Summary of HIT Hospital Incentives and Reductions in American Recovery and Reinvestment Act (ARRA) of 2009

The American Recovery and Reinvestment Act of 2009 (ARRA; popularly known as the "Economic Recovery Package") provides separate Medicare funding to hospitals with incentives for the adoption and maintenance of electronic health records (EHRs). The law also provides incentives for qualifying Medicare Advantage organizations. Medicaid incentives are provided for physicians and other providers and hospitals that meet the volume requirements for treating Medicaid patients. **Hospitals are eligible to receive both Medicare and Medicaid incentives**. CMS has announced that payments to hospitals will begin no sooner than October 2010. The law also requires reductions in payment for providers and hospitals that do not become meaningful EHR users by specified dates. Below is a summary of the Medicare and Medicaid incentive payments and reductions for Hospitals.

ARRA provides incentives to an eligible hospital that is a "meaningful EHR user." The law requires a "meaningful EHR user" to:

- Use certified EHR technology, including e-prescribing
- Engage in the exchange of health information to improve quality and promoting care coordination
- Report on measures using EHR

Names of meaningful users will be posted on the internet by HHS and accessible by the public.

Expect more robust definitions to be provided through the regulatory process.

Hospitals are eligible for both Medicare and Medicaid incentives, because these incentives are based on each hospital's Medicare and Medicaid share; therefore, hospitals will not receive duplicate payments.

Medicare Incentives for Acute Care Hospitals

Under the Medicare incentive payment structure, eligible hospitals will receive enhanced reimbursements starting in fiscal year 2011; penalties begin by 2015 for hospitals that do not adopt EHRs. The incentives are to be distributed over a four-year transition period through the following formula:

[[(Base amount + Discharge related amount) x Medicare share] x Transition factor

Base Amount
$2 million

Discharge Related Amount
($200 for each hospital discharge between 1,150 and 23,000 within 12 month period)

Medicare Share
Medicare Inpatient Days under Part A (fee-for-service and enrollees under Part C)/ total inpatient days adjusted to exclude any charges attributable to charity care. If data are not available on charity care, uncompensated care will be used as a proxy and will be adjusted downward to eliminate bad debt data.

Transition Factor
First payment year: 100%
Second payment year: 75%
Third payment year: 50%
Forth payment year: 25%

Any succeeding payment year: 0
If a hospital adopts an EHR after 2015, the transition factor is 0.

HHS will determine whether eligible hospitals will receive a single consolidated payment in a payment year, or periodic installments.

Payments will be reduced if a hospital first qualifies for incentive payments in FY 2014 or FY 2015. Hospitals that are not meaningful users by FY 2016 will receive no payments.

Unless hardship is demonstrated, hospitals that are not meaningful EHR users will see 75% of their market-basket update reduced by the following: 33.33% for 2015; 66% for 2016; and 100% for 2017 and beyond. Receiving the remaining 25% of the market-basket update will depend on successful quality reporting.

Lists of eligible hospitals that are meaningful EHR users or that are subject to the penalty and other relevant data will be posted on the CMS website.

Payment Year

Year of Adoption	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015**	**FY2016**	**FY2017**
2011	100%	75%	50%	25%			
2012		100%	75%	50%	25%		
2013			100%	75%	50%	25%	
2014				75%	50%	25%	
2015					50%	25%	
No adoption by 2015					¾* of percentage increase in market-basket reduced by 33 1/3%	¾* of percentage increase in market-basket reduced by 66 2/3%	¾* of percentage increase in market-basket reduced by 100%

*Remaining ¼ of percentage increase in marketbasket at risk based on successful quality reporting

Medicaid Incentives for Hospitals

Acute care hospitals' Medicaid volume must be at least 10% of their total volume to be eligible to receive incentive payments. Children's hospitals of any Medicaid volume are eligible to receive incentive payments.

Medicaid incentives are determined using a formula that is similar to that used for Medicare payment except that the Medicaid share uses as the numerator the number of inpatient bed days attributable to Medicaid beneficiaries who are not eligible for Medicare Part A benefits, taking into account inpatient bed days for individuals enrolled in a Medicaid managed care plan.

[(Base amount + Discharge related amount) x Medicaid share] x Transition factor

Hospitals that are not meaningful users by 2016 will receive no Medicaid payments, and Medicaid incentives are capped at 6 years of payments.

For the Medicaid incentives, "certified EHR technology" is defined as meeting standards of the Public Health Service Act.

The Secretary has the authority to consult with the state to determine the overall amount provided to each state's Medicaid plan.

States may not pay more than 50% of the aggregate amount a hospital is eligible to receive to a hospital in any year, and consecutive payments (i.e. over 2 years) may not exceed 90% of the total amount. Payments must be spread out between 3 and 6 years.

DETAILS ABOUT HOW THE HIT INCENTIVES AND DISINCENTIVES WILL WORK WILL REQUIRE REGULATION. FOR INSTANCE, PROPOSED DEFINITIONS OF "CERTIFIED ELECTRONIC HEALTH RECORD," "MEANINGFUL USER," "HARDSHIP EXEMPTION' SHOULD BE ISSUED OVER THE NEXT SEVERAL MONTHS. THE AAMC WILL DISTRIBUTE INFORMATION AS IT BECOMES AVAILABLE.

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