

Demystifying What Medicare GME Payments Cover and How They're Calculated

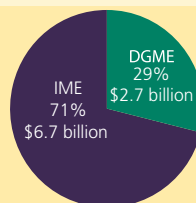
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America's teaching hospitals are committed to training the next generation of physicians and to providing critical specialized services that benefit their communities. Because of these missions, teaching hospitals incur real and significant costs beyond those customarily associated with providing patient care. Since its inception, the Medicare program has been committed to paying its share of these added costs, recognizing that physician training is essential to the treatment of Medicare beneficiaries.

The following explains the two types of payments Medicare makes to teaching hospitals: direct graduate medical education (DGME) and indirect medical education (IME) payments, what these payments are intended to cover, and how they are calculated.

Indirect Medical Education (IME) Payments

- What does IME cover?
 - Unmeasured complexity of Medicare patients not captured by the program's inpatient payment system
 - Other operating costs associated with being a teaching hospital (standby capacity, specialized services, etc.)
- How is IME paid?
 - Payment add-on percent per inpatient discharge



Direct Graduate Medical Education (DGME) Payments

- What does DGME cover?
 - Resident stipends and fringe benefits
 - Salaries and fringe benefits of supervising faculty
 - Other direct costs (e.g., accreditation fees)
 - Allocated overhead costs
- How is DGME paid?
 - Payment made per resident (up to a cap)

STEPS USED TO CALCULATE DGME PAYMENT

1. Calculate hospital's per resident amount (PRA) based on 1984 costs* or costs from a later year for new teaching hospitals.

2. Update PRA every year for inflation for primary care residents. Update PRA for every year except 1994 and 1995 for non-primary-care residents.

3. Multiply PRA by number of residents in current year (subject to cap).

4. Multiply by hospital's "Medicare share" (i.e., Medicare inpatient days ÷ total days).

5. Divide by 2 for residents the hospital trains past the period required for board certification (e.g., fellows, residents repeating a year).

EXAMPLE

Hospital spent \$75,000 per resident in 1984. PRA set at \$75,000

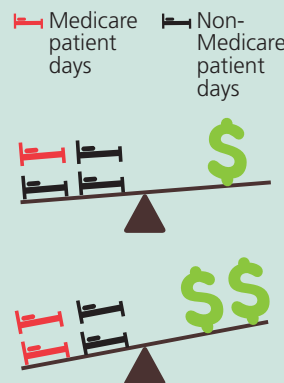
Primary care: \$75,000 updated to \$100,000
Non-primary care: \$75,000 updated to \$90,000

1 primary care resident full-time equivalent (FTE) = \$100,000
1 non-primary-care resident FTE = \$90,000

Assume 40% Medicare share.
Primary care: \$100,000 × 40% = \$40,000
Non-primary care: \$90,000 × 40% = \$36,000

Primary care: \$40,000 ÷ 2 = \$20,000
Non-primary care: \$36,000 ÷ 2 = \$18,000

Proportionally more Medicare patients leads to more DGME dollars



* Amounts will vary based on individual hospital circumstances.

STEPS USED TO CALCULATE IME PAYMENT PER INPATIENT STAY

1. Determine the hospital's intern and resident-to-bed (IRB) ratio based on the hospital's number of resident FTEs and beds.

2. Plug IRB ratio into **statistical formula in the law** to calculate IME%.

Formula: $1.35 \times ((1 + \text{IRB ratio})^{0.405} - 1) \times 100 =$

3. Calculate the IME% add-on payment for each inpatient stay.

EXAMPLE

Hospital trains 85 resident FTEs. Hospital has 333 beds.

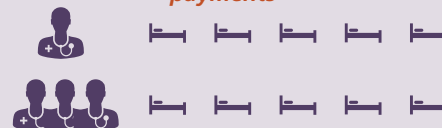
IRB ratio = $85 \div 333 = 0.255$

$1.35 \times ((1 + 0.255)^{0.405} - 1) \times 100 = 13.00\%$

Patient admitted for a cardiac defibrillator implant

IME Payment for Inpatient Case = (Payment for Medicare Severity Diagnosis-Related Group [MS-DRG] × IME%) = (\$29,748 × 13.00%) = \$3,867.24

Changing the ratio of residents to beds changes teaching intensity and affects IME payments



Increasing the no. of residents, but keeping no. of beds constant results in **more** IME \$\$



Increasing the no. of beds, but keeping no. of residents constant results in **less** IME \$\$

Sources:

• Direct Graduate Medical Education Payments: Social Security Act § 1886(h); 42 C.F.R. § 413.75–413.79. Indirect Medical Education Payments: Social Security Act § 1886(d)(5)(b); 42 C.F.R. § 412.105.

• GAO-13-709R Health Care Workforce Training Programs.

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GME indicates graduate medical education.