

40.1 - Reasonable Cost Payments

(Rev. 4, 10-01-01)

Medicare's payment to cost-based HMO/CMPs is based on the reasonable cost of providing Medicare-covered services to Medicare enrollees.

All necessary and proper expenses of the HMO/CMP in providing Medicare-covered services are recognized. The share of the total HMO/CMP cost that is borne by CMS is related to the Medicare-covered care furnished Medicare beneficiaries so that no part of their cost would need to be borne by other enrollees or non-enrolled patients. Conversely, costs attributable to other HMO/CMP enrollees and non-enrolled patients are not to be borne by Medicare.

The HMO/CMP payment principles take into account the special nature of HMO/CMPs by recognizing costs of marketing, enrollment, and certain other costs unique to the cost-based HMO/CMP form of health delivery.

Under these principles, there may be more than one method of handling a particular cost item (including apportionment and allocation methods). The method elected by the HMO/CMP must be consistently followed in subsequent periods. A change of method must have advance approval from CMS. Also, any request for a change in the method of handling a particular cost item, including the apportionment or allocation of such items, must be made 90 days prior to the beginning of the contract year in which the new method is proposed for use.