

# Financial Incentives for Hospitals Converting to Electronic Health Records

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The American Recovery and Reinvestment Act of 2009 makes Medicare incentive payments available to eligible hospitals that become meaningful electronic health record users. An eligible hospital is a subsection (d) hospital or a critical access hospital. Eligible hospitals do not include rehabilitation, cancer or children's hospitals or hospitals with average inpatient stays of more than 25 days.

Incentive payments are available for payment years beginning in fiscal 2011 continuing through payment year 2015. If the first payment year in which the hospital is a meaningful user of certified EHR technology is 2013 or after, incentive payments are reduced. If the first payment year in which a hospital is a meaningful EHR user is after 2015, no incentive payments are available.

Incentive payments for each payment year are based upon a somewhat complicated calculation that is equal to \$2 million plus a Discharge Amount, multiplied by the hospital's Medicare Share and multiplied by a Transition Factor.

The Discharge Amount is equal to \$200 for each discharge (not limited to Medicare discharges) between 1,150 and 23,000. There is no Discharge Amount for discharges less than 1,150 or more than 23,000.

The initial Transition Factor is 1 in the first payment year, reducing in each subsequent payment year, to 0 in the fifth payment year and payment years thereafter.

To receive incentive payments, the hospital must demonstrate to the satisfaction of the Secretary of Health and Human Services that the hospital is a meaningful user of certified EHR technology. While regulations about meaningful use and certified EHR technology have yet to be developed, it is clear from the legislation that using certified EHR technology in a meaningful manner must include interconnection that provides for the electronic exchange of health information to improve quality such as promotion of care coordination and submission of information on clinical quality measures in a manner specified by the Secretary of Health and Human Services. Note that meaningful use by a hospital does not include electronic prescribing.

A certified health record must include patient demographic and clinical health information such as history and a problem list; provide clinical

decision support; support physician order entry; capture and query information relevant to healthcare quality; and exchange health information with and integrate information from other sources.

Critical access hospitals are able to expense the cost of becoming a meaningful EHR user in a single year without the need to depreciate such cost over a period of years. If a critical access hospital first requests a payment in a payment year after 2015, the hospital shall not receive any payment.

If a hospital is not a meaningful EHR user by fiscal year 2015, the hospital will be subject to reductions in applicable Medicare increases beginning with fiscal year 2015 and each subsequent fiscal year.

While these incentive payments can be a significant contribution to the cost of a hospital becoming a meaningful user of certified EHR technology, it is unlikely that the incentive payments will cover the entire cost of such a conversion. However, the ongoing reduction to Medicare increases is also likely to be significant and may well justify the commitment of capital necessary to accomplish this conversion.

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