



Medicaid Hospital Incentive Payments Calculations



Last Updated: May 2013

Note: This guidance is intended to assist hospitals and others in understanding Medicaid hospital incentive payment calculations. However, all hospitals should refer to CMS's final rule, 42, CFR Subpart D for the final policies on hospital incentive payments; in the event of a conflict, CMS final rules take precedence. Nothing in this guidance is intended to alter or supersede such rules.

All State Medicaid EHR hospital incentive program calculations and payments are subject to CMS review.

The Medicaid Electronic Health Record (EHR) Incentive Program provides for Medicaid incentive payments for eligible acute care hospitals, including critical access hospitals (CAH), and children's hospitals that adopt, implement or upgrade or are meaningful users of certified EHR technology. CMS regulations define an eligible acute care inpatient hospital as a health care facility with:

- An **average length of patient stay of 25 days or fewer**; and
- A **CMS Certification Number** 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, **acute care hospitals must also meet a 10 percent Medicaid patient volume threshold**. There is no Medicaid patient volume requirement for children's hospitals. Additionally, Children's hospitals that predominately treat individuals under 21 years of age but do not have a CMS certification number (CCN), because they do not serve any Medicare beneficiaries, will be provided an alternative number by CMS for purposes of enrollment in the Medicaid EHR Incentive Program. 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.

Medicaid eligible hospitals that adopt, implement, upgrade, or meaningfully use certified EHR technology may begin receiving incentive payments in any year from Federal fiscal year (FFY) 2011 to FFY 2016. The last year for an eligible hospital to begin to receive payment is FY2016. In addition, after FY 2016, payments must be consecutive: a hospital will not receive an incentive payment if it did not receive a payment in the prior fiscal year. Acute care hospitals (which include CAHs) may receive EHR Incentive Program payments from both Medicare and Medicaid when they meet all program requirements for both incentive programs.

Medicaid Incentive Payment Calculation

The Medicaid EHR Incentive Program hospital calculation is a onetime calculation of a total incentive payment, which is distributed by States over a minimum of three years and a maximum of six years. The calculation consists of two main components:

1. **The Overall EHR Amount**
2. **The Medicaid share**

The Overall EHR Amount

Generally stated, the overall EHR amount is a dollar amount calculated based on a hospital's total number of inpatient acute care discharges over a theoretical 4-year period.*

To calculate the overall EHR amount, a State must determine a "discharge-related amount" that is based on a hospital's total number of inpatient acute care discharges and then increase (or decrease) that discharge figure by an average annual rate of growth. Hospitals that begin participation in 2013 and later will use the most recent continuous 12 month period for which data are available, prior to the payment year when determining the discharge-related amount. Hospitals that began participation in the program prior to program year 2013 will not have to adjust previous calculations. Hospitals that initiated participation in 2011 and 2012 must have used 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.

Because only the first year uses actual discharge data, there is a need to estimate a hospital's future discharges. In order to do this, an average annual growth rate is applied.

**It is a "theoretical" 4-year period, because the overall EHR amount is not determined on an annual basis; rather, it is calculated once, based on how much a hospital might be paid over 4 years.*

The Overall EHR amount is determined by calculating for each of the theoretical four years of payment the following amount, and then adding all four years together for the overall amount:

Initial amount * Transition Factor

The Initial Amount

Initial Amount = a base amount of \$2,000,000 + a discharge-related amount for each year.

Table 1 (below) provides 3 examples of the initial amount calculation, based on discharges.

The Discharge-Related Amount

The discharge-related amount provides an additional \$200 for discharges between 1,150 and 23,000 for each of the 4 years. No payment is made for discharges less than 1,150, or for discharges greater than 23,000.

Computing the Average Annual Growth Rate

The average annual growth rate is calculated by averaging the annual percentage change in discharges over the most recent 3 years of available data. This average is then applied to the first year's discharges to either increase or decrease the total discharges in theoretical years 2 through 4. Note that if a hospital's average annual rate of growth is negative over the 3 year period, it is applied as such.

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 23,000 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) (n is the number of discharges (see above discussion of the discharge related amount for additional information)) | \$200 x (23,000 – 1,149) |
| Total Initial Amount | \$2,000,000 | Between \$2,000,000 and \$6,370,200 depending on the number of discharges | Limited by law to \$6,370,200 |

Transition Factor

The transition factor is applied to the initial amount, so that the initial amount diminishes by 25 percent for each year.

Table 2: Transition Factor by Year

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

Once the transition factor is applied, all 4 years are totaled to determine the Overall EHR Amount.

The Medicaid Share

The formula for the Medicaid Share is as follows:

$$\frac{\# \text{ of Medicaid Acute Inpatient Days} + \# \text{ of Acute Inpatient Managed Care days} *}{\text{Total Acute Inpatient Hospital Days} \times \left[\frac{\text{Total Charges} - \text{Charges attributable to Charity Care}}{\text{Total Charges}} \right]}$$

The numerator of the Medicaid Share is the sum of:

1. The estimated number of Medicaid acute inpatient-bed-days, and
2. The estimated number of Medicaid managed care* acute inpatient-bed-days.

*Managed Care includes individuals who are enrolled in a managed care organization, a pre-paid inpatient plan, or a pre-paid ambulatory health plan.

The denominator of the Medicaid Share is the product of:

1. The estimated total number of acute inpatient-bed-days for the eligible hospital during that period; multiplied by
2. The Non-charity percentage:

- 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.

*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.

Acute Inpatient: Both discharges and inpatient bed-days are limited to those from the acute care portion of a hospital (see "Additional Notes" below for information on acute inpatient).

Dual Eligible: The numerator of the Medicaid Share calculation must exclude Medicaid dual eligible acute inpatient-bed-days. In computing inpatient-bed-days, a State may not include estimated acute inpatient-bed-days attributable to individuals with respect to whom payment may be made under Medicare Part A, or acute inpatient-bed-days attributable to individuals who are enrolled with a Medicare Advantage organization under Medicare Part C. The denominator may include Medicaid Dual eligible acute inpatient-bed-days.

The Medicaid Aggregate EHR Incentive Payment Amount

The Medicaid Aggregate EHR amount is the Overall EHR Amount multiplied by the Medicaid Share.

Additional Notes

Data Sources

Auditable data sources for the Medicaid EHR hospital payment calculation include but are not limited to:

1. Providers' Medicare cost reports;
2. State-specific Medicaid cost reports;
3. Payment and utilization information from the State's MMIS (or other automated claims processing systems or information retrieval systems); and
4. Hospital financial statements and hospital accounting records.

Acute Inpatient Care

Page 44450 and page 44453 of the Medicare portion of the preamble in the final rule state that statutory language clearly restricts discharges and inpatient bed-days for the hospital calculation to discharges and inpatient bed-days related to the acute care portion of a hospital, because of the definition of "eligible hospital" in section 1886(n)(6)(B) of the Social Security Act (the Act).

Page 44497 of the final rule explains that statutory parameters placed on Medicaid incentive payments to hospitals are largely based on the methodology applied to Medicare incentive payments. Therefore, as Medicaid is held to the same parameters as Medicare, the same statutory definition of total discharges applies to Medicaid EHR incentive program hospital calculations.

Payment Calculation Example

The following scenario illustrates how the Medicaid hospital aggregate EHR amount is calculated. Hospital A, an acute care hospital, meets the Medicaid patient volume threshold, adopts/implements or upgrades to or becomes a meaningful user of certified EHR technology, and is eligible for incentive payments beginning in FY 2012. Hospital A had 16,000 discharges in FY 2006, 16,500 in FY 2007, 17,000 in FY 2008, 17,500 in FY 2009 and 22,000 discharges in FY 2010. Hospital A had 17,500 Medicaid acute inpatient-bed-days and 1,350 Medicaid managed care inpatient-bed-days. Its total inpatient-bed-days in FY 2010 were 50,000. Hospital A's total charges are \$5,000,000 and the charity charges are \$1,000,000

Step 1

Calculate the average annual growth rate for the last 3 years of available data using previous hospital cost reports

| | Prior Year | Current Year | Increase/ Decrease | Growth Rate | Data Source | Line Number(s) |
|-----------------------------------|---------------------------|--------------|-----------------------|--------------|-------------|----------------|
| Fiscal Year 2006 | N/A | 16,000 | N/A | N/A | | |
| Fiscal Year 2007 | 16,000 | 16,500 | 500 | 3.13% | | |
| Fiscal Year 2008 | 16,500 | 17,000 | 500 | 3.03% | | |
| Fiscal Year 2009 | 17,000 | 17,500 | 500 | 2.94% | | |
| | Total Increase/(Decrease) | | | 9.10% | | |
| Average 3 year Growth Rate | | | | 3.03% | | |

Step 2

Calculate the discharge related amount using the annual growth rate to adjust discharges for years 2 - 4

| | | | | | | Data Source | Line Number(s) |
|---------------------------------------|-----------------------------|-------------------------|------------------------------|-----------------------------|---------------------|-------------|----------------|
| Total Discharges | Fiscal Year | 2010 | | | | 22,000 | |
| | Per Discharge Amount | Total Discharges | Disallowed Discharges | Allowable Discharges | Amount | | |
| Year 1 | \$ 200 | 22,000 | 1,149 | 20,851 | \$4,170,200 | | |
| Year 2 | \$ 200 | 22,667 | 1,149 | 21,518 | \$4,303,615 | | |
| Year 3 | \$ 200 | 23,354 | 1,149 | 21,851 | \$4,370,200 | | |
| Year 4 | \$ 200 | 24,063 | 1,149 | 21,851 | \$4,370,200 | | |
| Total Discharge Related Amount | | | | | \$17,214,215 | | |

Step 3

Calculate the Initial Amount for 4 Years

| | | Year 1 | Year 2 | Year 3 | Year 4 | |
|-----------------------------|--|--------------------|--------------------|--------------------|--------------------|--|
| Base Amount | | \$2,000,000 | \$2,000,000 | \$2,000,000 | \$2,000,000 | |
| Discharge Related Amount | | \$4,170,200 | \$4,303,615 | \$4,370,200 | \$4,370,200 | |
| Aggregate EHR Amount | | \$6,170,200 | \$6,303,615 | \$6,370,200 | \$6,370,200 | |

Step 4

Apply Transition Factor

| | | Year 1 | Year 2 | Year 3 | Year 4 | |
|-------------------|--|-------------|-------------|-------------|-------------|--|
| Transition Factor | | 1.00 | 0.75 | 0.50 | 0.25 | |
| Transition Factor | | \$6,170,200 | \$4,727,711 | \$3,185,100 | \$1,592,550 | |

Step 5

Calculate Overall EHR Amount for 4 Years (total of years 1 - 4 in Step 4)

| | |
|---------------------------|---------------------|
| Amount for 4 Years | \$15,675,561 |
|---------------------------|---------------------|

Step 6

Calculate Medicaid Share from Hospital Cost Report data

| | | | |
|--|-------------|--------------------|-----------------------|
| (estimated Medicaid inpatient-bed-days + estimated Medicaid HMO inpatient-bed-days) / (est. Medicaid IP-bed-days x ((est. total charges - est. charity care charges) / est. total charges)) | | | |
| | | Data Source | Line Number(s) |
| Total Medicaid Inpatient Bed Days | 17,500 | | |
| Total Medicaid Managed Care Inpatient Bed Days | 1,350 | | |
| Total Medicaid and Managed Care Inpatient Bed Days | | | 18,850 |
| Total Hospital Charges | 5,000,000 | | |
| Total Charity/uncompensated care charges | (1,000,000) | | |
| Total Hospital Charges - Charity charges | 4,000,000 | | |
| Divided by Total Hospital Charges | 5,000,000 | | |
| Non-charity percentage | 80.00% | | |
| Total Hospital Inpatient Bed Days | 50,000 | | |
| Total Hospital Inpatient Bed Days excluding charity | | | 40,000 |
| Medicaid Share | | | 47.13% |

Step 7

Calculate Medicaid Aggregate EHR Incentive Amount

| | |
|--|-----------------------|
| Overall Amount for 4 years | \$15,675,561 |
| Medicaid Share | 47.13% |
| Medicaid Aggregate EHR Incentive Amount | \$7,387,108.25 |

Step 8

Payment disbursed

The hospital's final payments are disbursed by the percentages defined in the State's State Health Information Technology Plan. Per Statute, the incentive amount is paid over a *minimum of a three-year period and a maximum of a six-year period*. Additionally, in any given payment year no annual Medicaid incentive payment to a hospital may exceed 50% of the hospitals aggregate incentive payment. Likewise, over a 2 year period, no Medicaid payment to a hospital may exceed 90% of the aggregate incentive payment.

Additional Resources

For more information on the EHR incentive program, see the [EHR Incentive Programs website](#).