



## EHR Incentive Program for Medicare Hospitals

The American Recovery and Reinvestment Act (Recovery Act) of 2009 provides for Medicare incentive payments beginning in federal fiscal year (FY) 2011 for eligible acute care inpatient hospitals that are meaningful users of certified electronic health record (EHR) technology. Eligible acute care inpatient hospitals are defined as “subsection (d) hospitals” in section 1886(d)(1)(B) of the Act—which are hospitals that are paid under the hospital inpatient prospective payment system (IPPS) and are located in one of the 50 states or the District of Columbia. Section 1853(m)(2) of the Act also specifies that qualifying Medicare Advantage (MA) organizations will be eligible for incentive payments by way of their MA-affiliated eligible hospitals. An MA-affiliated eligible hospital is a “subsection (d)” hospital that operates under common corporate governance with a qualifying MA organization and serves primarily individuals enrolled under MA plans offered by such organizations.

Medicare hospitals and MA-affiliated eligible hospitals that adopt a certified EHR system and are meaningful users can begin receiving incentive payments in any year from FY 2011 to FY 2015.

While the law defines a payment year in terms of a federal fiscal year beginning with FY 2011, a hospital does not have to begin receiving incentive payments in FY 2011. Hospitals can begin receiving payments in any year from FY 2011 to FY 2015; however, the incentive payment will decrease for hospitals that start receiving payments in 2014 and later. Hospitals that are not meaningful users of certified EHR technology beginning in FY 2015 will be subject to payment adjustments.

### Medicare Incentive Payment Calculation

Regardless of the payment year, the Medicare incentive payment is the **product** of three factors:

1. **An Initial Amount**
2. **The Medicare Share**
3. **A Transition Factor applicable to the payment year**

This payment methodology will be utilized to calculate Medicare hospital-based EHR incentive payments for eligible hospitals participating under both the Medicare fee for service and MA incentive programs.

## Initial Amount

**Initial Amount = a base amount of \$2,000,000 + a discharge-related amount**

The Initial Amount is the sum of a base amount and a discharge-related amount. The base amount is \$2,000,000, and the discharge-related amount provides an additional \$200 for each acute care hospital discharge during a payment year, beginning with a hospital's 1,150th discharge of the year and ending with a hospital's 23,000th discharge of the year. No additional payment is made for discharges prior to the 1,150th discharge or for those discharges after the 23,000th discharge.

Data on acute care hospital discharges from the hospital's most recently filed 12-month cost report at the time of the calculation will be used as the basis for making preliminary incentive payments. Final payments will be determined at the time of settling the first 12-month cost report for the hospital FY that begins after the beginning of the payment year and settled on the basis of the hospital discharge data from that cost reporting period. For example, for an eligible hospital with a cost reporting period running from July 1, 2010 through June 30, 2011, CMS would employ the relevant data from the hospital's most recently filed 12-month cost report at the time of the calculation (most likely the June 30, 2010 cost report) to determine the preliminary incentive payment for the hospital during FY 2011. However, the final incentive payment would probably be based on hospital discharge data from the cost report beginning July 1, 2011 (fiscal year ending June 30, 2012) and determined at the time of settlement for that cost reporting period. If that cost report is not filed for a 12-month period, the next full 12-month cost report would be employed.

For purposes of determining the Initial Amount, three classes of hospitals are distinguished on the basis of the number of discharges as shown in Table 1.

**Table 1: Initial Amount Calculation**

Type of Hospital	Hospitals with 1,149 or fewer discharges during the payment year	Hospitals with at least 1,150 but no more than 23,000 discharges during the payment year	Hospitals with 23,001 or more discharges during the payment year
Base Amount	\$2,000,000	\$2,000,000	\$2,000,000
Discharge-Related Amount	\$0	\$200 x (n - 1,149) <b>(n is the number of discharges during the payment year)</b>	\$200 x (23,001 - 1,149)
Total Initial Amount	\$2,000,000	Between \$2M and \$6,370,400 depending on the number of discharges	Limited by law to \$6,370,400

## Medicare Share

The formula for the Medicare Share calculation is as follows:

**# of IP Part A Bed Days + # of IP Part C Days**

$$\text{Total IP Bed Days} \times \left[ \frac{\text{Total Charges} - \text{Charges Attributable to Charity Care}}{\text{Total Charges}} \right]$$

IP=inpatient

The second step in determining the hospital payment for a meaningful user of certified EHR technology is to calculate the Medicare Share. As in calculating the Initial Amount, the time period used to determine the Medicare Share fraction is based on data from the latest filed 12-month cost report at the time the calculation is made, and that is later updated when the first 12-month cost report for the hospital fiscal year that begins after the beginning of the payment year is settled.

The numerator of the Medicare Share is the **sum** of:

- ◆ The estimated number of acute care inpatient-bed-days attributable to individuals for whom payment may be made under Part A; and

- ◆ The estimated number of acute care inpatient-bed-days attributable to individuals who are enrolled with a Medicare Advantage organization under Part C.

The denominator of the Medicare Share is the **product** of:

- ◆ The estimated total number of acute care inpatient-bed-days for the eligible hospital during such period; and
- ◆ The estimated total amount of the eligible hospital's charges during such period, not including any charges that are attributable to charity care, **divided by** the estimated total amount of the hospitals charges during such period.

**Note: The removal of charges attributable to charity care in the formula, in effect, increases the Medicare Share resulting in higher incentive payments for hospitals that provide a greater proportion of charity care. The amount comes from the Medicare Cost Report, Worksheet S-10.**

## Transition Factor

The third factor in the formula to determine the incentive payment to an eligible hospital for a payment year is the Transition Factor. As seen in Table 2, this element phases down the incentive payments over time.

Hospitals that demonstrate that they are meaningful users of certified EHR technology in FYs 2011, 2012, or 2013 could receive up to four years of financial incentive payments. Hospitals that begin receiving incentive payments later than FY 2013 will receive no more than three years of incentive payments. Specifically, if a hospital were to begin to demonstrate meaningful use of certified EHR technology in FY 2014, it would receive incentive payments for FY 2014, FY 2015, and FY 2016. Similarly, if a hospital were to begin meaningful use of certified EHR technology in FY 2015, it would receive incentive payments for FYs 2015 and 2016. Table 2 shows the possible years an eligible hospital could receive an incentive payment and the Transition Factor applicable to each year.

**Table 2: Fiscal Year That Eligible Hospital First Receives the Incentive Payment**

Fiscal Year	2011	2012	2013	2014	2015
2011	1.00				
2012	0.75	1.00			
2013	0.50	0.75	1.00		
2014	0.25	0.50	0.75	0.75	
2015		0.25	0.50	0.50	0.50
2016			0.25	0.25	0.25

## Scenarios

The following scenarios illustrate how the Medicare hospital incentive payments are calculated each year. Each scenario is meant to show the differences in the incentive payments based on the number of discharges for a year, the percentage of charity care, and the year in which the hospital begins receiving an incentive payment.

### Examples

#### Hospital A

Hospital A becomes a meaningful user and is eligible for incentive payments beginning in FY 2011. Hospital A had 1,000 acute care inpatient discharges in FY 2010 (the latest filed 12-month cost report). Also, in FY 2010 it had 3,000 Part A acute care inpatient-bed-days and 4,000 Part C acute care inpatient-bed-days. Its total acute care inpatient-bed-days in FY 2010 were 10,000. Hospital A's total charges excluding charity care were \$2,700,000, and its total charges for the period were \$3,000,000. Based on this information, Hospital A received a preliminary incentive payment of \$1,560,000 for being a meaningful user of certified EHR technology in FY 2011. Its incentive payment was calculated as follows:

**Initial Amount – \$2,000,000 (Hospital A did not have more than 1,149 discharges)**

**Medicare Share – 0.78 = ([3,000 + 4,000] divided by [10,000 x (2,700,000/3,000,000)])**

**Transition Factor – 1**

**Preliminary Incentive Payment – \$2,000,000 x 0.78 x 1 = \$1,560,000**

The hospital's final payments would be based on hospital discharge data and Medicare Share data from the cost report that begins after the beginning of the payment year and determined at the time of settlement for that cost reporting period.

### **Hospital B**

Hospital B becomes a meaningful user and is eligible for incentive payments beginning in FY 2014. Hospital B had 12,000 acute care inpatient discharges in FY 2013 (the latest filed 12-month cost report). Also in FY 2013 it had 20,000 Part A acute care inpatient-bed-days and 16,000 Part C inpatient-bed-days. Its total acute care inpatient-bed-days in FY 2013 were 45,000. Hospital B's total charges excluding charity care were \$8,000,000, and its total charges for the period were \$9,000,000. Based on this information, Hospital B received a preliminary incentive payment of \$2,814,885 for being a meaningful user of certified EHR technology in FY 2014. Its incentive payment was calculated as follows:

**Initial Amount – \$4,170,200 (Hospital B received an additional \$2,170,200 for the 10,851 discharges after its 1,149th discharge)**

**Medicare Share – 0.9 =  $([20,000 + 16,000] \text{ divided by } [45,000 \times (8,000,000/9,000,000)])$**

**Transition Factor – 0.75**

**Preliminary Incentive Payment –  $\$4,170,200 \times 0.9 \times 0.75 = \$2,814,885$**

The hospital's final payments would be based on hospital discharge data and Medicare Share data from the first 12-month cost report that begins after the beginning of the payment year and determined at the time of settlement for that cost reporting period.

### **Hospital C**

Hospital C becomes a meaningful user and is eligible for incentive payments beginning in FY 2015. Hospital C had 25,000 acute care inpatient discharges in FY 2014 (the latest filed 12-month cost report). Also in FY 2014 it had 40,000 Part A acute care inpatient-bed-days and 23,000 Part C acute care inpatient-bed-days. Its total acute care inpatient-bed-days in FY 2014 were 75,000. Hospital C's total charges excluding charity care were \$26,750,000, and its total charges for the period were \$28,000,000. Based on this information, Hospital C received a preliminary incentive payment of \$2,802,976 for being a meaningful user of certified EHR technology in FY 2015. Its incentive payment was calculated as follows:

**Initial Amount – \$6,370,400 (Hospital C received the highest discharge-related amount allowed by law because it had more than 23,001 discharges)**

**Medicare Share – 0.88 =  $([40,000 + 23,000] \text{ divided by } [75,000 \times (26,750,000/28,000,000)])$**

**Transition Factor – 0.50**

**Preliminary Incentive Payment –  $\$6,370,400 \times 0.88 \times 0.50 = \$2,802,976$**

The hospital's final payments would be based on hospital discharge data and Medicare Share data from the first 12-month cost report that begins after the beginning of the payment year and determined at the time of settlement for that cost reporting period.

## **Additional Resources**

For more information on the EHR incentive program, see <http://www.cms.gov/EHRIncentivePrograms/> on the CMS website.



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