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## 42 C.F.R. § 403.304

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### Minimum requirements for State systems—discretionary approval.

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- (a) *Discretionary approval by CMS.* CMS may approve Medicare payments under a State system, if CMS determines that the system meets the requirements in paragraphs (b) and (c) of this section and, if applicable paragraph (d) of this section.
- (b) *Requirements for State system.* (1) An application for approval of the system must be submitted to CMS by the Chief Executive Officer of the State.
- (2) The State system must apply to substantially all non-Federal acute care hospitals in the State.
- (3) All hospitals covered by the system must have and maintain a utilization and quality control review agreement with a Quality Improvement Organization, as required under section 1866(a)(1)(F) of the Act and § 466.78(a) of this chapter.
- (4) Federal hospitals must be excluded from the State system.
- (5) Nonacute care or specialty hospital (such as rehabilitation, psychiatric, or children's hospitals) may, at the option of the State, be excluded from the State system.
- (6) The State system must apply to at least 75 percent of all revenues or expenses—
- (i) For inpatient hospital services in the State; and
- (ii) For inpatient hospital services under the State's Medicaid plan.
- (7) Under the system, HMOs and competitive medical plans (CMPs), as defined by section 1876(b) of the Act and part 417 of this chapter, must be allowed to negotiate payment rates with hospitals.
- (8) The system must limit hospital charges for Medicare beneficiaries to deductibles, coinsurance or non-covered services.

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