CMS Manual System

Pub. 100-20 One-Time Notification

Department of Health & Human Services (DHHS)
Centers for Medicare & Medicaid Services (CMS)

Transmittal 201 **Date: JANUARY 19, 2006**

CHANGE REQUEST 4025

NOTE: ***Transmittal 194, dated November 4, 2005, is rescinded and replaced with Transmittal 201, dated January 19, 2006. There were changes to the Section titled Effective Date and Initial Implementation and to Business Requirement 4025.4. Changes are identified in Red Font. All other information remains the same.***

SUBJECT: Calculation of the Interim Payment of Indirect Medical Education (IME) Through the Inpatient PPS PRICER for Hospitals That Received an Increase to Their Full-time Equivalent Resident Caps Under Section 422 of the Medicare Modernization Act (MMA), P.L. 108-173

I. SUMMARY OF CHANGES: This transmittal provides instructions to fiscal intermediaries for calculating the IME payment for interim rate purposes of hospitals that received an increase in their FTE caps under Section 422 of the MMA.

NEW/REVISED MATERIAL - EFFECTIVE DATE*: July 01, 2005
IMPLEMENTATION DATE: March 31, 2006

Disclaimer for manual changes only: The revision date and transmittal number apply to the red italicized material only. Any other material was previously published and remains unchanged. However, if this revision contains a table of contents, you will receive the new/revised information only, and not the entire table of contents.

II. CHANGES IN MANUAL INSTRUCTIONS: (*N/A if manual not updated.*)
(R = REVISED, N = NEW, D = DELETED) – (*Only One Per Row.*)

R/N/D	CHAPTER/SECTION/SUBSECTION/TITLE

III. FUNDING: No additional funding will be provided by CMS; contractor activities are to be carried out within their FY 2006 operating budgets.

IV. ATTACHMENTS:

	Business Requirements
	Manual Instruction
	Confidential Requirements
X	**One-Time Notification**
	Recurring Update Notification

***Unless otherwise specified, the effective date is the date of service.**

Attachment – One-Time Notification

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I. GENERAL INFORMATION

A. Background:

Medicare makes two types of payments to teaching hospitals for Graduate Medical Education (GME): Direct Graduate Medical Education (Direct GME) payments for "direct medical education costs" [§1886(h) of the Social Security Act], and Indirect Medical Education (IME) payments for the "indirect costs of medical education" [§1886(d)(5)(B) of the Social Security Act].

Sections 1886(h)(4)(F) and 1886(d)(5)(B)(v) of the Act established caps on the numbers of allopathic and osteopathic FTE residents that hospitals may count for purposes of calculating direct GME and IME payments. Some hospitals have trained allopathic and osteopathic residents in excess of their FTE resident caps whereas other hospitals have reduced their resident counts to some level below their FTE resident caps. Section 422 of the MMA, Public Law 108-173 added a new §1886(h)(7) to the Act to provide for:

- Reductions in the FTE resident caps for certain hospitals; and
- A "redistribution" of the FTE slots resulting from the reduction in the FTE resident caps to other hospitals that can demonstrate that they can use the additional slots.

Section 422 of the MMA is effective on or after July 1, 2005.

NOTE: *This transmittal applies only to hospitals that receive an increase to their IME FTE resident caps under §422. This transmittal provides instructions for calculating the IME payment of these hospitals for interim rate purposes through the PRICER software. If a hospital did not receive an increase to its IME cap under §422, do not use this transmittal to set the hospital's interim rates.*

B. Policy:

Computation of IME Payments to Hospitals That Receive an Increase to Their IME FTE Resident Caps Under Section 422

Section 422 of the MMA provides that, for discharges occurring on or after July 1, 2005, for a hospital whose FTE resident cap is increased as a result of a redistribution of unused resident positions, the IME adjustment factor is to be calculated using a formula multiplier of 0.66 with respect to any additional residents counted by the hospital as a result of that increase in the hospital's FTE resident cap. In the August 11, 2004 final rule, (69 FR 49088), we stated that a hospital that counts additional residents as a result of an increase in its FTE resident cap under §422 would receive IME payments based on the sum of two different IME adjustment factors: (1) An IME adjustment factor that is calculated using the "annual" schedule of formula multipliers (established by §502(a) of Pub. L. 108-173), and which also uses the hospital's number of FTE residents, not including residents attributable to an FTE cap increase under §422, in the numerator of the intern and resident-to-bed (IRB) ratio; and (2) An IME adjustment factor that is calculated using the formula multiplier of 0.66, and the additional number of FTE residents that is attributable to the increase in the hospital's FTE resident cap under §422 in the numerator of the IRB ratio. (The number of available beds used in the denominator would be the same for both IME adjustments.)

The purpose of this transmittal is to provide you with instructions for calculating a hospital's IME payments received on an interim basis through the PRICER software. As explained above, the IME payment for a hospital that counts additional residents as a result of an increase in its IME FTE resident cap under §422 would receive IME payments based on the *sum of two* different IME adjustment factors. However, the Inpatient PPS PRICER software currently can accommodate only one IME adjustment factor using a single IME multiplier and a single IRB ratio. That is, the PRICER is coded to include the IME multiplier for the current federal fiscal year (i.e., 1.42 for discharges occurring in FY 2005, 1.37 for discharges occurring in FY 2006, etc.), and to read a single IRB ratio from the Provider-Specific File (PSF). Since §422 requires that certain hospitals receive a separate IME payment attributable to certain FTE residents, a method for computing a hospital's interim IME payments must be established within the constraints of the PRICER.

Steps for Computing a Hospital's "Blended" IRB Ratio to be Used in PSF and PRICER

Since the PRICER only includes the IME multiplier for the current Federal fiscal year, and does not include a separate field for the IME multiplier of 0.66 to be used to compute the IME payment attributable to FTEs received under §422, you will compute a "blended" IRB ratio which will reflect both the hospital's FTEs not attributable to §422, and the FTEs attributable to §422. This "blended" IRB ratio, when inserted into the PSF and used in PRICER, and multiplied by the annual IME multiplier used for residents not attributable to §422, will result in an IME adjustment factor that will equal, or very closely approximate the total IME adjustment factor that the hospital should receive if the two IME adjustment factors were computed separately and then added.

Below are the steps you are to follow in computing the "blended" IRB ratio to be used in the PSF and PRICER when determining interim payments for hospitals that received an increase in their IME FTE caps under §422:

1) Determine the IME adjustment factor for residents not attributable to section 422, using the "annual" schedule of formula multipliers, and the hospital's IRB ratio from line 3.20 of Worksheet E, Part A of the Medicare cost report. Under 42 CFR 412.105(d)(3)(ix)—(xii), the "annual" schedule of formula multipliers is:

    a. For discharges occurring during FY 2005, 1.42;
    b. For discharges occurring during FY 2006, 1.37;
    c. For discharges occurring during FY 2007, 1.32; and
    d. For discharges occurring during FY 2008 and after, 1.35.

    (Note that if a provider's fiscal year end is other than 9/30, the IME adjustment would be computed using the appropriate proportion of the "annual" IME multiplier applicable to that portion of the cost reporting period that overlaps October 1. For example, if a provider has a 6/30/06 fiscal year end, the IME adjustment factor would be computed using 3 months of 1.42 for FY 2005, and 9 months of 1.37 for FY 2006. A "weighted" multiplier for the provider's entire 6/3/06 cost report can be computed as follows: (1.42 x 0.25) + (1.37 x 0.75)= 1.38)).

2) After verifying the number of additional §422 FTE residents (not to exceed the §422 IME cap) the hospital has during the applicable cost reporting period, determine the IME adjustment factor for residents added under §422 using a formula multiplier of 0.66, and the ratio of the hospital's number of FTE residents attributable to §422 to the number of available beds.

3) Add the results of the two IME adjustment factors in steps 1 and 2. This represents the total IME payment that the hospital should receive.

4) Determine the percent difference between the total IME adjustment factor and the IME adjustment factor for residents not attributable to §422 by dividing the result of step 3 by the result of step 1.

5) Multiply (i.e., increase) the IRB ratio used in step 1 by the percent difference from step 4. This is the "blended" IRB ratio to be used in the PSF and PRICER effective July 1, 2005.

6) Recalculate the total IME adjustment factor using the "annual" formula multiplier from step 1, and the "blended" IRB ratio from step 5. This step checks to make sure that the use of the "blended" IRB ratio results in an IME adjustment factor that very closely approximates the total IME adjustment factor determined under step 3.

Example: This example illustrates how the IME adjustment factor would be calculated for a hospital that receives an increase to its IME FTE resident cap as a result of §422. Hospital A has a fiscal year end (FYE) of September 30, and a 1996 IME FTE cap of 20 FTEs. During its FYEs September 30, 2003, September 30, 2004, and September 30, 2005, Hospital A trains 25 FTE residents. Effective July 1, 2005, under section 422, Hospital A receives an increase to its IME cap of 5 FTEs. These additional 5 FTEs constitute the hospital's IME §422 cap. The hospital now has an IME 1996 cap of 20 FTEs and an IME section 422 cap of 5 FTEs. Hospital A has maintained an available bed count of 200 beds for FYE September 30, 2004 continuously through FYE September 30, 2005. The IME adjustment factor formula multiplier for discharges occurring during FY 2005 is 1.42. The IME adjustment factor formula multiplier for redistributed FTE resident slots is 0.66. From July 1, 2005 to September 30, 2005, the IME adjustment factor is calculated as follows:

Step 1: For discharges occurring October 1, 2004, through September 30, 2005, for residents NOT counted pursuant to Section 422:

- Rolling average count of FTE residents: 20+20+20/3=20
- Current year IRB ratio: 20/200=0.1000.
- Cap on IRB ratio (from prior year): 20/200=0.1000.
- Compare, and use the lower of, prior year IRB and current year IRB ratio: 0.1000 = 0.1000.

- Compute IME adjustment factor for FTE residents counted in the 1996 cap:

$$1.42 \times [\{1+0.1000\}^{.405} - 1] = 0.0559$$

Step 2: For discharges occurring on July 1, 2005 through September 30, 2005 for residents counted as part of the section 422 cap:

- IRB ratio for 7/1/05 – 9/30/05: 5/200=0.0250
- Compute IME adjustment factor related to the Section 422 cap:

$$0.66 \times [\{1+0.0250\}^{.405} - 1] = 0.0066$$

Step 3: Compute the total IME adjustment factor for the hospital (attributable to both the 1996 cap and the section 422 cap):

- For discharges occurring October 1, 2004, through June 30, 2005, the IME adjustment factor for the hospital is 0.0559 (Step 1).
- For discharges occurring July 1, 2005, through September 30, 2005, the total IME adjustment factor for the hospital is 0.0625 (that is, 0.0559 + 0.0066) (Step 1 + Step 2).

Step 4: Percent difference between the total IME adjustment and the IME adjustment for residents not attributable to section 422: 0.0625/0.0559 = 1.1187.

Step 5: "Blended" IRB ratio for use in PSF & PRICER: 0.1000 x 1.1187 = 0.1119.

Step 6: Recalculate total IME adjustment factor: $1.42 \times [\{1+0.1119\}^{.405} - 1] = 0.0623$, which is very close to 0.0625 from step 3.

Attached is an excel spreadsheet that illustrates this example. You may use this spreadsheet to calculate the "blended" IRB ratios for your hospitals.

Updating the Provider-Specific File (PSF)

For hospitals that receive an increase to their IME FTE caps under section 422, you are to update **field 23, file position 92 – 96, of the PSF** (the intern & resident to bed ratio)[1] to reflect the "blended" IRB ratio.

[1] Note that the calculation of the "blended" IRB ratio only applies for purposes of computing the operating IME IRB ratio, and does *not* apply to the capital IME adjustment. Although a hospital that receives an increase in its operating IME FTE cap under

As a general rule, the calculation of the "blended" IRB ratio shall be incorporated into your interim rate review process, and the PSF should be updated accordingly. The following circumstances will necessitate an update to the "blended" IRB ratio:

1) When a hospital's number of FTE residents changes (either FTEs not attributable to §422, **or** to FTEs added under section 422), or when there is a change in the number of available beds.

2) Each time the annual schedule of IME multipliers changes (usually every October 1st).

Effective Date and Initial Implementation

By law, IME payments under §422 are effective for discharges on or after July 1, 2005. However, since this CR has been issued after July 1, 2005, and changes to the PSF are typically implemented only prospectively, for the first time that you implement this CR only, you shall make a one-time lump sum adjustment payment to account for the time that has already passed since July 1, 2005, and the date that this CR is first implemented, and pay that lump sum adjustment to the applicable hospitals. Retroactive adjustments will not be processed for claims purposes.

Please note that since the Medicare cost report is being revised to separately compute the IME payment for residents not attributable to §422, and the additional IME payment attributable to §422, any differences between the IME adjustment factor used for interim payment purposes and the actual IME adjustment factor will be reconciled at cost report settlement.

II. BUSINESS REQUIREMENTS

"Shall" denotes a mandatory requirement
"Should" denotes an optional requirement

Requirement Number	Requirements	Responsibility ("X" indicates the columns that apply)								
						Shared System Maintainers				Other
		FI	RHHI	Carrier	DMERC	FISS	MCS	VMS	CWF	
4025.1	The FI shall compute a "blended" IRB ratio which will reflect both the hospital's FTEs not attributable to §422, and the FTEs attributable to §422, using 6 steps.	X								

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section 422 may similarly count additional FTE residents in the numerator of the capital IME ratio of FTE residents to the average daily census, a "blended" ratio need not be computed for capital IME, since section 422 did not prescribe a unique formula multiplier to be used for capital IME purposes. Follow your normal interim rate procedures to account for any additional capital IME payment attributable to section 422.

Requirement Number	Requirements	Responsibility ("X" indicates the columns that apply)								
						Shared System Maintainers				Other
		FI	RHHI	Carrier	DMERC	FISS	MCS	VMS	CWF	
4025.2	The FI shall update **field 23, file position 92 – 96, of the PSF** (the intern & resident to bed ratio) to reflect the "blended" IRB ratio.	X								
4025.3	The FI shall incorporate the calculation of the "blended" IRB ratio into the interim rate review process, and the PSF should be updated: 1) When a hospital's number of FTE residents changes (either FTEs not attributable to §422, **or** to FTEs added under §422), or when there is a change in the number of available beds. 2) Each time the annual schedule of IME multipliers changes (usually every October 1st).	X								
4025.4	The FI shall determine a one-time lump sum adjustment payment to account for the time that has already passed since July 1, 2005, and the date that this CR is first implemented, and pay that lump sum adjustment to the applicable hospitals.	X								

III. PROVIDER EDUCATION

Requirement Number	Requirements	Responsibility ("X" indicates the columns that apply)								
						Shared System Maintainers				Other
		FI	RHHI	Carrier	DMERC	FISS	MCS	VMS	CWF	

Requirement Number	Requirements	Responsibility ("X" indicates the columns that apply)								
		FI	RHHI	Carrier	DMERC	Shared System Maintainers				Other
						FISS	MCS	VMS	CWF	
4025.5	A Medlearn Matters article has been prepared for this CR. FIs shall post this article, or a direct link to this article and instruction, on their Web site and include information about it in a listserv message within 1 week of the release of this instruction.	X								

IV. SUPPORTING INFORMATION AND POSSIBLE DESIGN CONSIDERATIONS

A. Other Instructions: N/A

X-Ref Requirement #	Instructions

B. Design Considerations: N/A

X-Ref Requirement #	Recommendation for Medicare System Requirements

C. Interfaces: N/A

D. Contractor Financial Reporting /Workload Impact: N/A

E. Dependencies: N/A

F. Testing Considerations: N/A

V. SCHEDULE, CONTACTS, AND FUNDING

Effective Date*: July 1, 2005 **Implementation Date:** March 31, 2006 **Pre-Implementation Contact(s):** Miechal Lefkowitz (410)-786-5316, Eric Ruiz, 410-786-0247 **Post-Implementation Contact(s):** Same as above	**No additional funding will be provided by CMS; contractor activities are to be carried out within their FY 2006 operating budgets.**

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ATTACHMENT: 1-Excel worksheet for use in determining the IPPS IME adjustment for residents received under Section 422