



Medicare EHR Incentive Program - Tip Sheet for Critical Access Hospital (CAH) Payments

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Overview

Information regarding the Medicare and Medicaid EHR Incentive Program can be found at: <http://www.cms.gov/EHRIncentivePrograms/>. Included on this website are instructions for registration and attestation. The purpose of this document is to explain the CAH incentive payment process, and what happens after attestation.

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Payment Calculation

Under the reasonable cost principles, Medicare Part A payments for services furnished by a CAH are, for the most part, based on 101 percent of the reasonable costs actually incurred. The EHR incentive payment allows a CAH to expense the reasonable costs incurred for the purchase of depreciable assets associated with administering EHR certified technology in a single payment year rather than depreciating those acquisition costs over the useful life of the asset. Thus, the incentive payment is made in lieu of the amount the CAH would have received under the reasonable cost principles.

The CAH is entitled to an incentive payment using the following formula:

Allowable Costs * Medicare Share = EHR Incentive Payment

Allowable Costs	<u>Allowable Costs</u> are reasonable costs for the purchase of certified EHR technology to which purchase depreciation (excluding interest) would apply. These costs include depreciable assets purchased, such as computers and associated software, necessary to administer certified EHR technology. This includes the reasonable cost incurred for the purchase of certified EHR technology in that payment year plus the un-depreciated costs for assets that were previously purchased and are also being used to administer the certified EHR technology.
Medicare Share	<p><u>Medicare Share</u> is a fraction based on Medicare fee-for-service and managed care inpatient days, divided by total inpatient days, modified for charity care. To this amount, 20 percentage points are then added. Note – the Medicare Share cannot exceed 100%.</p> <ul style="list-style-type: none"> • Numerator = (1) The number of inpatient-bed-days which are attributable to individuals with respect to whom payment may be made under Medicare Part A; and (2) The number of inpatient-bed-days which are attributable to individuals who are enrolled with a Medicare Advantage (MA) organization. • Denominator = Total number of acute care inpatient-bed-days * ((total amount of the eligible hospital's charges – charges attributable to charity care)/total amount of the eligible hospital's charges)

CAHs may receive incentive payments for up to 4 consecutive years, and in no case may a payment be made with respect to a cost reporting period beginning during a payment year after 2015.

Payment Process

The payment process for CAHs follows these steps:

1. Upon submission of a successful attestation, the CAH will be eligible for an EHR incentive payment. In order for the incentive payment to be calculated, the CAH must submit documentation to its Medicare contractor (Fiscal Intermediary-FI, or Medicare Administrative Contractor-MAC) to support the costs incurred for certified EHR technology. This contractor (FI/MAC) is the same contractor that the CAH submits its Medicare Cost Report to, and they should use those contacts if there are any questions related to the submission process.
2. Upon receipt of the supporting documentation, the FI/MAC will review and determine the Allowable Costs (as explained above). The Allowable Costs and Medicare Share will then be entered into the HITECH system, which will begin the payment process.
3. The CAH should expect to receive a payment within 4 to 8 weeks of when the allowable amount is calculated and entered into the HITECH system.
4. The CAH will receive an interim (initial) payment that will later be reconciled on the Medicare Cost Report. The interim payment will be calculated using the Medicare Share based on the data reported on the CAH's latest submitted 12-month cost report. The interim payment will be

included on the CAH's Medicare Cost Report that begins during the payment year and will be reconciled to the actual amounts at final settlement of that cost report.

5. Although the allowable amounts are calculated by the CAH's FI/MAC, the EHR incentive payments will be made by a single payment contractor. Payments will be made in the same manner the CAH receives their other Medicare payments (i.e., EFT or check).

Additional Issues

CMS and its contractors have received many questions since the inception of the EHR incentive program. For CAHs, most involve the costs that can be included in the incentive payment.

In basic terms, if the purchase costs of the asset cannot be depreciated under normal Medicare cost reporting principles, it cannot be included in the EHR incentive payment.

The EHR incentive payment is intended to pay Medicare's share of the cost of the depreciable assets for the certified EHR technology. There will be costs which are not considered part of the depreciable assets, such as:

- planning and evaluation costs
- travel costs to meet with vendors
- internal staff training and other expenses

These costs would be included under normal operating expenses on the Medicare Cost Report, subject to reasonable cost principles.

Leases - there are 2 types of lease arrangements that a CAH may enter into to administer their EHR system...an operating lease or a capital lease. With an operating lease, the CAH does not purchase, own, or depreciate the asset, and the lease/rental expense does not meet the intent of the statute or regulations. Therefore, the operating lease/rental expenses are not included in the CAH incentive payment. The CAH may, however, continue to include the operating lease expenses on its cost report, subject to reasonable cost principles.

A capital lease is essentially the same as a virtual purchase agreement, and is treated as though the CAH purchased the asset. Therefore, the cost of ownership of these lease arrangements may be allowable in the CAH incentive payment. For additional information on the capital lease criteria, [see FAQ 3387](#) on the frequently asked questions page of the CMS website.

In some cases, the certified EHR technology may be purchased by the CAH's home office:

- These costs may be allowable, but the cost must be directly attributable to the CAH, separately identifiable, and cannot be included in the home office's pooled allocation on the Home Office Cost Statement.
- The CAH must be able to separately identify the assets to ensure that subsequent depreciation is not included. In these situations, the CAH must maintain documentation to support the direct or functional allocation, as the contractor will need to review it to determine the allowable cost.

We are also aware of group purchasing arrangement or “cloud computing”:

- These costs may also be allowable if they meet the definition of what is allowable in the EHR incentive payment, but only the specific portion that pertains to that CAH.
- The CAH must own their portion of the system (not pay a usage fee or rental fee).
- The CAH must maintain documentation to support how the cost was allocated and to specifically identify their portion.

If a CAH purchases the certified EHR technology, and the purchase also includes other non-EHR system functionality, only the portion that pertains to certified EHR technology may be included in the incentive payment:

- For example, if the system includes a payroll or other non-EHR module, only the portion of reasonable costs pertaining to the certified EHR technology may be included in the incentive payment.
- The CAH must be able to provide documentation to the FI/MAC to support the portion that is required to achieve Meaningful Use.

In some cases, the hardware needed to support the certified EHR technology is shared with other systems in the CAH. For the incentive payment, the CAH may only include the portion of reasonable costs of the hardware that is used to administer the certified EHR technology:

- For example, if certified EHR technology is purchased and housed on a server that contains other non-EHR systems, only the portion of the reasonable costs that pertain to the certified EHR technology may be included in the incentive payment.
- The CAH must be able to provide documentation to support this allocation. Estimates may be used, but the allocation methodology must be documented and is reviewable by the contractor to determine if acceptable.

Any costs incurred by the CAH that are not allowed in the EHR incentive payment may continue to be included in the Medicare Cost Report, subject to reasonable cost principles.

Payment Adjustment

Critical Access Hospitals (CAHs) that are not meaningful users will be subject to a payment adjustment for fiscal year 2015. This payment adjustment is applicable to a CAH's Medicare reimbursement for inpatient services during the cost reporting period in which they failed to demonstrate meaningful use. If a CAH has not demonstrated meaningful use for an applicable reporting period, then for a cost reporting period that begins in FY 2015, its reimbursement would be reduced from 101 percent of its reasonable costs to 100.66 percent. For a cost reporting period beginning in FY 2016, its reimbursement would be reduced to 100.33 percent of its reasonable costs. For a cost reporting period beginning in FY 2017 and each subsequent FY, its reimbursement would be reduced to 100 percent of reasonable costs. The table below illustrates the application of the payment adjustments to CAHs that fail to demonstrate meaningful use.

	2015	2016	2017	2018	2019	2020+
% of reasonable costs	100.66%	100.33%	100%	100%	100%	100%

In order to avoid the payment adjustments, CAHs must demonstrate meaningful use within the full Federal fiscal year that is the same as the payment adjustment year. The adjustment would then apply based upon the cost reporting period that begins in the payment adjustment year (that is, fiscal year 2015 and thereafter). Thus, if a CAH is not a meaningful user for fiscal year 2015, and thereafter, then the adjustment would be applied to the CAH's reasonable costs incurred in a cost reporting period that begins in that affected fiscal year. The table below illustrates the timeline to avoid payment adjustments for CAHs that demonstrate meaningful use for the first time prior to fiscal year 2015.

Payment Adjustment Year	2015	2016	2017	2018	2019	2020
Full Year EHR Reporting Period	2015	2016	2017	2018	2019	2020

The table below illustrates the timeline to avoid payment adjustments for CAHs that demonstrate meaningful use for the first time in fiscal year 2015.

Payment Adjustment Year	2015	2016	2017	2018	2019	2020
90 day EHR Reporting Period	2015					
Full Year EHR Reporting Period		2016	2017	2018	2019	2020

In August 2012, CMS published the [final rule for Stage 2 of meaningful use](#) (“Medicare and Medicaid Programs; Electronic Health Record Incentive Program--Stage 2,” 42 CFR Parts 412, 413, and 495) that further describes the implementation policies regarding the payment adjustment for CAHs. CMS also published a [Payment Adjustment & Hardship Exemptions Tipsheet](#) for CAHs to use to learn more about payment adjustments and how to apply for hardship exemptions.

CAH Questions

If a CAH has any questions about the costs that are included in the incentive payment or the submission of documentation, they should contact their current Medicare contractor (FI/MAC). Any questions pertaining to registration/attestation, or any other EHR incentive questions, should be directed to the EHR Information Center at 888-734-6433.