not include:

- (i) Any drug product, prescription or over-the-counter (OTC), for which an NDC number is not required by the FDA;
- (ii) Any drug product for which a manufacturer has not submitted to CMS evidence to demonstrate that the drug product satisfies the criteria in paragraph (1) of this definition;
- (iii) Any drug product or biological used for a medical indication which is not a medically accepted indication; or
- (iv) Over-the-counter products that are not drugs.

Customary prompt pay discount means any discount off of the purchase price of a drug routinely offered by the manufacturer to a wholesaler for prompt payment of purchased drugs within a specified timeframe and consistent with customary business practices for payment.

Innovator multiple source drug means a multiple source drug, including an authorized generic drug, that is marketed under a new drug application (NDA) approved by FDA, unless the Secretary determines that a narrow exception applies (as described in this section). It also includes a drug product marketed by any cross-licensed producers, labelers, or distributors operating under the NDA and a covered outpatient drug approved under a biologics license application (BLA), product license application (PLA), establishment license application (ELA) or antibiotic drug application (ADA).

Lagged price concession means any discount or rebate that is realized after the sale of the drug, but does not include customary prompt pay discounts.

Line extension means, for a drug, a new formulation of the drug, but does not include an abuse-deterrent formulation of the drug (as determined by the Secretary).

Manufacturer means any entity that holds the NDC for a covered outpatient drug or biological product and meets the following criteria:

- (1) Is engaged in the production, preparation, propagation, compounding, conversion, or processing of covered outpatient drug products, either directly or indirectly by extraction from substances of natural origin, or independently by means of chemical synthesis, or by a combination of extraction and chemical synthesis; or
- (2) Is engaged in the packaging, repackaging, labeling, relabeling, or distribution of covered outpatient drug products and is not a wholesale distributor of drugs or a retail pharmacy licensed under State law.
- (3) For authorized generic products, the term “manufacturer” will also include the original holder of the NDA.
- (4) For drugs subject to private labeling arrangements, the term “manufacturer” will also include the entity under whose own label or trade name the product will be distributed.

Multiple source drug means, for a rebate period, a covered outpatient drug, including a drug product approved for marketing as a non-prescription drug that is regarded as a covered outpatient drug under section 1927(k)(4) of the Act, for which there is at least 1 other drug product which meets all of the following criteria:

- (1) Is rated as therapeutically equivalent (under the FDA’s most recent publication of “Approved Drug Products with Therapeutic Equivalence Evaluations” which is available at <http://www.accessdata.fda.gov/scripts/cder/ob/>).
- (2) Except as provided at section 1927(k)(7)(B) of the Act, is pharmaceutically equivalent and bioequivalent, as defined at section 1927(k)(7)(C) of the Act and as determined by FDA.
- (3) Is sold or marketed in the United States during the period.

National drug code (NDC) means the numerical code maintained by the FDA that includes the labeler code, product code, and package code. For purposes of this subpart, the NDC is considered to be an 11-digit code, unless otherwise specified in this subpart as being without regard to package size (that is, the 9-digit numerical code).

National rebate agreement means the rebate agreement developed by CMS and entered into by CMS on behalf of the Secretary or his or her designee and a manufacturer to implement section 1927 of the Act.

New formulation means, for a drug, a change to the drug, including, but not limited to: an extended release formulation or other change in release mechanism, a change in dosage form, strength, route of administration, or ingredients.

Nominal price means a price that is less than 10 percent of the average manufacturer price (AMP) in the same quarter for which the AMP is computed.

Noninnovator multiple source drug means:

(1) A multiple source drug that is not an innovator multiple source drug or a single source drug;

(2) A multiple source drug that is marketed under an ANDA or an abbreviated antibiotic drug application;

(3) A covered outpatient drug that entered the market before 1962 that was not originally marketed under an NDA;

(4) Any drug that has not gone through an FDA approval process, but otherwise meets the definition of covered outpatient drug; or

(5) If any of the drug products listed in this definition of a noninnovator multiple source drug subsequently receives an NDA or ANDA approval from FDA, the product's drug category changes to correlate with the new product application type.

Oral solid dosage form means, an orally administered dosage form that is not a liquid or gas at the time the drug enters the oral cavity.

Over-the-counter (OTC) drug means a drug that is appropriate for use without the supervision of a health care professional such as a physician, and

which can be purchased by a consumer without a prescription.

Pediatric indication means a specifically stated indication for use by the pediatric age group meaning from birth through 16 years of age, or a subset of this group as specified in the "Indication and Usage" section of the FDA approved labeling, or in an explanation elsewhere in the labeling that makes it clear that the drug is for use only in a pediatric age group, or a subset of this group.

Professional dispensing fee means the professional fee which:

(1) Is incurred at the point of sale or service and pays for costs in excess of the ingredient cost of a covered outpatient drug each time a covered outpatient drug is dispensed;

(2) Includes only pharmacy costs associated with ensuring that possession of the appropriate covered outpatient drug is transferred to a Medicaid beneficiary. Pharmacy costs include, but are not limited to, reasonable costs associated with a pharmacist's time in checking the computer for information about an individual's coverage, performing drug utilization review and preferred drug list review activities, measurement or mixing of the covered outpatient drug, filling the container, beneficiary counseling, physically providing the completed prescription to the Medicaid beneficiary, delivery, special packaging, and overhead associated with maintaining the facility and equipment necessary to operate the pharmacy; and

(3) Does not include administrative costs incurred by the State in the operation of the covered outpatient drug benefit including systems costs for interfacing with pharmacies.

Rebate period means a calendar quarter.

Single source drug means a covered outpatient drug, including a drug product approved for marketing as a non-prescription drug that is regarded as a covered outpatient drug under section 1927(k)(4) of the Act, which is produced or distributed under a new drug application approved by the FDA, including a drug product marketed by any cross-licensed producers or distributors operating under the new drug application unless the Secretary determines that a

narrow exception applies (as described in this section), and includes a covered outpatient drug that is a biological product licensed, produced, or distributed under a biologics license application approved by the FDA.

States means the 50 States and the District of Columbia and, beginning January 1, 2023, also includes the Commonwealth of Puerto Rico, the Virgin Islands of the United States, Guam, the Commonwealth of the Northern Mariana Islands, and American Samoa.

United States means the 50 States and the District of Columbia and, beginning January 1, 2023, also includes the Commonwealth of Puerto Rico, the Virgin Islands of the United States, Guam, the Commonwealth of the Northern Mariana Islands, and American Samoa.

Value-based purchasing (VBP) arrangement means an arrangement or agreement intended to align pricing and/or payments to an observed or expected therapeutic or clinical value in a select population and includes, but is not limited to:

(1) Evidence-based measures, which substantially link the cost of a covered outpatient drug to existing evidence of effectiveness and potential value for specific uses of that product; and/or

(2) Outcomes-based measures, which substantially link payment for the covered outpatient drug to that of the drug's actual performance in patient or a population, or a reduction in other medical expenses.

Wholesaler means a drug wholesaler that is engaged in wholesale distribution of prescription drugs to retail community pharmacies, including but not limited to repackers, distributors, own-label distributors, private-label distributors, jobbers, brokers, warehouses (including distributor's warehouses, chain drug warehouses, and wholesale drug warehouses), independent wholesale drug traders, and retail community pharmacies that conduct wholesale distributions.

[81 FR 5347, Feb. 1, 2016, as amended at 81 FR 80005, Nov. 15, 2016; 84 FR 64786, Nov. 25, 2019; 85 FR 87101, Dec. 31, 2020; 86 FR 64825, Nov. 19, 2021]

§ 447.504 Determination of average manufacturer price.

(a) *Definitions.* For the purpose of this section, the following definitions apply:

Average manufacturer price (AMP) means, for a covered outpatient drug of a manufacturer (including those sold under an NDA approved under section 505(c) of the Federal Food, Drug, and Cosmetic Act), the average price paid to the manufacturer for the drug in the United States by wholesalers for drugs distributed to retail community pharmacies and retail community pharmacies that purchase drugs directly from the manufacturer.

Average unit price means a manufacturer's sales included in AMP less all required adjustments divided by the total units sold and included in AMP by the manufacturer in a quarter.

Charitable and not-for profit pharmacies means organizations exempt from taxation as defined by section 501(c)(3) of the Internal Revenue Code of 1986.

Insurers means entities that are responsible for payment to pharmacies for drugs dispensed to their members, and do not take actual possession of these drugs or pass on manufacturer discounts or rebates to pharmacies.

Net sales means quarterly gross sales revenue less cash discounts allowed, except customary prompt pay discounts extended to wholesalers, and all other price reductions (other than rebates under section 1927 of the Act or price reductions specifically excluded by statute or regulation) which reduce the amount received by the manufacturer.

Retail community pharmacy means an independent pharmacy, a chain pharmacy, a supermarket pharmacy, or a mass merchandiser pharmacy that is licensed as a pharmacy by the State and that dispenses medications to the general public at retail prices. Such term does not include a pharmacy that dispenses prescription medications to patients primarily through the mail, nursing home pharmacies, long-term care facility pharmacies, hospital pharmacies, clinics, charitable or not-for-profit pharmacies, government pharmacies, or pharmacy benefit managers.

(b) *Sales, nominal price sales, and associated discounts, rebates, payments, or other financial transactions included in AMP.* Except for those sales, nominal price sales, and associated discounts, rebates, payments or other financial transactions identified in paragraph (c) of this section, AMP for covered outpatient drugs includes the following sales, nominal price sales, and associated discounts, rebates, payments, or other financial transactions:

(1) Sales to wholesalers for drugs distributed to retail community pharmacies.

(2) Sales to retail community pharmacies (including those sales, nominal price sales, and associated discounts, rebates (other than rebates under section 1927 of the Act or as specified in regulations), payments, or other financial transactions that are received by, paid by, or passed through to retail community pharmacies).

(c) *Sales, nominal price sales, and associated discounts, rebates, payments, or other financial transactions excluded from AMP.* AMP excludes the following sales, nominal price sales, and associated discounts, rebates, payments, or other financial transactions:

(1) Any prices on or after October 1, 1992, to the Indian Health Service (IHS), the Department of Veterans Affairs (DVA), a State home receiving funds under 38 U.S.C. 1741, the Department of Defense (DoD), the Public Health Service (PHS), or a covered entity described in section 1927(a)(5)(B) of the Act (including inpatient prices charged to hospitals described in section 340B(a)(4)(L) of the PHSA).

(2) Any prices charged under the Federal Supply Schedule (FSS) of the General Services Administration (GSA).

(3) Any depot prices (including TRICARE) and single award contract prices, as defined by the Secretary, of any agency of the Federal government.

(4) Sales outside the United States.

(5) Sales to hospitals.

(6) Sales to health maintenance organizations (HMOs) (including managed care organizations (MCOs)), including HMO or MCO operated pharmacies.

(7) Sales to long-term care providers, including nursing facility pharmacies, nursing home pharmacies, long-term care facilities, contract pharmacies for

the nursing facility where these sales can be identified with adequate documentation, and other entities where the drugs are dispensed through a nursing facility pharmacy, such as assisted living facilities.

(8) Sales to mail order pharmacies.

(9) Sales to clinics and outpatient facilities (for example, surgical centers, ambulatory care centers, dialysis centers, and mental health centers).

(10) Sales to government pharmacies (for example, a Federal, State, county, or municipal-owned pharmacy).

(11) Sales to charitable pharmacies.

(12) Sales to not-for-profit pharmacies.

(13) Sales, associated rebates, discounts, or other price concessions paid directly to insurers.

(14) Bona fide service fees, as defined in § 447.502, paid by manufacturers to wholesalers or retail community pharmacies.

(15) Customary prompt pay discounts extended to wholesalers.

(16) Reimbursement by the manufacturer for recalled, damaged, expired, or otherwise unsalable returned goods, including (but not limited to) reimbursement for the cost of the goods and any reimbursement of costs associated with return goods handling and processing, reverse logistics, and drug destruction, but only to the extent that such payment covers only those costs.

(17) Associated discounts, rebates, or other price concessions provided under the Medicare Coverage Gap Discount Program under section 1860D-14A of the Act.

(18) Payments received from and rebates and discounts provided to pharmacy benefit manufacturers (PBMs).

(19) Rebates under the national rebate agreement or a CMS-authorized State supplemental rebate agreement paid to State Medicaid Agencies under section 1927 of the Act.

(20) Sales to hospices (inpatient and outpatient).

(21) Sales to prisons.

(22) Sales to physicians.

(23) Direct sales to patients.

(24) Free goods, not contingent upon any purchase requirement.

(25) Manufacturer coupons to a consumer redeemed by the manufacturer,

agent, pharmacy or another entity acting on behalf of the manufacturer, but only to the extent that the manufacturer ensures the full value of the coupon is passed on to the consumer and the pharmacy, agent, or other AMP-eligible entity does not receive any price concession.

(26) Manufacturer-sponsored programs that provide free goods, including but not limited to vouchers and patient assistance programs, but only to the extent that the manufacturer ensures: the voucher or benefit of such a program is not contingent on any other purchase requirement; the full value of the voucher or benefit of such a program is passed on to the consumer; and the pharmacy, agent, or other AMP-eligible entity does not receive any price concession.

(27) Manufacturer-sponsored drug discount card programs, but only to the extent that the manufacturer ensures the full value of the discount is passed on to the consumer and the pharmacy, agent, or the other AMP-eligible entity does not receive any price concession.

(28) Manufacturer-sponsored patient refund/rebate programs, to the extent that the manufacturer ensures that the manufacturer provides a full or partial refund or rebate to the patient for out-of-pocket costs and the pharmacy, agent, or other AMP-eligible entity does not receive any price concession.

(29) Manufacturer copayment assistance programs, to the extent that the manufacturer ensures the program benefits are provided entirely to the patient and the pharmacy, agent, or other AMP-eligible entity does not receive any price concession.

(30) Any rebates, discounts, or price concessions provided to a designated State Pharmacy Assistance Program (SPAP).

(d) *Sales, nominal price sales, and associated discounts, rebates, payments, or other financial transactions included in AMP for 5i drugs that are not generally dispensed through retail community pharmacies.* Except for those sales, nominal price sales, and associated discounts, rebates, payments, and other financial transactions identified in paragraph (e) of this section, AMP for inhalation, infusion, instilled, implanted, or injectable drugs (5i) covered outpatient

drugs identified in accordance with § 447.507 shall include sales, nominal price sales, and associated discounts, rebates, payments, or other financial transactions to all entities specified in paragraph (b) of this section, as well as the following sales, nominal price sales, and associated discounts, rebates, payments, or other financial transactions:

- (1) Sales to physicians.
- (2) Sales to pharmacy benefit managers.
- (3) Sales to health maintenance organizations (HMOs), including managed care organizations (MCOs).
- (4) Sales to insurers (except for rebates under section 1927 of the Act and this subpart).
- (5) Sales to hospitals.
- (6) Sales to clinics and outpatient facilities (for example, surgical centers, ambulatory care centers, dialysis centers, mental health centers).
- (7) Sales to mail order pharmacies.
- (8) Sales to long-term care providers, including nursing facility pharmacies, nursing home pharmacies, long-term care facilities, contract pharmacies for the nursing facility where these sales can be identified with adequate documentation, and other entities where the drugs are dispensed through a nursing facility pharmacy, such as assisted living facilities.
- (9) Sales to hospices (inpatient and outpatient).
- (10) Sales to manufacturers, or any other entity that does not conduct business as a wholesaler or retail community pharmacy.

(e) *Sales, nominal price sales, and associated discounts, rebates, payments, or other transactions excluded from AMP for 5i drugs that are not generally dispensed through retail community pharmacies.* AMP for 5i covered outpatient drugs identified in accordance with § 447.507 excludes the following sales, nominal price sales, and associated discounts, rebates, or other financial transactions:

- (1) Any prices on or after October 1, 1992, to the Indian Health Service (IHS), the Department of Veterans Affairs (DVA), a State home receiving funds under 38 U.S.C. 1741, the Department of Defense (DoD), the Public

Health Service (PHS), or a covered entity described in section 1927(a)(5)(B) of the Act (including inpatient prices charged to hospitals described in section 340B(a)(4)(L) of the PHSA).

(2) Any prices charged under the Federal Supply Schedule (FSS) of the General Services Administration (GSA).

(3) Any depot prices (including TRICARE) and single award contract prices, as defined by the Secretary, of any agency of the Federal government.

(4) Sales outside the United States.

(5) Bona fide service fees as defined in § 447.502 paid by manufacturers to wholesalers or retail community pharmacies.

(6) Customary prompt pay discounts extended to wholesalers.

(7) Reimbursement by the manufacturer for recalled, damaged, expired, or otherwise unsalable returned goods, including (but not limited to) reimbursement for the cost of the goods and any reimbursement of costs associated with return goods handling and processing, reverse logistics, and drug destruction, but only to the extent that such payment covers only these costs.

(8) Any prices charged which are negotiated by a prescription drug plan under Part D of title XVIII, by any MA-PD plan under Part C of such title for covered Part D drugs, or by a Qualified Retiree Prescription Drug Plan (as defined in section 1860D-22(a)(2) of the Act) for such drugs on behalf of individuals entitled to benefits under Part A or enrolled under Part B of Medicare, or any discounts provided by manufacturers under the Medicare coverage gap discount program under section 1860D-14A of the Act.

(9) Rebates under the national rebate agreement or a CMS-authorized State supplemental rebate agreement paid to State Medicaid Agencies under section 1927 of the Act.

(10) Any rebates, discounts, or price concessions provided to a designated State Pharmacy Assistance Program (SPAP).

(11) Sales to patients.

(12) Free goods, not contingent upon any purchase requirement.

(13) Manufacturer coupons to a consumer redeemed by the manufacturer, agent, pharmacy or another entity acting on behalf of the manufacturer, but

only to the extent that the manufacturer ensures the full value of the coupon is passed on to the consumer and the pharmacy, agent, or other AMP-eligible entity does not receive any price concession

(14) Manufacturer-sponsored programs that provide free goods, including, but not limited to vouchers and patient assistance programs, but only to the extent that the manufacturer ensures: the voucher or benefit of such a program is not contingent on any other purchase requirement; the full value of the voucher or benefit of such a program is passed on to the consumer; and the pharmacy, agent, or other AMP-eligible entity does not receive any price concession.

(15) Manufacturer-sponsored drug discount card programs, but only to the extent that the manufacturer ensures the full value of the discount is passed on to the consumer and the pharmacy, agent, or the other AMP-eligible entity does not receive any price concession.

(16) Manufacturer-sponsored patient refund/rebate programs, to the extent that the manufacturer ensures the manufacturer provided a full or partial refund or rebate to the patient for out-of-pocket costs and the pharmacy agent, or other AMP-eligible entity does not receive any price concession.

(17) Manufacturer copayment assistance programs, to the extent that the manufacturer ensures the program benefits are provided entirely to the patient and the pharmacy agent, or other AMP-eligible entity does not receive any price concession

(18) Sales to government pharmacies (for example, a Federal, State, county, or municipal-owned pharmacy).

(19) Sales to charitable pharmacies.

(20) Sales to not-for-profit pharmacies.

(f) *Further clarification of AMP calculation.* (1) AMP includes cash discounts except customary prompt pay discounts extended to wholesalers, free goods that are contingent on any purchase requirement, volume discounts, chargebacks that can be identified with adequate documentation, incentives, administrative fees, service fees, distribution fees (other than bona fide service fees), and any other rebates,

§ 447.505

discounts or other financial transactions, other than rebates under section 1927 of the Act, which reduce the price received by the manufacturer for drugs distributed to retail community pharmacies.

(2) Quarterly AMP is calculated as a weighted average of monthly AMPs in that quarter.

(3) The manufacturer must adjust the AMP for a rebate period if cumulative discounts, rebates, or other arrangements subsequently adjust the prices actually realized, to the extent that such cumulative discounts, rebates, or other arrangements are not excluded from the determination of AMP by statute or regulation.

[81 FR 5347, Feb. 1, 2016, as amended at 85 FR 87102, Dec. 31, 2020]

§ 447.505 Determination of best price.

(a) *Definitions.* For the purpose of this section, the following definitions apply:

Best price means, for a single source drug or innovator multiple source drug of a manufacturer (including the lowest price available to any entity for an authorized generic drug), the lowest price available from the manufacturer during the rebate period to any wholesaler, retailer, provider, health maintenance organization, nonprofit entity, or governmental entity in the United States in any pricing structure (including capitated payments) in the same quarter for which the AMP is computed. If a manufacturer offers a value-based purchasing arrangement (as defined at § 447.502) to all states, the lowest price available from a manufacturer may include varying best price points for a single dosage form and strength as a result of that value based purchasing arrangement.

Provider means a hospital, HMO, including an MCO, or entity that treats or provides coverage or services to individuals for illnesses or injuries or provides services or items in the provision of health care.

(b) *Prices included in best price.* Except for those prices identified in paragraph (c) of this section, best price for covered outpatient drugs includes all prices, including applicable discounts, rebates, or other transactions that adjust prices either directly or indirectly

42 CFR Ch. IV (10–1–23 Edition)

to the best price-eligible entities listed in paragraph (a) of this section.

(c) *Prices excluded from best price.* Best price excludes the following:

(1) Any prices on or after October 1, 1992, charged to the IHS, the DVA, a State home receiving funds under 38 U.S.C. 1741, the DoD, or the PHS.

(2) Any prices charged to a covered entity described in section 1927(a)(5)(B) of the Act (including inpatient prices charged to hospitals described in section 340B(a)(4)(L) of the PHSA).

(3) Any prices charged under the FSS of the GSA.

(4) Any prices, rebates, or discounts provided to a designated State Pharmacy Assistance Program (SPAP).

(5) Any depot prices (including TRICARE) and single award contract prices, as defined by the Secretary, of any agency of the Federal government.

(6) Any prices charged which are negotiated by a prescription drug plan under Part D of title XVIII, by any MA-PD plan under Part C of such title for covered Part D drugs, or by a Qualified Retiree Prescription Drug Plan (as defined in section 1860D–22(a)(2) of the Act) for such drugs on behalf of individuals entitled to benefits under Part A or enrolled under Part B of Medicare, or any discounts provided by manufacturers under the Medicare coverage gap discount program under section 1860D–14A of the Act.

(7) Rebates under the national rebate agreement or a CMS-authorized supplemental rebate agreement paid to State Medicaid Agencies under section 1927 of the Act.

(8) Manufacturer-sponsored drug discount card programs, but only to the extent the manufacturer ensures that the full value of the discount is passed on to the consumer and the pharmacy, agent, or other entity does not receive any price concession.

(9) Manufacturer coupons to a consumer redeemed by a consumer, agent, pharmacy, or another entity acting on behalf of the manufacturer; but only to the extent the manufacturer ensures that the full value of the coupon is passed on to the consumer, and the pharmacy, agent, or other entity does not receive any price concession.

(10) Manufacturer copayment assistance programs, to the extent that the

manufacturer ensures the program benefits are provided entirely to the patient and the pharmacy, agent, or other entity does not receive any price concession.

(11) Manufacturer-sponsored patient refund or rebate programs, to the extent that the manufacturer ensures the manufacturer provides a full or partial refund or rebate to the patient for out-of-pocket costs and the pharmacy, agent, or other entity does not receive any price concession.

(12) Manufacturer-sponsored programs that provide free goods, including but not limited to vouchers and patient assistance programs, but only to the extent that the manufacturer ensures the voucher or benefit of such a program is not contingent on any other purchase requirement; the full value of the voucher or benefit of such a program is passed on to the consumer; and the pharmacy, agent, or other entity does not receive any price concession.

(13) Free goods, not contingent upon any purchase requirement.

(14) Reimbursement by the manufacturer for recalled, damaged, expired, or otherwise unsalable returned goods, including, but not limited to, reimbursement for the cost of the goods and any reimbursement of costs associated with return goods handling and processing, reverse logistics, and drug destruction but only to the extent that such payment covers only these costs.

(15) Nominal prices to certain entities as set forth in § 447.508.

(16) Bona fide service fees as defined in § 447.502.

(17) PBM rebates, discounts, or other financial transactions except their mail order pharmacy's purchases or where such rebates, discounts, or other financial transactions are designed to adjust prices at the retail or provider level.

(18) Sales outside the United States.

(19) Direct sales to patients.

(d) *Further clarification of best price.*

(1) Best price is net of cash discounts, free goods that are contingent on any purchase requirement, volume discounts, customary prompt pay discounts, chargebacks, incentives, promotional fees, administrative fees, service fees (except bona fide service fees), distribution fees, and any other

discounts or price reductions and rebates, other than rebates under section 1927 of the Act, which reduce the price available from the manufacturer.

(2) Best price must be determined on a unit basis without regard to package size, special packaging, labeling, or identifiers on the dosage form or product or package.

(3) The manufacturer must adjust the best price for a rebate period if cumulative discounts, rebates, or other arrangements subsequently adjust the prices available, to the extent that such cumulative discounts, rebates, or other arrangements are not excluded from the determination of best price by statute or regulation.

[81 FR 5347, Feb. 1, 2016, as amended at 85 FR 87102, Dec. 31, 2020]

§ 447.506 Authorized generic drugs.

(a) *Definitions.* For the purpose of this section, the following definitions apply:

Primary manufacturer means a manufacturer that holds the NDA of the authorized generic drug.

Secondary manufacturer of an authorized generic drug means a manufacturer that is authorized by the primary manufacturer to sell the drug.

(b) *Exclusion of authorized generic drugs from AMP by a primary manufacturer.* The primary manufacturer must exclude from its calculation of AMP any sales of authorized generic drugs to wholesalers for drugs distributed to retail community pharmacies when reporting the AMP of the brand name drug of that authorized generic drug.

(c) *Inclusion of authorized generic drugs in best price by a primary manufacturer.* A primary manufacturer holding the NDA must include the best price of an authorized generic drug in its computation of best price for a single source or an innovator multiple source drug during a rebate period to any manufacturer, wholesaler, retailer, provider, HMO, non-profit entity, or governmental entity in the United States, only when such drugs are being sold by the manufacturer holding the NDA.

(d) *Inclusion of authorized generic in AMP and best price by a secondary manufacturer.* The secondary manufacturer

§ 447.507

of an authorized generic drug must provide a rebate based on its sales of authorized generics, and must calculate AMP and best price, consistent with the requirements specified in §§ 447.504 and 447.505.

[81 FR 5347, Feb. 1, 2016, as amended at 85 FR 87102, Dec. 31, 2020]

§ 447.507 Identification of inhalation, infusion, instilled, implanted, or injectable drugs (5i drugs).

(a) *Identification of a 5i drug.* A manufacturer must identify to CMS each covered outpatient drug that qualifies as a 5i drug.

(b) *Not generally dispensed through a retail community pharmacy.* A manufacturer must determine if the 5i drug is not generally dispensed through a retail community pharmacy based on the percentage of sales to entities other than retail community pharmacies.

(1) A 5i drug is not generally dispensed through a retail community pharmacy if 70 percent or more of the sales (based on units at the NDC-9 level) of the 5i drug, were to entities other than retail community pharmacies or wholesalers for drugs distributed to retail community pharmacies.

(2) A manufacturer is responsible for determining and reporting to CMS whether a 5i drug is not generally dispensed through a retail community pharmacy on a monthly basis.

§ 447.508 Exclusion from best price of certain sales at a nominal price.

(a) *Exclusion from best price.* Sales of covered outpatient drugs by a manufacturer at nominal prices are excluded from best price when purchased by the following entities:

(1) A covered entity as described in section 340B(a)(4) of the PHSA.

(2) An ICF/IID providing services as set forth in § 440.150 of this chapter.

(3) A State-owned or operated nursing facility providing services as set forth in § 440.155 of this chapter.

(4) A public or non-profit entity, or an entity based at an institution of higher learning whose primary purpose is to provide health care services to students of that institution, that provides family planning services described under section of 1001(a) of PHSA, 42 U.S.C. 300.

42 CFR Ch. IV (10–1–23 Edition)

(5) An entity that:

(i) Is described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from tax under section 501(a) of that Act or is State-owned or operated; and

(ii) Is providing the same services to the same type of population as a covered entity described in section 340B(a)(4) of the PHSA but does not receive funding under a provision of law referred to in such section.

(b) *Nonapplication.* This restriction does not apply to sales by a manufacturer of covered outpatient drugs that are sold under a master agreement under 38 U.S.C. 8126.

(c) *Rule of construction.* Nothing in this section is construed to alter any existing statutory or regulatory prohibition on services for an entity described paragraph (a)(5) of this section, including the prohibition set forth in section 1008 of the PHSA.

§ 447.509 Medicaid drug rebates (MDR).

(a) *Determination of rebate amount—(1) Basic rebate for single source drugs and innovator multiple source drugs.* The amount of basic rebate for each dosage form and strength of a single source drug or an innovator multiple source drug is equal to the product of:

(i) The total number of units of each dosage form and strength paid for under the State plan in the rebate period (as reported by the State); and

(ii) The greater of:

(A) The difference between the AMP and the best price for the dosage form and strength of the drug; or

(B) The AMP for the dosage form and strength of the drug multiplied by one of the following percentages:

(1) For a clotting factor, 17.1 percent;

(2) For a drug approved by FDA exclusively for pediatric indications, 17.1 percent; or

(3) For all other single source drugs and innovator multiple source drugs, 23.1 percent.

(2) *Additional rebate for single source and innovator multiple source drugs.* In addition to the basic rebate described in paragraph (a)(1) of this section, for each dosage form and strength of a single source drug or an innovator multiple source drug, the rebate amount

will be increased by an amount equal to the product of the following:

(i) The total number of units of such dosage form and strength paid for under the State plan in the rebate period.

(ii) The amount, if any, by which:

(A) The AMP for the dosage form and strength of the drug for the period exceeds:

(B) The base date AMP for such dosage form and strength, increased by the percentage by which the consumer price index for all urban consumers (United States city average) for the month before the month in which the rebate period begins exceeds such index associated with the base date AMP of the drug.

(3) *Total rebate.* The total rebate amount for single source drugs and innovator multiple source drugs is equal to the basic rebate amount plus the additional rebate amount, if any.

(4) *Treatment of new formulations.* (i) In the case of a drug that is a line extension of a single source drug or an innovator multiple source drug that is an oral solid dosage form, the rebate obligation for the rebate periods beginning January 1, 2010 through September 30, 2018 is the amount computed under paragraphs (a)(1) through (3) of this section for such new drug or, if greater, the product of all of the following:

(A) The AMP of the line extension of a single source drug or an innovator multiple source drug that is an oral solid dosage form.

(B) The highest additional rebate (calculated as a percentage of AMP) under this section for any strength of the original single source drug or innovator multiple source drug.

(C) The total number of units of each dosage form and strength of the line extension product paid for under the State plan in the rebate period (as reported by the State).

(ii) In the case of a drug that is a line extension of a single source drug or an innovator multiple source drug that is an oral solid dosage form, the rebate obligation for the rebate periods beginning on October 1, 2018 through December 31, 2021 is the amount computed under paragraphs (a)(1) through (3) of this section for such new drug or, if greater, the amount computed under

paragraph (a)(1) of this section plus the product of all of the following:

(A) The AMP of the line extension of a single source drug or an innovator multiple source drug that is an oral solid dosage form.

(B) The highest additional rebate (calculated as a percentage of AMP) under this section for any strength of the original single source drug or innovator multiple source drug.

(C) The total number of units of each dosage form and strength of the line extension product paid for under the State plan in the rebate period (as reported by the State).

(iii) In the case of a drug that is a line extension of a single source drug or an innovator multiple source drug, provided that the initial single source drug or innovator multiple source drug is an oral solid dosage form, the rebate obligation for the rebate periods beginning on and after January 1, 2022 is the amount computed under paragraphs (a)(1) through (3) of this section for such new drug or, if greater, the amount computed under paragraph (a)(1) of this section plus the product of all of the following:

(A) The AMP of the line extension of a single source drug or an innovator multiple source drug.

(B) The highest additional rebate (calculated as a percentage of AMP) under this section for any strength of the original single source drug or innovator multiple source drug.

(C) The total number of units of each dosage form and strength of the line extension product paid for under the State plan in the rebate period (as reported by the State).

(iv) The alternative rebate is required to be calculated if the manufacturer of the line extension drug also manufactures the initial brand name listed drug or has a corporate relationship with the manufacturer of the initial brand name listed drug.

(5) *Limit on rebate.* In no case will the total rebate amount exceed 100 percent of the AMP of the single source or multiple source innovator drug.

(6) *Rebate for noninnovator multiple source drugs.* The amount of the basic rebate for each dosage form and strength of a noninnovator multiple

source drug will be equal to the product of:

(i) The total number of units of such dosage form and strength for which payment was made under the State plan for the rebate period; and

(ii) The AMP for the dosage form and strength for the rebate period multiplied by 13 percent.

(7) *Additional rebate for noninnovator multiple source drugs.* In addition to the basic rebate described in paragraph (a)(6) of this section, for each dosage form and strength of a noninnovator multiple source drug, the rebate amount will be increased by an amount equal to the product of the following:

(i) The total number of units of such dosage form and strength paid for under the State plan in the rebate period.

(ii) The amount, if any, by which:

(A) The AMP for the dosage form and strength of the drug for the period exceeds the base date AMP for such dosage form and strength, increased by the percentage by which the consumer price index for all urban consumers (United States city average) for the month before the month in which the rebate period begins exceeds such index associated with the base date AMP of the drug.

(B) The base date AMP has the meaning of AMP set forth in sections 1927(c)(2)(A)(ii)(II), 1927(c)(2)(B) and 1927(c)(3)(C) of the Act.

(8) *Total rebate.* The total rebate amount for noninnovator multiple source drugs is equal to the basic rebate amount plus the additional rebate amount, if any.

(9) *Limit on rebate.* In no case will the total rebate amount exceed 100 percent of the AMP for the noninnovator multiple source drug.

(b) *Rebates for drugs dispensed through Medicaid managed care organizations (MCOs).* (1) Manufacturers participating in the Medicaid drug rebate program will provide a rebate for covered outpatient drugs dispensed to individuals enrolled in Medicaid MCOs if the MCO is contractually required to provide such drugs.

(2) Manufacturers are exempt from the requirement in paragraph (b)(1) of this section if such drugs are the following:

(i) Dispensed by health maintenance organizations including MCOs that contract under section 1903(m) of the Act; and

(ii) Discounted under section 340B of the PHSA.

(c) *Federal offset of rebates.* States must remit to the Federal government the amount of the savings resulting from the following increases in the rebate percentages.

(1) For single source or innovator multiple source drugs other than blood clotting factors and drugs approved by FDA exclusively for pediatric indications:

(i) If AMP minus best price is less than or equal to AMP times 15.1 percent, then the offset amount is the full 8.0 percent of AMP (the difference between 23.1 percent of AMP and 15.1 percent of AMP).

(ii) If AMP minus best price is greater than AMP times 15.1 percent but less than AMP times 23.1 percent, then the offset amount is the difference between AMP times 23.1 percent and AMP minus best price.

(iii) If AMP minus best price is equal to or greater than AMP times 23.1 percent, then there is no offset amount.

(2) For single source or innovator multiple source drugs that are clotting factors and drugs approved by FDA exclusively for pediatric indications that are subject to a rebate percentage of 17.1 percent of AMP:

(i) If AMP minus best price is less than or equal to AMP times 15.1 percent, then the offset amount is the full 2.0 percent of AMP (the difference between 17.1 percent of AMP and 15.1 percent of AMP).

(ii) If AMP minus best price is greater than AMP times 15.1 percent but less than AMP times 17.1 percent, then the offset amount is the difference between AMP times 17.1 percent and AMP minus best price.

(iii) If AMP minus best price is equal to or greater than AMP times 17.1 percent, then there is no offset amount.

(3) For a drug that is a line extension of a single source or innovator multiple source drug that is an oral solid dosage form, the offset amount is the difference between the unit rebate amount (URA) calculation for the drug

calculated based on the applicable rebate percentage in section 1927 of the Act prior to the Affordable Care Act and the calculation of the URA for the line extension drug, if greater, in accordance with the Affordable Care Act.

(4) For noninnovator multiple source drugs, the offset amount is equal to 2.0 percent of the AMP (the difference between 13.0 percent of AMP and 11.0 percent of AMP).

[81 FR 5347, Feb. 1, 2016, as amended at 84 FR 12136, Apr. 1, 2019; 85 FR 87103, Dec. 31, 2020]

§ 447.510 Requirements for manufacturers.

(a) *Quarterly reports.* A manufacturer must report product and pricing information for covered outpatient drugs to CMS not later than 30 days after the end of the rebate period. The quarterly pricing report must include the following:

(1) AMP, calculated in accordance with § 447.504.

(2) Best price, calculated in accordance with § 447.505.

(3) Customary prompt pay discounts, which are reported as an aggregate dollar amount for each covered outpatient drug at the nine-digit NDC level, provided to all wholesalers in the rebate period.

(4) Prices that fall within the nominal price exclusion, which are reported as an aggregate dollar amount and include all sales of single source and innovator multiple source drugs to the entities listed in § 447.508(a) for the rebate period.

(b) *Reporting revised quarterly AMP, best price, customary prompt pay discounts, or nominal prices.* (1) A manufacturer must report to CMS any revision to AMP, best price, customary prompt pay discounts, or nominal prices for a period not to exceed 12 quarters from the quarter in which the data were due. Any revision request that exceeds 12 quarters will not be considered, except for the following reasons:

(i) The change is a result of the drug category change or a market date change.

(ii) The change is an initial submission for a product.

(iii) The change is due to termination of a manufacturer from the MDR program for failure to submit pricing data

and must submit pricing data to reenter the program.

(iv) The change is due to a technical correction; that is, not based on any changes in sales transactions or pricing adjustments from such transactions.

(v) The change is to address specific rebate adjustments to States by manufacturers, as required by CMS or court order, or under an internal investigation, or an OIG or Department of Justice (DOJ) investigation.

(vi) The change is a result of a VBP arrangement, as defined in § 447.502, requiring the manufacturer to make changes outside of the 12-quarter rule in this paragraph (b), when the outcome must be evaluated outside of the 12-quarter period.

(2) A manufacturer must report revised AMP within the 12-quarter time period, except when the revision would be solely as a result of data pertaining to lagged price concessions.

(c) *Base date AMP report—(1) Reporting period.* A manufacturer may report a revised Deficit Reduction Act (DRA) base date AMP to CMS within the first 4 full calendar quarters following July 17, 2007.

(2) *Recalculation of the DRA base date AMP.* (i) A manufacturer's recalculation of the DRA base date AMP must only reflect the revisions to AMP as provided for in § 447.504 in effect from October 1, 2007 to December 14, 2010.

(ii) A manufacturer may choose to recalculate the DRA base date AMP on a product-by-product basis.

(iii) A manufacturer must use actual and verifiable pricing records in recalculating the DRA base date AMP.

(3) *Reporting a revised Affordable Care Act base date AMP.* A manufacturer may report a revised Affordable Care Act base date AMP to CMS within the first 4 full calendar quarters following April 1, 2016.

(4) *Recalculation of the Affordable Care Act base date AMP.* (i) A manufacturer's recalculation of the Affordable Care Act base date AMP must only reflect the revisions to AMP as provided for in § 447.504.

(ii) A manufacturer may choose to recalculate the Affordable Care Act base date AMP on a product-by-product basis.

(iii) A manufacturer must use actual and verifiable pricing records in recalculating the Affordable Care Act base date AMP.

(d) *Monthly AMP*—(1) *Definition*. Monthly AMP means the AMP that is calculated on a monthly basis. A manufacturer must submit a monthly AMP to CMS not later than 30 days after the last day of each prior month.

(2) *Calculation of monthly AMP*. Monthly AMP is calculated based on § 447.504, except the period covered is based on monthly, as opposed to quarterly, sales.

(i) The monthly AMP is calculated based on the weighted average of prices for all the manufacturer's package sizes of each covered outpatient drug sold by the manufacturer during a month.

(ii) It is calculated as net sales divided by number of units sold, excluding goods or any other items specifically excluded in the statute or regulations. Monthly AMP is calculated based on the best data available to the manufacturer at the time of submission.

(iii) In calculating monthly AMP, a manufacturer must estimate the impact of its lagged AMP-eligible price concessions using a 12-month rolling percentage in accordance with the methodology described in this paragraph (d)(2).

(A) For each NDC-9 with at least 12 months of AMP-eligible sales, after adjusting for sales excluded from AMP, the manufacturer calculates a percentage equal to the sum of the price concessions for the most recent 12-month period (inclusive of the current reporting period) available associated with sales subject to the AMP reporting requirement divided by the total in dollars for the sales subject to the AMP reporting requirement for the same 12-month period.

(B) For each NDC-9 with less than 12 months of AMP-eligible sales, the calculation described in paragraph (d)(2)(iii)(A) of this section is performed for the time period equaling the total number of months of AMP-eligible sales.

(iv) The manufacturer multiplies the applicable percentage described in paragraph (d)(2)(iii)(A) or (B) of this

section by the total in dollars for the sales subject to the AMP reporting requirement (after adjusting for sales excluded from AMP) for the month being submitted. The result of this multiplication is then subtracted from the total in dollars for the sales subject to the AMP reporting requirement (after adjusting for sales excluded from AMP) for the month being submitted.

(v) The manufacturer uses the result of the calculation described in paragraph (d)(2)(iv) of this section as the numerator and the number of units sold in the month (after adjusting for sales excluded from AMP) as the denominator to calculate the manufacturer's AMP for the NDC for the month being submitted.

(vi) *Example*. After adjusting for sales excluded from AMP, the total lagged price concessions over the most recent 12-month period available associated with sales for NDC 12345–6789 subject to the AMP reporting requirement equal \$200,000, and the total in dollars for the sales subject to the AMP reporting requirement for the same period equals \$600,000. The lagged price concessions percentage for this period equals $200,000/600,000 = 0.33333$. The total in dollars for the sales subject to the AMP reporting requirement for the month being reported equals \$50,000 for 10,000 units sold. The manufacturer's AMP calculation for this NDC for this month is: $\$50,000 - (0.33333 \times \$50,000) = \$33,334$ (net total sales amount); $\$33,334/10,000 = \3.33340 (AMP).

(3) *Timeframe for reporting revised monthly AMP*. A manufacturer must report to CMS revisions to monthly AMP for a period not to exceed 36 months from the month in which the data were due, except as allowed in paragraph (b)(1) of this section.

(4) *Exception*. A manufacturer must report revisions to monthly AMP within the 36-month time period, except when the revision would be solely as a result of data pertaining to lagged price concessions.

(5) *Terminated products*. A manufacturer must not report a monthly AMP for a terminated product beginning with the first month after the expiration date of the last lot sold.

(6) *Monthly AMP units*. A manufacturer must report the total number of

units that are used to calculate the monthly AMP in the same unit type as used to compute the AMP to CMS not later than 30 days after the last day of each month.

(e) *Certification of pricing reports.* Each report submitted under paragraphs (a) through (d) of this section must be certified by one of the following:

- (1) The manufacturer's chief executive officer (CEO).
- (2) The manufacturer's chief financial officer (CFO).
- (3) An individual other than a CEO or CFO, who has authority equivalent to a CEO or a CFO; or
- (4) An individual with the directly delegated authority to perform the certification on behalf of an individual described in paragraphs (e)(1) through (3) of this section.

(f) *Recordkeeping requirements.* (1) A manufacturer must retain records (written or electronic) for 10 years from the date the manufacturer reports data to CMS for that rebate period.

(i) The records must include these data and any other materials from which the calculations of the AMP, the best price, customary prompt pay discounts, and nominal prices are derived, including a record of any assumptions made in the calculations.

(ii) The 10-year timeframe applies to a manufacturer's quarterly and monthly submissions of pricing data, as well as any revised pricing data subsequently submitted to CMS.

(2) A manufacturer must retain records beyond the 10-year period if all of the following circumstances exist:

(i) The records are the subject of an audit, or of a government investigation related to pricing data that are used in AMP, best price, customary prompt pay discounts, or nominal prices of which the manufacturer is aware.

(ii) The audit findings or investigation related to the AMP, best price, customary prompt pay discounts, or nominal price have not been resolved.

(g) *Data reporting format.* All product and pricing data, whether submitted on a quarterly or monthly basis, must be submitted to CMS in an electronic format designated by CMS.

[81 FR 5347, Feb. 1, 2016, as amended at 85 FR 87103, Dec. 31, 2020]

§ 447.511 Requirements for States.

(a) *Invoices submitted to participating drug manufacturers.* Within 60 days of the end of each quarter, the State must bill participating drug manufacturers an invoice which includes, at a minimum, all of the following data and any subsequent changes to the data fields on the CMS-R-144 Medicaid Drug Rebate Invoice form:

- (1) The State code.
- (2) National Drug Code.
- (3) Period covered.
- (4) Product FDA list name.
- (5) Unit rebate amount.
- (6) Units reimbursed.
- (7) Rebate amount claimed.
- (8) Number of prescriptions.
- (9) Medicaid amount reimbursed.
- (10) Non-Medicaid amount reimbursed.
- (11) Total amount reimbursed.

(b) *Data submitted to CMS.* On a quarterly basis, the State must submit drug utilization data to CMS, which will be the same information as submitted to the manufacturers on the CMS-R-144, as specified in paragraph (a) of this section. The state data submission will be due no later than 60 days after the end of each rebate period. In the event that a due date falls on a weekend or Federal holiday, the submission will be due on the first business day following that weekend or Federal holiday. Any adjustments to previously submitted data will be transmitted to the manufacturer and CMS in the same reporting period.

(c) *State that has participating Medicaid Managed care organizations (MCO).* A State that has participating Medicaid managed care organizations (MCO) which includes covered outpatient drugs in its contracts with the MCOs, must report data described in paragraph (a) of this section for covered outpatient drugs dispensed to individuals eligible for medical assistance who are enrolled with the MCO and for which the MCO is required under contract for coverage of such drugs under section 1903 of the Act. These data must be identified separately from the data pertaining to drugs that the State reimburses on a fee-for-service basis.

(d) *State data certification.* Each data submission in this section must be certified by one of the following:

(1) The State Medicaid Director (SMD);

(2) The Deputy State Medicaid Director (DSMD);

(3) An individual other than the SMD or DSMD, who has authority equivalent to an SMD or DSMD; or

(4) An individual with the directly delegated authority to perform the certification on behalf of an individual described in paragraphs (d)(1) through (3) of this section.

(e) *State data certification language.* Each data submission by a state must include the following certification language: “I hereby certify, to the best of my knowledge, that the state’s data submission is complete and accurate at the time of this submission, and was prepared in accordance with the state’s good faith, reasonable efforts based on existing guidance from CMS, section 1927 of the Act and applicable Federal regulations. I further certify that the state has transmitted data to CMS, including any adjustments to previous rebate periods, in the same reporting period as provided to the manufacturer. Further, the state certifies that it has applied any necessary edits to the data for both CMS and the manufacturer to avoid inaccuracies at both the NDC/line item and file/aggregate level. Such edits are to be applied in the same manner and in the same reporting period to both CMS and the manufacturer.”

[43 FR 45253, Sept. 29, 1978, as amended at 85 FR 87103, Dec. 31, 2020]

§ 447.512 Drugs: Aggregate upper limits of payment.

(a) *Multiple source drugs.* Except for brand name drugs that are certified in accordance with paragraph (c) of this section, the agency payment for multiple source drugs must not exceed, in the aggregate, the amount that would result from the application of the specific limits established in accordance with § 447.514. If a specific limit has not been established under § 447.514, then the rule for “other drugs” set forth in paragraph (b) of this section applies.

(b) *Other drugs.* The agency payments for brand name drugs certified in ac-

cordance with paragraph (c) of this section and drugs other than multiple source drugs for which a specific limit has been established under § 447.514 must not exceed, in the aggregate, payment levels that the agency has determined by applying the lower of the following:

(1) AAC plus a professional dispensing fee established by the agency; or

(2) Providers’ usual and customary charges to the general public.

(c) *Certification of brand name drugs.*

(1) The upper limit for payment for multiple source drugs for which a specific limit has been established under § 447.514 does not apply if a physician certifies in his or her own handwriting (or by an electronic alternative means approved by the Secretary) that a specific brand is medically necessary for a particular beneficiary.

(2) The agency must decide what certification form and procedure are used.

(3) A check off box on a form is not acceptable but a notation like “brand necessary” is allowable.

(4) The agency may allow providers to keep the certification forms if the forms will be available for inspection by the agency or HHS.

§ 447.514 Upper limits for multiple source drugs.

(a) *Establishment and issuance of a listing.* (1) CMS will establish and issue listings that identify and set upper limits for multiple source drugs available for purchase by retail community pharmacies on a nationwide basis that FDA has rated at least three drug products as pharmaceutically and therapeutically equivalent in the “Approved Drug Products with Therapeutic Equivalence Evaluations” which is available at <http://www.accessdata.fda.gov/scripts/cder/ob/>. Only pharmaceutically and therapeutically equivalent formulations will be used to determine such limit, and such limit will only be applied to those equivalent drug products.

(2) CMS publishes the list of multiple source drugs for which upper limits have been established and any revisions to the list in Medicaid Program issuances.

(b) *Specific upper limits.* (1) The agency's payments for multiple source drugs identified and listed periodically by CMS in Medicaid Program issuances must not exceed, in the aggregate, prior to the application of any federal or state drug rebate considerations, payment levels determined by applying for each pharmaceutically and therapeutically equivalent multiple source drug product, a professional dispensing fee established by the state agency plus an amount established by CMS that is equal to 175 percent of the weighted average of the most recently reported monthly AMPs for such multiple source drugs, using manufacturer submitted utilization data for each multiple source drug for which a Federal upper limit (FUL) is established.

(2) *Exception.* If the amount established by CMS in paragraph (b)(1) of this section for a pharmaceutically and therapeutically equivalent multiple source drug product is lower than the average retail community pharmacies' acquisition cost for such drug product, as determined by the most current national survey of such costs, CMS will use a percent of the weighted average of the most recently reported monthly AMPs that equals the most current average acquisition costs paid by retail community pharmacies as determined by such survey.

(c) *Ensuring a drug is for sale nationally.* To assure that a multiple source drug is for sale nationally, CMS will consider the following additional criteria:

(1) The AMP of a terminated NDC will not be used to set the Federal upper limit (FUL) beginning with the first day of the month after the termination date reported by the manufacturer to CMS.

(2) The monthly AMP units data will be used to calculate the weighted average of monthly AMPs for all multiple source drugs to establish the FUL.

(d) The FUL will be applied as an aggregate upper limit.

§ 447.516 Upper limits for drugs furnished as part of services.

The upper limits for payment for prescribed drugs in this subpart also apply to payment for drugs provided as part of skilled nursing facility services and

intermediate care facility services and under prepaid capitation arrangements.

§ 447.518 State plan requirements, findings, and assurances.

(a) *State plan.* (1) The State plan must describe comprehensively the agency's payment methodology for prescription drugs, including the agency's payment methodology for drugs dispensed by all of the following:

(i) A covered entity described in section 1927(a)(5)(B) of the Act.

(ii) A contract pharmacy under contract with a covered entity described in section 1927(a)(5)(B) of the Act.

(iii) An Indian Health Service, tribal and urban Indian pharmacy.

(2) The agency's payment methodology in paragraph (a)(1) of this section must be in accordance with the definition of AAC in § 447.502.

(b) *Findings and assurances.* Upon proposing significant State plan changes in payments for prescription drugs, and at least annually for multiple source drugs and triennially for all other drugs, the agency must make the following findings and assurances:

(1) *Findings.* The agency must make the following separate and distinct findings:

(i) In the aggregate, its Medicaid expenditures for multiple source drugs, identified and listed in accordance with § 447.514(a), are in accordance with the upper limits specified in § 447.514(b).

(ii) In the aggregate, its Medicaid expenditures for all other drugs are in accordance with § 447.512.

(2) *Assurances.* The agency must make assurances satisfactory to CMS that the requirements set forth in §§ 447.512 and 447.514 concerning upper limits and in paragraph (b)(1) of this section concerning agency findings are met.

(c) *Recordkeeping.* The agency must maintain and make available to CMS, upon request, data, mathematical or statistical computations, comparisons, and any other pertinent records to support its findings and assurances.

(d)(1) *Data requirements.* When proposing changes to either the ingredient cost reimbursement or professional dispensing fee reimbursement, States are required to evaluate their proposed

changes in accordance with the requirements of this subpart, and States must consider both the ingredient cost reimbursement and the professional dispensing fee reimbursement when proposing such changes to ensure that total reimbursement to the pharmacy provider is in accordance with requirements of section 1902(a)(30)(A) of the Act. States must provide adequate data such as a State or national survey of retail pharmacy providers or other reliable data other than a survey to support any proposed changes to either or both of the components of the reimbursement methodology. States must submit to CMS the proposed change in reimbursement and the supporting data through a State plan amendment through the formal review process.

(2) A State participating in VBP arrangements approved under a CMS-authorized supplemental rebate agreement (SRA) must report data described in paragraph (d)(3) of this section on an annual basis.

(3) Within 60 days of the end of each year, the State must submit all of the following data, including cumulative data to date:

- (i) State.
- (ii) National drug code(s) (for drugs covered under the CMS-authorized VBP SRA).
- (iii) Product's FDA list name.
- (iv) Number of prescriptions.
- (v) Cost to the State to administer the CMS-authorized VBP SRA (for example, systems changes, tracking outcomes, etc.).
- (vi) Total savings generated by the supplemental rebate due to the CMS-authorized VBP SRA.

[81 FR 5347, Feb. 16, 2016, as amended at 86 FR 87104, Dec. 31, 2020]

§ 447.520 Federal Financial Participation (FFP): Conditions relating to physician-administered drugs.

(a) No FFP is available for physician-administered drugs for which a State has not required the submission of claims using codes that identify the drugs sufficiently for the State to bill a manufacturer for rebates.

(1) As of January 1, 2006, a State must require providers to submit claims for single source, physician-administered drugs using Healthcare

Common Procedure Coding System codes or NDC numbers to secure rebates.

(2) As of January 1, 2007, a State must require providers to submit claims for physician-administered single source drugs and the 20 multiple source drugs identified by the Secretary using NDC numbers.

(b) As of January 1, 2008, a State must require providers to submit claims for the 20 multiple source physician-administered drugs identified by the Secretary as having the highest dollar value under the Medicaid Program using NDC numbers to secure rebates.

(c) A State that requires additional time to comply with the requirements of this section may apply to the Secretary for an extension.

§ 447.522 Optional coverage of investigational drugs and other drugs not subject to rebate.

(a) Medicaid coverage of investigational drugs may be provided at State option under section 1905(a)(12) of the Act when such drug is the subject of an investigational new drug application (IND) that has been allowed by FDA to proceed.

(b) A State agency electing to provide coverage of an investigational drug must include in its State plan a description of the coverage and payment for such drug.

(c) The State plan must indicate that any reimbursement for investigational drugs by the State are consistent with FDA regulations at 21 CFR part 312 if they are to be eligible to receive FFP for these drugs.

(d) Medicaid coverage of other drugs may be provided at State option under section 1905(a)(12) of the Act provided that they are not eligible to be covered as covered outpatient drugs in the Medicaid Drug Rebate program.

(e) Investigational drugs and other drugs are not subject to the rebate requirements of section 1927 of the Act provided they do not meet the definition of a covered outpatient drug as set forth in section 1927(k) of the Act.