American Hospital Association

Legislative Advisory

Friday, February 20, 2009

# THE AMERICAN RECOVERY AND REINVESTMENT ACT: CALCULATING MEDICARE IT INCENTIVE PAYMENTS

This Advisory is intended to share additional information on the Medicare payment incentives included in the *American Recovery and Reinvestment Act* (H.R. 1) for hospitals that adopt electronic health records and certain health information technology (IT). It also provides a link to an MS Excel spreadsheet with a Medicare Incentive Payment Calculator to help your hospital estimate potential IT incentive payments.

## BACKGROUND

On February 17, President Obama signed into law the Recovery Act, which contains many provisions designed to move the country closer to the goal of a modernized health care delivery model enabled by IT. The vision includes greater efficiency through reduced paperwork, the elimination of duplicative or unnecessary testing and increased capacity to provide better decision support at the point of care. Patients are the ones that will ultimately benefit from these systems as the power of information and the ability to share it is further developed in a secure and efficient environment.

The Recovery Act also codifies the Office of the National Coordinator for Health Information Technology (ONCHIT) and outlines a standards development and certification process for electronic health record (EHR) systems that will further reduce risk for providers.

The cost of implementing IT has long been considered a primary obstacle to greater adoption, and the Recovery Act provides substantial incentive payments for physicians and hospitals to adopt health IT for the first time, or to further advance the capabilities of their existing systems.

The AHA's detailed summary of the Recovery Act, including the health IT provisions, is available at http://www.aha.org/aha/advisory/2009/090213-legislative-adv.pdf.

# *As it Stands*

### *Funding for Health Information Technology Adoption*

The Recovery Act provides for the creation of federal grant and loan programs through the states to kick-start investment in health IT. It also establishes payment incentives for eligible acute-care hospitals through the Medicare and Medicaid programs. These payment incentives are not provided upfront to pay for IT hardware and infrastructure; rather, they are provided only after a hospital has invested in the technology and has become a "meaningful user." The vast majority of the funding available for health IT will come through the Medicare incentive program.

### *Determining Eligible Hospitals*

The Recovery Act makes Medicare incentive payments available to acute-care prospective payment system (PPS) hospitals (subsection (d) hospitals) and Critical Access Hospitals (CAHs). A hospital is eligible for Medicare incentives if it demonstrates that it is a "meaningful user of certified EHR technology," which will be determined by the Secretary of the Department of Health and Human Services. Methods to determine whether an organization qualifies as a "meaningful user" may include provider attestation, submission of claims with an additional code, survey responses, quality reporting or other means. Demonstrating that an organization is a "meaningful user" also may include proving that certified EHR technology is connected in a manner that provides, according to law and standards, for electronic exchange of health information to improve the quality of care and improve care coordination. Hospitals also will be required to submit clinical quality measures and other measures selected by the Secretary, but will not be required to do so unless the Secretary can receive such reports electronically.

We have many questions about how the Secretary will define "meaningful user" and will work with the Secretary and ONCHIT as this process is implemented.

### *Medicare Incentives for PPS Hospitals*

PPS hospitals that are meaningful users of EHR are eligible for incentives beginning in fiscal year (FY) 2011 and can receive payments for up to four years. The Recovery Act details the formula that the Centers for Medicare & Medicaid Services must use to pay the incentives. Attached is a copy of an MS Excel spreadsheet with a Hospital Payment Incentive Calculator to help your hospital estimate its potential health IT incentive payments. The spreadsheet also can be accessed at http://www.aha.org/aha/content/2009/spreadsheet/090220-it-hosp-ben-calculator2.xls.

To use the calculator, you will need the following information for your hospital:

1. Total Discharges
2. Total Gross Revenue
3. Total Charity Care Charges
4. Medicare Inpatient Days (Part A Fee-for-Service and Part C Medicare Advantage)
5. Total Inpatient Days

Payment for a qualified PPS hospital is calculated as Medicare's share of the sum of $2 million plus an additional discharge-related amount. A hospital receives $200 for each discharge for discharges starting with its 1,150th and continuing through its 23,000th discharge. There is no additional payment for discharges outside of this range – which means that the largest *discharge-related amount* available to any hospital equals $4,370,200. The largest total amount available would be $6,370,200 ($2 million plus $4,370,200). The calculation is updated each year with current data.

*($2 million + (23,000-1,149)*200)) * Medicare share*

However, the incentive payment will only cover the Medicare share of the incentive amount. The Medicare share consists of total Medicare Part A and C inpatient days, divided by the product of total inpatient days and hospital charges excluding charity care divided by total charges:

$$\frac{\text{Medicare inpatient days}}{(\text{total inpatient days}*((\text{gross revenue - charity}) / \text{gross revenue}))}$$

Payments phase out over a four-year period in 25 percent increments. A hospital that is a meaningful EHR user starting in FYs 2011-2013 receives the full amount in the first year, 75 percent of the full amount in the second year, 50 percent in the third year, 25 percent in the fourth year and no payments in the fifth year. If a hospital first qualifies as a meaningful user in 2014, three years of payments will be made, starting at the 75 percent level. Consequently, 50 percent will be paid in the second year and 25 percent in the third year.

**Penalties for PPS Hospitals**. Unless significant hardship is demonstrated, hospitals that are not meaningful users by FY 2015 will see their market basket update reduced. In FY 2015, three-quarters of their applicable market basket update will be reduced by 33.33 percent; the market basket update will be reduced in FY 2016 by 66.66 percent, and in FY 2017 and beyond by 100

percent. Adoption in later years can prevent the update reductions, but no incentive payments would be available.

**Timeline of Eligible Payment Incentives and Update Reductions**

| **Year of Adoption** | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|
| Payment for adopting in FY 2011 or before | 100% | 75% | 50% | 25% | | | |
| If first adopting in FY 2012: | | 100% | 75% | 50% | 25% | | |
| If first adopting in FY 2013: | | | 100% | 75% | 50% | 25% | |
| If first adopting in FY 2014: | | | | 75% | 50% | 25% | |
| If first adopting in FY 2015: | | | | | 50% | 25% | |
| | | | | | | | |
| Penalties begin if not adopting by FY 2015: Three-quarters of the applicable market basket update is reduced by: | | | | | 33.33% | 66.66% | 100% |

### *Medicare Incentives for Critical Access Hospitals*

The Recovery Act creates a different payment incentive for CAHs. These payments build off of the current cost-based payment system that pays CAHs 101 percent of their Medicare allowed costs. Under the incentive, a CAH that is determined to be a meaningful user can fully depreciate certified EHR costs beginning in FY 2011. This allows CAHs to load multiple years of depreciation into a single year.

In addition, the method of determining Medicare cost is modified for the purposes of determining Medicare's share of certified EHR costs. First, for EHR costs, the Medicare allocation methodology is changed to mirror the calculation using inpatient days, total charges and total charity care charges, as described above in the formula for inpatient PPS hospitals. In addition, for EHR costs the Medicare share is increased by 20 percentage points (not to exceed 100 percent of costs). Additional payments can be made to CAHs using this methodology from FYs 2011-2015 if a CAH incurs additional EHR charges; however, a CAH can only receive additional payments for four years.

**Penalties for CAHs.** Unless significant hardship is demonstrated, CAHs that have not implemented EHRs by FY 2015 are subject to payment reductions, with payment reduced to 100.66 percent of cost in FY 2015; 100.33 percent of cost in FY 2016; and 100 percent of cost in FY 2017 and beyond. CAHs may only receive a hardship exemption for a maximum of five years.

## ***NEXT STEPS***

Please share this Advisory with your team as you assess the potential impact on your organization.  As always, feel free contact us at 1 (877) 242-2240 or AHAAdvocacy@aha.org with any questions.

# MEDICARE INCENTIVES FOR ADOPTION AND MEANINGFUL USE OF CERTIFIED EHR TECHNOLOGY

## *Hospital Specific Benefit Calculator*

*(Results Assume Hospital Qualifies By 2013)*

**Enter hospital specific data for the most recent reporting period:**

| | |
|---|---|
| Total Discharges | |
| Total Gross Revenue | |
| Charity Care Charges | |
| Medicare Inpatient Days Attributable to Parts A and C | |
| Total Inpatient Days | |

**Calculations:**

| | |
|---|---|
| Base Amount | $2,000,000 |
| Qualifying Discharges | -1,149 |
| Discharge-related Amount | 0 |
| Revenue Ratio | 1.000 |
| Medicare Share Ratio | #DIV/0! |

**Results:**

*Note: This model uses the most current reporting period to provide a **rough estimate** of future payments. When the program is actually implemented, payments will be calcuated each year based on new data before the appropriate transition percentage is applied.*

| | |
|---|---|
| Total Payment -- Year 1 | #DIV/0! |
| Total Payment -- Year 2 | #DIV/0! |
| Total Payment -- Year 3 | #DIV/0! |
| Total Payment -- Year 4 | #DIV/0! |
| **Total Payment Over Four Years** | **#DIV/0!** |

Hospitals are given a $2 million base amount plus a discharge related amount, which is $200 per discharge for all discharges between 1150 and 23,000. Discharges up to 1149 and beyond 23,000 receive no additional payment.

The base amount plus the discharge related amount is then adjusted by a Medicare share ratio:

*Medicare inpatient days / (total inpatient days*((gross revenue - charity) / gross revenue))*

Hospitals are paid the full adjusted amount in year 1, 75% of this amount in year 2, 50% in year 3, and 25% in year 4. Hospitals first qualifying after 2013 are subject to reduced transition factors. Hospitals that are not meaningful users by 2016 will receive no incentive payments. Penalties will be applied to hospitals that are not meaningful users by 2015.