SERB Pharmaceuticals

Hospital Outlier Payment Backgrounder

Under Medicare's Inpatient Prospective Payment System (IPPS), cost outlier payments apply to acute-care hospitals when a beneficiary's inpatient stay results in extraordinarily high costs relative to the applicable DRG payment.

Outlier eligibility is determined automatically by the Medicare Administrative Contractor (MAC) based on the hospital's total covered charges for the inpatient stay and its cost-to-charge ratio (CCR).

A case may qualify for an outlier payment when the estimated cost of the case exceeds the applicable MS-DRG payment plus the CMS fixed-loss threshold.

Key inputs used in the calculation include:

1. Total covered charges for the entire inpatient stay
2. The hospital-specific cost-to-charge ratio (CCR)
3. The applicable IPPS fixed-loss threshold for the fiscal year

Actual outlier payments are determined by CMS and are not guaranteed.

Payment

For a case to qualify for outlier payment, it must have **total** costs above a fixed-loss cost threshold amount (a dollar amount by which the costs of a case must exceed payments in order to qualify for outliers). The outlier fixed-loss threshold for FY 2026, which runs from October 1, 2025, through September 30, 2026, is $40,397. For qualifying cases, CMS generally reimburses hospitals at approximately 80% of the costs exceeding the DRG payment amount. Certain DRGs (such as burn and transplant cases) may qualify for a higher marginal cost factor (e.g., approximately 90%).

Geography, indirect medical education (IME) factors, and disproportionate share hospital (DSH) factors also impact calculation. Hospitals may estimate whether a claim is likely to qualify for an outlier payment. The Inpatient PPS Web Pricer is available to help estimate payment.

Medicare Administrative Contractors (MACs)

Some of the MACs may also provide guidance regarding outlier claim information and submission instructions on their websites:

- First Coast Service Options
  (FL, Puerto Rico, US Virgin Islands)
- Novitas Outlier Claim Information and Submission Instructions
  (AR, CO, DC, DE, LA, MD, MS, NJ, NM, PA, OK, TX)
- Noridian Inpatient PPS Billing for Cost Outlier
  (AK,AZ, CA, HI, ID, MT, ND, NV, OR, SD, UT, WA, WY,American Samoa, Guam, Northern Mariana Islands)
- Palmetto Inpatient PPS Outlier Billing
  (AL, GA, NC,SC, VA, TN, WV)
- NGS does not provide specific information on their website but provides the link to The Inpatient PPS Web Pricer on the CMS website(CT, IL, MA, ME, MN, NH, NY, RI, VT, WI
- WPS provides no supplemental information
  (IA, IN, KS, MI, MO, NE)
- CGS provides no supplemental information (KY, OH)

Click Here or Scan to Access the Inpatient PPS Web Pricer

Click Here or Scan to Learn More About MACs

Outlier Payment Calculation Example

This historical example was based on calculations from 2006 where a patient was discharged on/after October 1, 2006 that simulates the outlier payment for a case at a hospital in the San Francisco, California Core-Based Statistical Area (CBSA), which is a large urban area. The hospital incurred Medicare approved charges of $150,000. The DRG assigned to the case was 498. The hospital is 100% Federal for capital payment purposes.

Note: This information is provided for general educational purposes regarding Medicare reimbursement and is not specific to any product or guarantee of coverage or payment. Healthcare providers are responsible for coding and billing decisions.

Table of Operating Values used in Calculation	
DRG 498 Relative Weight:	2.9896
Labor-related	$3,397.52
Nonlabor-related	$1,476.97
San Francisco CBSA Wage Index	1.5419
Cost of Living Adjustment (COLA)	1
IME Operating Adjustment Factor	0.0744
DSH Operating Adjustment Factor	0.1413
Labor-related portion	0.697
Nonlabor-related portion	0.303
Operating Cost-to-Charge Ratio	0.38

Table of Capital Values Used in Calculation	
DRG 498 Relative Weight:	2.9896
Federal Capital Rate	$427.03
Large Urban Add on	1.03
San Francisco CBSA GAF	1.3452
Cost of Living Adjustment	1
IME Operating Adjustment Factor	0.0243
DSH Operating Adjustment Factor	0.0631
Capital Cost-to-Charge Ratio	0.04

Other Factors	
Billed Covered Charges	$150,000
Fixed Loss Outlier Threshold	$24,485
Marginal Cost Factor	0.8

Step 1: Determine Federal Operating Payment With IME and DSH	
Federal Rate for Operating Costs = (DRG Relative Weight x ((Labor-Related Large Urban Standardized Amount x San Francisco CBSA Wage Index) + (Nonlabor-Related National Large Urban Standardized Amount x Cost of Living Adjustment)) x (1 + IME + DSH))	
Federal Operating Payment With IME and DSH =	$24,407.58

Step 2: Determine Federal Capital Payment With IME and DSH	
Federal Rate for Operating Costs = ((DRG Relative Weight x Federal Capital Rate x Large Urban Add-On x Geographic Cost Adjustment Factor x COLA) x (1 + IME + DSH))	
Federal Capital Payment With IME and DSH =	$1,923.47

Step 3: Determine Operating and Capital Costs	
Operating Costs = Billed Charges x Operating Cost-to-Charge Ratio	
Operating Costs =	$57,000
Capital Costs = Billed Charges x Capital Cost-to-Charge Ratio	
Capital Costs =	$6,000

Step 4: Determine Operating and Capital Outlier Threshold	
A. Operating CCR to Total CCR = Operating CCR / (Operating CCR + Capital CCR)	
Operating CCR to Total CCR =	0.9048
B. Capital CCR to Total CCR = Capital CCR / (Operating CCR + Capital CCR)	
Capital CCR to Total CCR =	0.0952
C. Operating Outlier Threshold = ((Fixed Loss Threshold x (Labor-related portion x San Francisco CBSA Wage Index) + Nonlabor-related portion)) x Operating CCR to Total) + Federal Payment With IME and DSH	
Operating Outlier Threshold =	$54,929.28
D. Capital Outlier Threshold = (Fixed Loss Threshold x Geographic Adj. Factor x Large Urban Add-On x Capital CCR to Total CCR) + Federal Payment With IME and DSH	
Capital Outlier Threshold =	$5,153.16

Step 5: Determine Operating and Capital Outlier Payment Amount	
A. Determine if Total Costs are greater than Combined Threshold = (if (operating costs + capital costs) > (operating threshold + Capital threshold))	
Determine if Total Costs are greater than Combined Threshold =	TRUE, Continue With Next Step
B. Operating Outlier Payment = (Operating Costs - Operating Outlier Threshold) x Marginal Cost Factor	
Operating Outlier Payment =	$1,656.58
C. Capital Outlier Payment = (Capital Costs - Capital Outlier Threshold) x Marginal Cost Factor Note: If Capital Outlier Payment Amount is Negative, we default this amount to 0	
Capital Outlier Payment =	$677.47

Click Here or Scan to Access the CMS Outlier Example Spreadsheet