



**MEDICAID EHR TEAM**  
ANALYSIS, TRAINING & TECHNICAL ASSISTANCE

# Medicaid Electronic Health Record (EHR) Incentive Program *Hospital Calculations*

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# Introduction

This presentation provides an overview of the Medicaid incentive payment hospital calculation's process. The presentation is intended to briefly review the process to assist hospitals and others in understanding Medicaid hospital incentive payment calculations.



For guidance on the Medicaid Hospital Incentive Payments Calculation, please visit: <http://www.cms.gov/EHRIncentivePrograms>.

# Medicaid EHR Incentive Payment Calculation for Eligible Hospitals

- The Medicaid EHR Incentive payment for EHs is calculated by multiplying a hospital's Overall EHR Amount by its Medicaid Share.

$$\text{Medicaid EHR Incentive Payment} = \text{Overall EHR Amount} \times \text{Medicaid Share}$$

- The Medicaid EHR incentive payment hospital calculation is a one-time calculation, which is paid by States over a minimum of three years and a maximum of six years. Each State will determine what percentage of the total incentive payment amount will be paid for each year.

# Overall EHR Amount

The Overall EHR Amount for EHs is determined by calculating four years of projected discharge volumes using the Initial Amount and a Transition Factor. All four years are then added together for the Overall EHR Amount.

- The Initial Amount for each year includes the hospital base amount and the discharge-related amount (see slide 5).
- The Transition Factor is applied to the Initial Amount and is different for each of the four years (see slide 11).

# Overall EHR Amount: Initial Amount

The Initial Amount is the *sum* of the following:

- A **\$2,000,000 base amount**, which is a standard base amount for all EHs
- **A discharge-related amount** of \$200 for each discharge between the 1,150<sup>th</sup> and 23,000<sup>th</sup> allowable discharges
  - No payment is made for discharges less than 1,150 or for discharges greater than 23,000.



The maximum total Initial Amount is limited by law to \$6,370,200.

**Initial Amount =**

A base amount of \$2,000,000 + A discharge-related amount for each year

# Initial Amount: Discharge-Related Amount's Annual Growth Rate

To calculate the discharge-related amount, a State must determine the anticipated annual growth rate in discharges for the hospital's current fiscal year (FY) and the future three years.

The State will need to take the following steps:

1. Calculate the average annual growth rate for the previous three years using actual FY data (see slide 7).
2. Multiply the current year's discharges by the average annual growth rate for each of the projected future four years.

# Initial Amount: Calculate Annual Growth Rate

The following steps describe how the average annual growth rate is calculated:

**Step 1:** Compute the average annual growth rate by taking the actual discharge data for the current FY, and subtracting it from the prior year. Then, divide the difference by the Prior Year, times 100 for a growth rate.

For example, 17,500 (Current Year) – 17,000 (Prior Year) = 500 (difference). Then, divide 500 (difference) by 17,000 (Prior Year) = 0.294 x 100 (for rate) = 2.94%.

Fiscal Year	Prior Year	Current Year	Increase/Decrease	Growth Rate
2009 (current year)	17,000	17,500	500	2.94%
2008	16,500	17,000	500	3.03%
2007	16,000	16,500	500	3.13%
2006	NA	16,000	N/A	N/A
Total Increase/Decrease				9.10%
Average Increase/Decrease			9.10 / 3 =	3.03%

# Initial Amount: Calculate Annual Growth Rate

**Step 2:** Repeat Step 1 to calculate the rate of growth for each of the last three years.

**Step 3:** Add each of the three years rate of growth and divide by 3 to obtain the average annual growth rate.

Fiscal Year	Prior Year	Current Year	Increase/Decrease	Growth Rate
2009 (current year)	17,000	17,500	500	2.94%
2008	16,500	17,000	500	3.03%
2007	16,000	16,500	500	3.13%
2006	NA	16,000	N/A	N/A
Total Increase/Decrease				9.10%
Average Increase/Decrease			$9.10 / 3 =$	3.03%



If the hospital has a negative average annual growth rate over the three-year period, the negative growth rate should be used in the calculation.

# Initial Amount: Calculate Future Discharge-Related Amounts

**Step 4:** Multiply the current FY's total discharges by the average annual growth rate to determine the new projected discharges. Repeat this step for each of the additional projected future Years 2 through 4.

Projected Year	Total Discharges	Annual Growth Rate	New Projected Discharges
Year 1 (current year)	22,000	NA	22,000
Year 2	22,000	3.03%	22,667
Year 3	22,667	3.03%	23,354
Year 4	23,354	3.03%	24,062

# Example: Initial Amount Calculation

**Initial Amount** = A base amount of \$2,000,000 + A discharge-related amount

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	$\$200 \times (n - 1,149)$ (n) is the number of discharges	$\$200 \times (23,000 - 1,149)$
Total Initial Amount	\$2,000,000	Between \$2,000,000 and \$6,370,200 depending on the number of discharges	Limited by law to a maximum of \$6,370,200



A discharge-related amount provides an additional \$200 for discharges between the 1,150th and 23,000th allowable discharges. No payment is made for discharges less than 1,150, or for discharges greater than 23,000 discharges.

# Overall EHR Amount: Transition Factor

For each year of discharge data, over the four-year period, a different Transition Factor applies:

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

The Transition Factor is applied to the calculated Initial Amount so that the Initial Amount diminishes by 25% for each year. Once the transition factor is applied, all four years are totaled to determine the Overall EHR Amount.

# Overall EHR Amount Example

## To calculate the Overall EHR Amount:

Initial Amount (base amount + discharge-related amount) times the Transition Factor for each year. Then, add all four years.

Overall EHR Amount Formula: {Base Amount + [(Discharges - 1,149) * 200]} * Transition Factor					
Year	Total Discharges - 1,149 (between 1,150 and 23,000)	Total Discharges x \$200 Discharge related amount	Total Discharge Amount x Transition Factor	Calculation Summary: Initial Amount + Discharge Calculations * Transition Factor	Total Overall EHR Initial Amount
Year 1	22,000 - 1,149 = 20,851	20,851 * 200 = \$4,170,200	1.00	\$2,000,000 + (20,851 * \$200) * 1.00	\$6,170,200
Year 2	22,667 - 1,149 = 21,518	21,518 * 200 = \$4,303,600	0.75	\$2,000,000 + (21,518 * \$200) * 0.75	\$4,727,700
Year 3	23,354 - 1,149 = 21,851*	21,851 * 200 = \$4,370,200	0.50	\$2,000,000 + (21,851 * \$200) * 0.50	\$3,185,100
Year 4	24,062 - 1,149 = 22,914*	21,851 * 200 = \$4,370,200	0.25	\$2,000,000 + (21,851 * \$200) * 0.25	\$1,592,550
*21,851 discharges allowed since greater than 23,000				Overall EHR Amount	\$15,675,550

For this example, the Year 4 discharges total is 24,062, and the maximum allowed discharges total is 23,000. Therefore, you subtract 1,149 from 23,000, which equals 21,851 for the discharge-related amount.

# Medicaid EHR Incentive Payment Calculation for Hospitals



Remember, the Medicaid EHR incentive payment is the result of multiplying two factors:

1. Overall EHR Amount
2. Medicaid Share

Once you have calculated the Overall EHR Amount, you must then calculate the Medicaid Share amount.

**Medicaid EHR Incentive Payment =**  
Overall EHR Amount x Medicaid Share

# The Medicaid Share: Overview

## The Medicaid Share =

$$\frac{\text{Total Medicaid Acute Inpatient Days} + \text{Total Acute Inpatient Managed Care Days}}{\text{Total Acute Inpatient Hospital Days} \times \frac{\text{Total Charges} - \text{Charges of Charity Care}}{\text{Total Charges}}}$$



For dual-eligible hospitals, States may not include acute inpatient bed days in the numerator for patients where Medicare Part A or Medicare Advantage under Part C was the primary payer.



Nursery bed days may not be included in the numerator or the denominator for acute inpatient (hospital) bed days.

# The Medicaid Share: Calculation

- Numerator – The total Medicaid inpatient bed days is calculated by adding:
  - The number of Medicaid inpatient-bed-days (exclude Medicaid dual eligible acute inpatient days, [i.e. Medicare with Medicaid as secondary payer]), and
  - The number of Medicaid Managed Care inpatient-bed-days.
- Denominator – The total inpatient bed days is multiplied by:
  - The total charges minus the Charity Care charges divided by the total charges during the year



Removing charges from charity care increases the Medicaid Share, which results in larger EHR incentive payments for hospitals that provide a greater proportion of charity.

# Example: Calculating the Medicaid EHR Incentive Payment for Hospital AC

## Hospital Data:

Hospital AC is an acute care hospital and meets the Medicaid patient volume requirement, is a meaningful user of certified EHR technology, is registered with CMS and the State, and is now eligible for Medicaid EHR incentive payments.

In the FY, Hospital AC had:

- 22,000 discharges for current FY\*.
- 17,500 Medicaid inpatient-bed days.
- 1,350 Medicaid managed care inpatient-bed days.
- 50,000 total inpatient-bed days.
- \$4,000,000 total charges, excluding charity care of \$1,000,000.
- \$5,000,000 total charges for the period.



*\* Hospital AC discharges are projected to increase each year. This projected increase is based on calculating the average annual growth rate over the three previous years.*

# Example: Calculating the Overall EHR Amount for Hospital AC

Hospital AC uses the following information:

- The Initial Amount, which includes a base amount of \$2,000,000
- The \$200 discharge-related amount (in the table below, Year 1 reflects the current FY, and Years 2 through 4 reflect the estimated growth for the future three years, which is based on the average annual growth rate from the actual previous three years)
- The Transition Factor

Overall EHR Amount Formula: {Base Amount + [(Discharges - 1,149) * 200]} * Transition Factor					
Year	Total Discharges - 1,149 (between 1,150 and 23,000)	Total Discharges x \$200 Discharge related amount	Total Discharge Amount x Transition Factor	Calculation Summary: Initial Amount + Discharge Calculations * Transition Factor	Total Overall EHR Initial Amount
Year 1	22,000 - 1,149 = 20,851	20,851 * 200 = \$4,170,200	1.00	\$2,000,000 + (20,851 * \$200) * 1.00	\$6,170,200
Year 2	22,667 - 1,149 = 21,518	21,518 * 200 = \$4,303,600	0.75	\$2,000,000 + (21,518 * \$200) * 0.75	\$4,727,700
Year 3	23,354 - 1,149 = 21,851	21,851 * 200 = \$4,370,200	0.50	\$2,000,000 + (21,851 * \$200) * 0.50	\$3,185,100
Year 4	24,062 - 1,149 = 22,914	21,851 * 200 = \$4,370,200	0.25	\$2,000,000 + (21,851 * \$200) * 0.25	\$1,592,550
<b>21,851 allowed since over 23,000</b>				Overall EHR Amount	\$15,675,550

# Example: Calculating Medicaid Share for Hospital AC

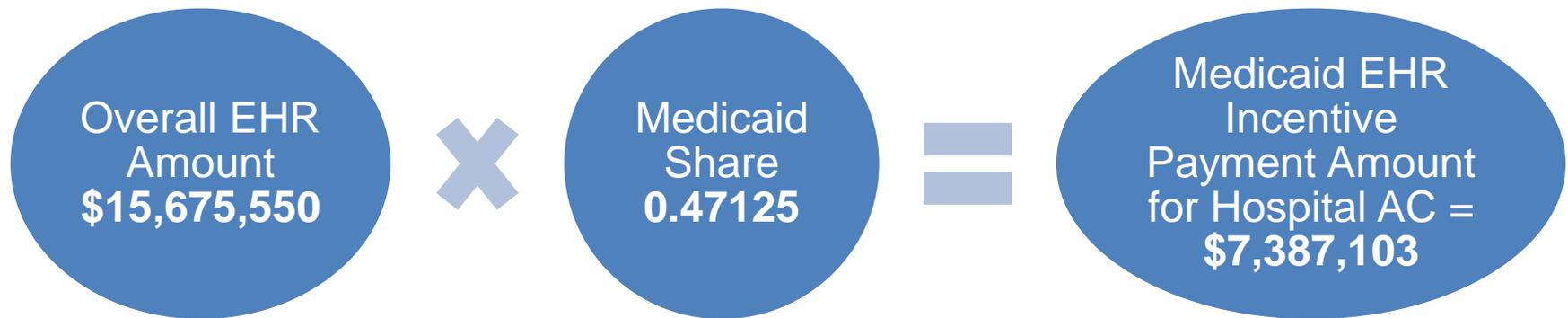
Calculating the Medicaid Share:

NUMERATOR	DENOMINATOR	= MEDICAID SHARE
Medicaid Inpatient Days + Medicaid Managed Care Days	$\frac{\text{Total Inpatient Bed Days} \times \text{Total Charges Excluding Charity Care}}{\text{Total Charges for the Period}}$	$\frac{\text{Total Medicaid Inpatient Bed Days}}{\text{Charges Factor}}$
(17,500 + 1,350) = 18,850	$50,000 \times \frac{4,000,000}{5,000,000} = 40,000$	$\frac{18,850}{40,000} = 0.47125$
<b>Total Medicaid Inpatient Bed Days</b>	<b>Charges Factor</b>	<b>Medicaid Share</b>

Based on this calculation, the Medicaid Share for Hospital AC is 0.47125.

# Example: Calculating Hospital AC's Medicaid EHR Incentive Payment

The Overall EHR Amount for Hospital AC is \$15,675,550 (see the table on slide 17). This amount is multiplied by the Medicaid Share of 0.47 (see slide 18). This equals a payment of \$7,387,103. This is the EHR incentive payment for Hospital AC.



The Medicaid EHR Incentive Amount is only calculated once. States decide how to distribute the total EHR payment over a minimum of three and a maximum of six years.

# Summary

We have reviewed information in this training to help you understand the main components of the Medicaid hospital incentive payment calculations, such as:

- The Overall EHR Amount, which includes Initial Amount and the Transition Factor
- Medicaid Share



For guidance on the Medicaid Hospital Incentive Payments Calculation, please visit: <http://www.cms.gov/EHRIncentivePrograms> or refer to CMS's final rule, 42, CFR Subpart D for final policies on hospital incentive payments.

**What questions do you have about hospital calculations?**

