The Medicare payment basics of becoming a new teaching hospital

DENTONS

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Approximately 1,000 of the 5,000 hospitals in the United States that are paid under the inpatient prospective payment system (IPPS) are teaching hospitals that receive federal funding for graduate medical education (GME) through the Medicare program. Non-teaching hospitals may—for a variety of reasons including physician workforce shortages, recruitment and a desire to innovate—decide to adopt a training mission and begin educating residents. Congress previously "capped" the number of residents the Medicare program would fund at a given hospital at 1996 levels, but the Social Security Act permits a hospital that was not a teaching hospital in the 1996 base year to begin receiving Medicare GME funding if certain conditions are met.

The Medicare regulations related to new teaching hospitals are particularly complex, but there are three key payment-related factors a hospital should keep in mind as it considers whether to become a new teaching hospital. First, to be eligible for Medicare funding, the hospital must create residency programs that are truly new. CMS will not provide Medicare GME funding for existing programs that are simply transferred to non-teaching hospitals. In determining whether a program is new, CMS considers the accreditation date of the program, the language in the accreditation letter and any relationship between the hospital planning to become a new teaching hospital and hospitals that could be seen to be transferring a program to that hospital. The Agency also weighs the following factors:

- Whether the program director is new;
- Whether the teaching staff is new;
- Whether residents have come from an existing residency program;
- The relationship between hospitals;
- The degree to which the hospital with an existing residency program continues to operate its own program in the same specialty;
- Whether the program has been relocated from a hospital that closed;
- If the program was relocated from a closed hospital, whether the program was part of the closed hospital's full time equivalent (FTE) resident cap determination; and
- Whether the program is part of any existing hospital's FTE cap determination.

Second, a new teaching hospital must establish a per resident amount (PRA) for direct graduate medical education (DGME) payment purposes. This PRA is calculated based on the lower of the DGME costs the hospital incurs during the first full hospital cost reporting period with residents or the weighted mean PRA of the teaching hospitals in the same geographic wage area as the new teaching hospital.

Third, a new teaching hospital must establish a limit or cap on the number of resident FTEs the Medicare program will

fund at that hospital. Each new teaching hospital is granted a five-year period to grow programs and establish permanent caps for DGME and indirect medical education (IME) payments. The five-year window opens when the hospital first begins training residents in a new residency program and closes at the end of the fifth program year of the first new program. A new teaching hospital should also keep in mind CMS' **rules regarding resident rotators** so as not to inadvertently establish a PRA or a cap before the hospital intends to do so.

The Dentons team listed here can help you to navigate the Medicare regulations related to new teaching hospitals as you plan to host your first cohort of medical residents.

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