



# Critical Access Hospitals Electronic Health Record Incentive Payment Calculations



Last Updated: May 2013

The Medicare Electronic Health Record (EHR) Incentive Program provides for incentive payments to eligible critical access hospitals (CAHs) that are meaningful electronic health record (EHR) users. According to Section 1861 (mm)(1) of the Social Security Act, a CAH is defined as a facility that has been certified as a critical access hospital under section 1820(c).

Additionally, CAHs may also be eligible for incentive payments insofar as they qualify as an acute care hospital under the Medicaid portion of the EHR Incentive Program. For purposes of the Medicaid EHR Incentive Program only, CAHs are treated exactly like acute care hospitals (e.g., must meet patient volume and are subject to the same incentive payment calculation as Medicaid acute care hospitals, not the special calculation listed below). The rest of this document talks about the special provisions for CAHs under the Medicare EHR Incentive Program. For more information about the Medicare and Medicaid EHR Incentive Programs, please visit the [EHR Incentive Programs website](#).

CAHs that adopt a certified EHR system and are meaningful users can begin receiving incentive payments in any year from FY 2011 to FY 2015. However, in no case will a CAH receive an EHR incentive payment for more than four years. While the law defines a payment year in terms of a Federal FY beginning with FY 2011, a CAH does not have to begin receiving incentive payments in FY 2011. CAHs can begin receiving payments in any year from FY 2011 to FY 2015; however, the number of years for which the CAH will be eligible to receive an EHR incentive payment will decrease for CAHs that demonstrate meaningful use and begin receiving incentive payments in FY 2013 and later. CAHs that are not meaningful users of certified EHR technology beginning in FY 2015 will be subject to payment adjustments.

## Incentive Payment Calculation

Regardless of the payment year, the incentive payment is the product of the following:

- 1. The reasonable costs for the purchase of a certified EHR system**
- 2. The Medicare Share plus 20 percentage points**

*Note: Qualifying CAHs should contact their Fiscal Intermediary or Medicare Administrative Contractor (Medicare Contractor) to determine the documentation necessary to support the computation of the CAH incentive payment. In addition, the data used to compute the CAH incentive payment will be reported on the Medicare Cost Report, CMS Form 2552-10, effective for cost reporting periods beginning on or after May 1, 2010. Medicare Contractors should be contacted with any questions about the Medicare Cost Report.*

## Reasonable Cost

For purposes of determining a CAH's EHR incentive payment, reasonable cost is based on any costs incurred for the purchase of a certified EHR system during the cost reporting period and any similarly incurred costs

from previous cost reporting periods to the extent that they have not been fully depreciated as of the cost reporting period involved. The reasonable costs for which a CAH may receive an EHR incentive payment are the reasonable acquisition costs for the purchase of certified EHR technology to which purchase depreciation (excluding interest) would otherwise apply. The reasonable cost incurred for the purchase of certified EHR technology for a qualifying CAH means the reasonable acquisition costs incurred for the purchase of depreciable assets, such as computers and associated hardware and software, necessary to administer certified EHR technology, excluding any depreciation and interest expenses associated with the acquisition.

This EHR incentive payment provision allows a qualifying CAH to expense the acquisition costs of a qualifying asset in a single payment year instead of depreciating the acquisition costs over the useful life of the asset. Thus, if a qualifying CAH incurs non-depreciable expenses related to implementing/maintaining its EHR system, then those expenses cannot be included in the EHR incentive payment. However, those expenses may be an allowable cost for Medicare payment purposes under the current reasonable cost payment methodology for CAHs. **Qualifying CAHs should contact their Medicare contractor to answer questions on reasonable costs that will be included in the calculation of the EHR incentive payment.** For additional guidance, please refer to the [CAH Payment Tip Sheet](#).

## Medicare Share

For CAHs, the formula for the Medicare Share is as follows:

$$\frac{\# \text{ of Inpatient Part A Bed Days} + \# \text{ of Inpatient Part C Days}}{\text{Total Inpatient Bed Days} \times \left[ \frac{\text{Total Charges} - \text{Charges attributable to Charity Care}}{\text{Total Charges}} \right]} + 20 \text{ percentage points}$$

The second step in determining the incentive payment for a meaningful user of certified EHR technology is to calculate the Medicare Share and then add 20 percentage points.

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

1. The estimated number of inpatient-bed-days attributable to individuals for whom payment may be made under Part A; and
2. The estimated number of 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:

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

Data on the CAH's Medicare fee-for-service and managed care inpatient-bed-days, total inpatient-bed-days and charges for charity care taken from the CAH'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 cost report for the CAH's FY that begins during the payment year and settled on the basis of the CAH data from that cost reporting period. For example, for an eligible CAH with a cost reporting period running from July 1, 2010 through June 30, 2011, CMS would employ the relevant data from the CAH's most recently filed 12-month cost report (most likely the cost reporting period ending June 30, 2010)

in order to determine the incentive payment for the CAH during FY 2011. However, the final incentive payment would be based on CAH data from the cost report that begins July 1, 2011 (FY ending June 30, 2012), and determined at the time of settlement for that cost reporting 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 CAHs that provide a greater proportion of charity care. The amount comes from the Medicare Cost Report, Worksheet S-10.*

Once the Medicare Share is determined, 20 percentage points is added to the number to arrive at the final factor in determining the total CAH payment.

## Program Timeline

CAHs may begin receiving incentive payments in any fiscal year beginning in FY 2011 and ending in FY 2015; however, CAHs cannot receive an incentive payment for a cost reporting period that begins in a payment year after FY 2015. This means that CAHs that demonstrate that they are meaningful users of certified EHR technology in FYs 2011 or 2012 could receive up to four years of financial incentive payments.

CAHs that begin receiving incentive payments later than FY 2012 will not be eligible to receive the full four years of incentive payments. Those CAHs who first receive an incentive payment for FY 2013 would only be eligible for three years of incentive payments. Likewise, CAHs that begin to demonstrate meaningful use of certified EHR technology in FY 2014 would only receive incentive payments for FY 2014 and FY 2015 and those who begin in FY 2015 would only qualify for an incentive payment for that year.

For FY 2016 and beyond, payment to CAHs for the purchase of additional EHR technology will be made in accordance with the reasonable cost principles which include the depreciation and interest costs associated with the purchase.

## Reduction of Reasonable Cost

If a CAH has not demonstrated meaningful use of certified EHR technology for FY 2015, the CAH's reimbursement will be reduced from 101 percent of its reasonable costs to 100.66 percent. For FY 2016, reimbursement will be reduced to 100.33 of its reasonable costs. For FY 2017 and each subsequent FY, reimbursement will be reduced to 100 percent of reasonable costs.

However, a CAH may, on a case-by-case basis be exempted from this adjustment if the CAH can demonstrate, on an annual basis, that becoming a meaningful user of EHR technology would result in a significant hardship. In no case will a CAH be granted an exemption for more than 5 years.

*Note: More information on payment adjustments and the requirements to qualify for a hardship exemption will be provided in future rulemaking prior to the 2015 effective date.*

## Scenarios

The following scenarios illustrate how the CAH incentive payments are calculated each year. Each scenario is meant to show the differences in the incentive payments based on the CAH's reasonable costs and the Medicare Share.

### CAH A

CAH A becomes a meaningful user and is eligible for incentive payments beginning in FY 2012. CAH A also incurred reasonable costs of \$500,000 for the purchase of certified EHR technology during the previous cost reporting period. The CAH depreciated \$100,000 of the costs of these items in the previous cost reporting period, leaving \$400,000 of un-depreciated costs.

On its most recently filed 12-month cost report, CAH A had 300 Part A inpatient-bed-days and 400 Part C inpatient-bed-days, and its total inpatient-bed-days were 1,000. CAH A's total charges excluding charity care were \$2,000,000, and its total charges for the period were \$2,200,000.

**Based on this information, CAH A received a preliminary incentive payment of \$388,000 for being a meaningful user of certified EHR technology in FY 2012.**

Its incentive payment was calculated as follows:

**Medicare Share – 0.97 =  $([300 + 400] \text{ divided by } [1,000 \times (2,000,000/2,200,000)]) + 20 \text{ percentage points}$**   
**Preliminary Incentive Payment –  $400,000 \times 0.97 = \$388,000$**

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

### CAH B

CAH B becomes a meaningful user and is eligible for incentive payments beginning in FY 2014. CAH B incurred reasonable costs of \$350,000 for the purchase of certified EHR technology during the previous cost reporting period. The CAH depreciated \$50,000 of the costs of these items in the previous cost reporting period, leaving \$300,000 of un-depreciated costs. In FY 2014 the CAH also incurred reasonable costs of \$200,000 for the purchase of certified EHR technology that will not be depreciated.

On its most recently filed 12-month cost report, CAH B had 6,000 Part A inpatient-bed-days and 3,000 Part C inpatient-bed-days, and its total inpatient-bed-days were 14,000. CAH 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, CAH B received a preliminary incentive payment of \$460,000 for being a meaningful user of certified EHR technology in FY 2014.**

Its incentive payment was calculated as follows:

**Medicare Share – .92 =  $([6,000 + 3,000] \text{ divided by } [14,000 \times (8,000,000/9,000,000)]) + 20 \text{ percentage points}$**   
**Preliminary Incentive Payment –  $\$500,000 \times 0.92 = \$460,000$**

The CAH's final payment would be based on Medicare Share data from the cost report that begins during 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 the [EHR Incentive Programs website](#).  
For additional payment guidance, please refer to the [CAH Payment Tip Sheet](#).