



# Medicaid Hospital Incentive Payments Calculations

The American Recovery and Reinvestment Act (Recovery Act) of 2009 provides for Medicaid incentive payments for eligible acute care and children's hospitals that are meaningful users of certified electronic health record (EHR) technology. An eligible acute care inpatient hospital is defined as a health care facility with an average length of patient stay of 25 days or fewer and with a CMS Certification Number (CCN) that has the last four digits in the series 0001-0879 or 1300-1399. This includes the 11 cancer hospitals and all Critical Access Hospitals (CAHs) in the United States. In addition, to be eligible to receive a Medicaid EHR incentive payment, acute care hospitals must also meet a 10 percent Medicaid patient volume threshold. There is no Medicaid patient volume requirement for children's hospitals. The method for estimating Medicaid patient volume will be designated by the State Medicaid Agency and approved by CMS, but CMS provided States with acceptable alternatives for making such estimates in the final rule.

Provided the state where the hospital is located is ready and participating in the Medicaid EHR Incentive Program, acute care and children's hospitals that adopt a certified EHR system and are meaningful users can begin receiving incentive payments in any year from fiscal year (FY) 2011 to FY 2016. While the law defines a payment year in terms of a federal fiscal year, 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 2016; however, the last year a hospital can first receive a Medicaid incentive program payment is 2016. Acute care hospitals may receive EHR Incentive Program payments from both Medicare and Medicaid if eligible for both programs.

## Medicaid Incentive Payment Calculation

States may pay children's hospitals and acute care hospitals up to 100 percent of an aggregate EHR hospital incentive amount provided over a minimum of a three-year period and a maximum of a six-year period. The aggregate EHR incentive amount is the total amount the hospital could receive in Medicaid payments over a theoretical four years of the program. It is the product of two factors:

1. The overall EHR amount and
2. The Medicaid Share.

The overall EHR amount is based upon the sum over a theoretical four years of payment where the amount for each year is the product of three factors:

1. An Initial Amount,
2. The Medicare Share, and
3. A Transition Factor applicable to each of a theoretical four years.



## 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 estimated discharges between 1,150 and 23,000 discharges. No payment is made for discharges prior to the 1,150th discharge or for discharges after the 23,000th discharge.

For the first payment year, data on hospital discharges from the hospital fiscal year that ends during the federal fiscal year prior to the hospital fiscal year that serves as the first payment year will be used as the basis for determining the discharge-related amount. To determine the discharge-related amount for the three subsequent payment years that are included in determining the overall EHR amount, the number of discharges will be based on the average annual growth rate for the hospital over the most recent three years of available data. *Note: If a hospital's average annual rate of growth is negative over the three-year period, the rate should be applied as such.*

## The Medicare Share

The Medicare Share portion of the Medicaid hospital overall EHR amount is set at 1 by the statute.

## Transition Factor

This factor in the formula determines the Medicaid incentive payment to an eligible hospital. For each of the four years of theoretical payment, a different transition factor applies, as demonstrated in Table 1. Note that for the Medicaid Program, an aggregate EHR amount is calculated only once, and this amount is then spread over all years of a hospital's payments. Therefore, the transition factors in Table 1 are used to calculate the aggregate EHR amount but do not indicate that the hospital's payment will be calculated anew on a yearly basis.

The second step in determining the aggregate EHR amount for a meaningful user of certified EHR technology is to calculate the Medicaid Share. The Medicaid Share is essentially the percentage of a hospital's inpatient, non-charity care days that are attributable to Medicaid inpatients.

Table 1: Transition Factor by Year

	Transition Factor
Year 1	1.00
Year 2	0.75
Year 3	0.50
Year 4	0.25

## The Medicaid Share

The numerator of the Medicaid Share is the sum of:

- The estimated number of Medicaid inpatient-bed-days and
- The estimated number of Medicaid managed care inpatient-bed-days.

The denominator of the Medicaid Share is the product of:

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

*Note: The removal of charges attributable to charity care in the formula, in effect, increases the Medicaid Share resulting in higher incentive payments for hospitals that provide a greater proportion of charity care.*

## Scenarios

The following scenario illustrates how the Medicaid hospital aggregate EHR amount is calculated.

### *Hospital A*

Hospital A, an acute care hospital, meets the Medicaid patient volume threshold, becomes a meaningful user of certified EHR technology, and is eligible for incentive payments beginning in FY 2011. Hospital A had 2,000 discharges in FY 2010. Assume that for the four-year period of participation Hospital A had 5,000 Medicaid inpatient-bed-days and 2,000 Medicaid managed care inpatient-bed-days. Its total inpatient-bed-days in FY 2010 were 21,000. Hospital A's total charges excluding charity care were \$8,700,000, and its total charges for the period were \$10,000,000. The annual growth data for the last three years of available data are:

FY 2005 — .022 annual growth rate

FY 2006 — .025 annual growth rate

FY 2007 — .017 annual growth rate



This means that the average annual growth rate that will be applied to the subsequent three years is .0213.

Based on this information, Hospital A's aggregate EHR amount would be \$2,069,936.00. It was calculated as follows:

Initial Amount (with annual growth rate factored in to the number of discharges) \* Transition Factor

Year 1—\$2,170,200 = {2,000,000 + [(2,000-1,149) \* 200]} \* 1

Year 2—\$1,634,100 = {2,000,000 + [(2,043-1,149) \* 200]} \* .75

Year 3—\$1,093,800 = {2,000,000 + [(2,087-1,149) \* 200]} \* .50

Year 4—\$549,100 = {2,000,000 + [(2,131-1,149) \* 200]} \* .25

Overall EHR Amount = \$5,447,200

Medicaid Share – 0.38 = ([5,000 + 2,000] divided by  
[21,000 x (8,700,000/10,000,000)])

Aggregate EHR Amount – \$5,447,200 x 0.38 = \$2,069,936.00

The hospital's final payments would be based on the State Health Information Technology plan for incentive payments.

## Additional Resources

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



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