

# Program Memorandum Intermediaries

Department of Health and  
Human Services (DHHS)  
HEALTH CARE FINANCING  
ADMINISTRATION (HCFA)

Transmittal A-00-86

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## CHANGE REQUEST 1379

**SUBJECT: Changes to Fiscal Year (FY) 2000 Nursing and Allied Health Education Payment Policies as Required by the Medicare, Medicaid, and State-Child Health Insurance Program Balanced Budget Refinement Act of 1999 (BBRA), P. L. 106-113**

The BBRA, enacted on November 29, 1999, contained numerous provisions affecting inpatient hospital payment policies. Many of these provisions became effective retroactively prior to the passage of the BBRA, or shortly after its passage. Program Memorandum A-00-17, Change Request 1129 dated April 2000, has instructions on how to implement most of these provisions. However, that Program Memorandum did not include instructions for implementing §541 of the BBRA, Medicare+Choice Nursing and Allied Health Education Payments, although it was effective January 1, 2000, because this provision could not be implemented in such a short period of time. Therefore, this Program Memorandum is to notify you of the actions you are to take to implement §541 of the BBRA.

### Medicare+Choice Nursing and Allied Health Education Payments

Section 541 of the BBRA of 1999 provides for additional payments to hospitals for costs of nursing and allied health education associated with services to Medicare+Choice enrollees. Hospitals that, under 42 CFR §413.85, operate approved nursing or allied health education programs and receive Medicare reasonable cost reimbursement for these programs would receive additional payments under §541. Section 541 limits total spending under the provision to \$60 million in any calendar year (CY). (In this document, we refer to the total amount of \$60 million or less as the payment "pool".) Section 541 also provides that direct Graduate Medical Education (GME) payments for Medicare+Choice utilization will be reduced to the extent that these additional payments are made for nursing and allied health education programs.

The regulations regarding this provision are implemented at new 42 CFR §413.87. This provision is effective for portions of cost reporting periods occurring in a CY, beginning with CY 2000.

#### A. Qualifying Conditions for Payment

For portions of cost reporting periods occurring on or after January 1, 2000, a hospital that operates a nursing or allied health education program in accordance with § 413.85 may receive an additional payment amount if it meets the following two conditions:

1. The hospital must have received reasonable cost Medicare payment for a nursing or allied health education program(s) in its cost reporting period(s) ending in the Federal FY that is 2 years prior to the current CY. For example, if the current CY is CY 2000, the FY that is 2 years prior to CY 2000 is FY 1998. In this example, if a hospital did not receive reasonable cost payment for approved nursing or allied health education programs in FY 1998, but first establishes these programs and receives such payment as specified in §413.85 after FY 1998, the hospital will be eligible to receive an additional payment amount beginning in the CY that is 2 years after the respective FY. For example, if the hospital establishes a nursing or allied health program in FY 1999, it will first be eligible to receive an additional payment amount in CY 2001.

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2. The hospital must be receiving reasonable cost payment for its nursing or allied health education program(s) in the current CY.

### B. Calculating the Additional Payment Amount

For portions of cost reporting periods occurring on or after January 1, 2000, an eligible hospital will receive the additional payment amount calculated according to the following steps:

Step 1: Determine the hospital's total Medicare payments received for approved nursing or allied health education programs based on data from the hospital's settled cost report(s) for the period(s) ending in the FY that is 2 years prior to the current CY.

For example, if the current CY is 2000, determine the hospital's total nursing or allied health education payments made in its cost reporting period ending in FY 1998. If a hospital has more than one cost reporting period ending in that FY, the fiscal intermediary will sum the nursing and allied health payments made to the hospital over those cost reporting periods.

If the actual total amount of the hospital's Medicare nursing or allied health education payment has not been finalized at the time the determination of the additional payment amount is being made because the hospital's relevant cost report(s) has not as yet been settled, then the interim additional payment should be made based on an estimate of the total amount of Medicare nursing and allied health payments for that year. When the actual total amount is determined upon settlement of the cost report(s), the additional payment amount should be recalculated, and any overpayments or underpayments should be reconciled.

Step 2: Determine the ratio of the individual hospital's total nursing or allied health payments from Step 1, to the total of all Medicare nursing and allied health education program payments made across all hospitals for all cost reporting periods ending in the FY that is 2 years prior to the current CY.

Step 3: Multiply the ratio calculated in step 2 by the Medicare+Choice nursing and allied health payment "pool" that is determined by HCFA for the current CY.

Each CY, HCFA estimates the Medicare+Choice nursing and allied health payment "pool", not to exceed \$60 million. The "pool" is used for determining the additional payments for nursing and allied health education.

The resulting product is each respective hospital's additional payment amount for the portion of its cost reporting period that overlaps with the current CY. For example, if the current CY is 2000, and if the hospital has a CY cost reporting period, then the amount determined in step 3 is the hospital's total Medicare+Choice nursing and allied health additional payment amount for CY 2000. However, if a hospital has an October - September cost reporting period, then the amount determined in step 3 is the hospital's total Medicare+Choice nursing and allied health additional payment amount which will be paid to the hospital during 9 months of its FY 2000 cost reporting period (January through September of CY 2000), and 3 months of its FY 2001 cost reporting period (October through December of CY 2000).

### C. Proportional Reduction to Medicare+Choice Direct GME Payments

In conjunction with the additional payments for nursing and allied health programs, the BBRA provided that payments that are made to teaching hospitals for costs of direct GME associated with services to Medicare+Choice enrollees will be reduced by an estimated percentage in each CY. Specifically, the law provides that the estimated reductions in Medicare+Choice direct GME payments must equal the estimated total additional Medicare+Choice nursing and allied health education payments.

#### D. Calculation of Amounts for CY 2000

##### 1. The additional payment amount:

o The total amount of nursing and allied health education payments made to all hospitals for cost reporting periods ending in FY 1998, that is, 2 FYs prior to CY 2000, is estimated at **\$220,622,805**.

o The Medicare+Choice nursing and allied health education payment “pool” for CY 2000 is estimated at **\$26,272,140**.

o The ratio of each hospital’s Medicare nursing and allied health education payments from its cost reporting period(s) ending in FY 1998 to \$220,622,805 is multiplied by \$26,272,140 to determine each hospital’s additional payment amount (as described in section B) for CY 2000.

**EXAMPLE:** If Hospital A received \$100,000 in Medicare pass-through payments in its cost reporting period ending in FY 1998 for its nursing or allied health education program, then its total additional payment amount for portions of its cost reporting period that occur in CY 2000 would be determined as follows:

$$(\$100,000/\$220,622,805) \times \$26,272,140 = \$11,908.$$

**NOTE:** If Hospital A’s FY 1998 cost report is not settled at the time the fiscal intermediary calculates the additional payment amount for CY 2000, and, later, upon settlement, it is determined that \$100,000 is not the actual total amount that Hospital A received for FY 1998, then the fiscal intermediary will recalculate the additional payment amount with the accurate total and reconcile any overpayments or underpayments to Hospital A.

##### 2. Reduction to Medicare+Choice direct GME Payments:

The proportional reduction to Medicare+Choice direct GME payments for CY 2000 is **10.5 percent**. Accordingly, for portions of cost reporting periods occurring in CY 2000, all hospitals that receive Medicare+Choice direct GME payments (including those that do not receive additional nursing and allied health payments under the BBRA provision) will have these payments reduced by 10.5 percent.

**EXAMPLE<sup>1</sup>:** In CY 2000, teaching Hospital A has an average per resident amount (APRA) of \$50,000, 75 FTE interns and residents, and a Medicare+Choice utilization of 15 percent. Teaching Hospital A’s calculation for Medicare+Choice direct GME payment for CY 2000 is:

$$\begin{aligned} (\$50,000) \times (75) \times (.15) \times (.60)^2 &= 337,500 \\ 337,500 \times 10.5\% &= 35437.50 \\ 337,500 - 35437.50 &= \$302,062.50 \end{aligned}$$

Each hospital with a CY cost reporting period that is receiving Medicare+Choice direct GME payments will have those payments reduced by 10.5 percent for the period of January through December 2000. If a hospital does not have a CY cost reporting period, then the reductions to its Medicare+Choice direct GME payments will depend upon the portion of its cost reporting period that falls within the current CY. For example, if a hospital has an October through September FY, its Medicare+Choice direct GME payments from October through

<sup>1</sup> For purposes of this example, the Medicare+Choice direct GME payment calculation has been simplified.

<sup>2</sup> The Balanced Budget Act of 1997 provided for a 5-year phase-in of payments to teaching hospitals for the direct costs of GME associated with services to Medicare+Choice enrollees. Eligible teaching hospitals receive 20% of these payments in CY 1998, 40% in CY 1999, 60% in CY 2000, 80% in CY 2001, and 100% in CY 2002 and subsequent years.

December 1999 will not be affected. However, the hospital's Medicare+Choice direct GME payments from January through September 2000 (from its FY 2000 cost reporting period), and its Medicare+Choice direct GME payments from October through December 2000 (from its FY 2001 cost reporting period), will be reduced by 10.5 percent. Ultimately, its Medicare+Choice direct GME payments for the remainder of its FY 2001 cost reporting period, which extends from January through September 2001, will be reduced by the applicable percentage for CY 2001. Similarly, if a hospital has a July through June cost reporting period, its Medicare+Choice direct GME payments from July through December 1999 will not be affected. However, its Medicare+Choice direct GME payments from January through June 2000, and its Medicare+Choice direct GME payments from July through December 2000, will be reduced by 10.5 percent. Its Medicare+Choice direct GME payments for the remainder of its cost reporting period, which extends from January through June 2001 will be reduced by the applicable percentage for CY 2001.

In general, we note that hospitals that operate both GME and nursing or allied health education programs should experience either a net gain or loss as a result of this provision, because although their Medicare+Choice direct GME payments will be reduced by a certain percentage, their Medicare+Choice nursing and allied health payments will be increased. However, hospitals that operate only GME programs will see their Medicare reimbursement reduced, and hospitals that operate only nursing or allied health education programs will see their Medicare reimbursement increased as a result of this provision.

**The *effective date* for this Program Memorandum (PM) is January 1, 2000.**

**The *implementation date* for this PM is March 1, 2000.**

**These instructions should be implemented within your current operating budget.**

**This PM may be discarded after October 1, 2001.**

**If you have any questions, contact Tzvi Hefter, 410-786-4487.**