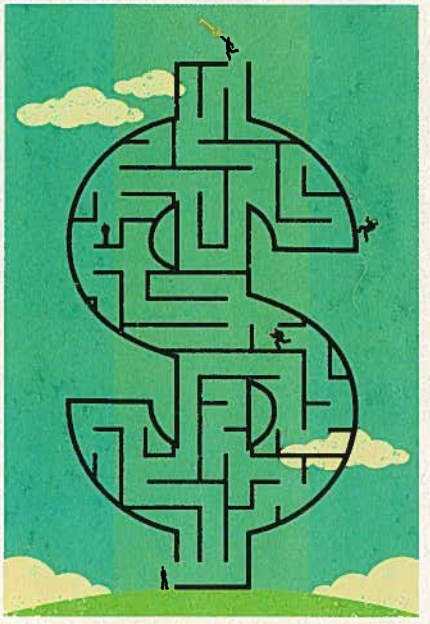
Maximizing funding from the Centers for Medicare and Medicaid Services for pharmacy residency programs

Q: Why is more pharmacy residency program funding needed?

A: The shortage of pharmacy practice residency positions has challenged the profession to create more residency opportunities. In 2011, more than 3277 applicants competed for only 2173 available postgraduate year 1 (PGY1) pharmacy residency positions, and the gap is predicted to grow.[1] The Pharmacy Practice Model Initiative considers completion of ASHP-accredited residency training or achievement of equivalent experience essential to pharmacist-provided drug therapy management in optimal pharmacy practice models.[2] While the importance of advanced training grows, the current economic climate of health care reform, reduced reimbursement, and budgetary pressure from senior executives often restricts the creation or expansion of residency programs.

Q: How can reimbursement to pharmacy residency programs be increased?

A: Most organizations appear to be capitalizing on pass-through funds for pharmacy residency programs. This reimbursement strategy has been highlighted elsewhere.[3] However, another part of funding from the Centers for Medicare and Medicaid Services (CMS)—Medicare+Choice Nursing and Allied Health Education Program Payments (42CFR413.87)—is less recognized.[4] Understanding and utilizing both mechanisms for reimbursement are essential for developing a comprehensive business plan for pharmacy residency programs.



Q: How does a pharmacy residency program qualify for reimbursement?

A: Reimbursement for pharmacy residency programs is defined in the Code of Federal Regulations (CFR) and established by CMS. Pharmacy residencies fall under 42 CFR 413.85 Part E (Cost of Approved Nursing and Allied Health Education Activities).[4] This section is more commonly known as paramedical education and is identified on the Medicare cost report as such. It is important to note that reimbursement for pharmacy residencies is separate from 42 CFR 413.86 (Payment for Direct Costs of Graduate Medical Education), which defines reimbursement for medicine, osteopathy, dentistry, and podiatry programs.

Pharmacy practice residency training programs that meet the requirements under 42 CFR 413.85 may be eligible for Medicare "reasonable-cost" reimbursement. This reimbursement is frequently referred to as pass-through payment, because the costs of approved educational programs operated by the provider are considered separate from the inpatient hospital operating costs and are excluded in the calculation of payment rates for hospitals paid by the Inpatient Prospective Payment System (IPPS).[4,5] Therefore, residency program expenses "pass through" the IPPS to be paid on a reasonable-cost basis.

Q: What are the requirements for a program to receive Medicare reasonable-cost reimbursement?

A: The requirements for Medicare reasonable-cost reimbursement are as follows[4]: (1) program accreditation by ASHP, (2) direct operation by a provider, and (3) certification of completion must be required for employment. Operation by a provider must include incurred training costs, control over program administration and curriculum, employment of teaching staff, and issuance of certification on completion of the program. The cost-counting report should be understood to ensure the residency is set up under "provider" status. A provider is most typically an inpatient hospital; however, in some cases, providers in unique circumstances may qualify under regulations even when they are not referred to as an inpatient hospital.

The Q & A column features ASHP staff responses to inquiries from pharmacists in health systems. Through this column, more practitioners can benefit from the answers prepared by the staff. The column may also include answers solicited from others, including government agencies such as OSHA, FDA, and DEA.

Pharmacists with questions for ASHP should write directly to the appropriate staff member, not AJHP. *Frequently called extensions are listed in every issue of* AJHP *on the page after the Table of*

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Figure. Steps to Calculate Nursing and Allied Health Management Care Payment.[9,10] Open boxes are to be completed by the provider. Completed boxes contain information provided by the Centers for Medicare and Medicaid Services (CMS). CMS provides total nursing and allied health education program payments, total national inpatient days, and total national Medicare+Choice inpatient days (M+C nursing and allied health payment pool). (Note that the most current figures provided by CMS are from 1999; therefore, those data are used.) FY = fiscal year.

Step 1: Determine the total Medicare reasonable cost payment received for nursing and allied health based on data from periods ending in the FY that is two years prior to the current calendar year. Use Medicare cost report, sum of payments per worksheet (W/S) D part III, line 101, col. 8 and W/S D part IV, line 101, col. 7.

	W/S D part III, line 101, col. 8	$ _____
Add	W/S D part IV, line 101, col. 7	$ _____
	Total Medicare reasonable cost payment	$ _____

Step 2: Determine the provider's total inpatient days excluding Medicare+Choice (M+C) inpatient (IP) days for the same cost reporting period.

	W/S S-3 part I, line 1, col. 6	_____
Add	W/S S-3 part I, lines 6–10, col. 6	_____
Add	W/S S-3 part I, line 14, col. 6	_____
Add	W/S S-3 part I, line 14.01, col. 6	_____
	Total inpatient days excluding M+C IP days	

Step 3: Enter total M+C inpatient days for same cost reporting period.

Step 4: Calculate the hospital nursing and allied health payment ratio. Divide the total Medicare reasonable cost payment by total inpatient days, excluding M+C inpatient days.

	Total Medicare reasonable cost payment	$ _____
divided by	Total inpatient days excluding M+C IP days	_____
	Hospital nursing and allied health payment ratio	

Step 5: Determine the ratio of nursing and allied health education payments made to all hospitals for the period ending in the FY that is two years prior to the current calendar year, to the total of all inpatient days for those hospitals during the same reporting period. CMS provides total nursing and allied health education program payments, total national inpatient days, and total national M+C inpatient days.

	National nursing and allied health education payments (per CMS)	$ 204,780,092
divided by	Total national inpatient days (per CMS)	56,794,990
	Ratio	3.6056

Step 6: Multiply ratio obtained in Step 5 by the total national M+C inpatient days.

	Ratio	3.6056
multiply	Total national M+C IP days (per CMS)	1,701,313
		$ 6,134,254

Step 7: Multiply the hospital nursing and allied health payment ratio obtained in Step 4 by the hospital's total M+C inpatient days from Step 3.

	Hospital nursing and allied health payment ratio	_____
multiply	Hospital's total M+C IP days	_____
		$

Step 8: Divide the result of Step 7 by the result of Step 6.

	Amount from Step 7	$ _____
divided by	Amount from Step 6	$ _____
	Ratio	

Step 9: Multiply the result of Step 8 by the M+C nursing and allied health payment pool (provided by CMS) to determine the hospital nursing and allied health education program payment.

	Ratio from Step 8	_____
multiply	M+C nursing and allied health payment pool (per CMS)	$ 43,663,043
	Hospital nursing and allied health education program payment	$

Q: Are postgraduate year 2 (PGY2) programs eligible for Medicare reasonable-cost reimbursement?

A: No. According to the August 1, 2003, Final Rule 42 CFR 413.85 for nursing and allied health education activities, only PGY1 pharmacy residency programs qualify for Medicare reasonable-cost payment.[6] Specialized PGY2 pharmacy residency programs are not eligible for reimbursement because the certification achieved is not recognized as a requirement to work in the specialty area by "industry norm." CMS defines *industry norm* as more than 50% of hospitals in a random, statistically valid sample.[6] PGY1 pharmacy residency programs satisfy this requirement because their completion has become the industry norm to practice in a position involving direct patient care. In the future, if the industry norm expands to require a PGY2 residency, these programs would also become eligible for Medicare reasonable-cost payment.

Q: How are payments for Medicare+Choice nursing and allied health education programs defined?

A: Another source of reimbursement for eligible PGY1 pharmacy residency programs are Medicare+Choice Nursing and Allied Health Education Program Payments. Section 512 of the Benefits Improvement and Protection Act P.L. 106-554, enacted on December 11, 2000, revised a formula previously defined in the Balanced Budget Refinement Act of 1999[7] and now accounts for a hospital's specific Medicare+Choice utilization, which is defined in 42 CFR 413.87.

Q: Why was this managed care funding added in 2000?

A: The revision was necessary to offset the decline in Medicare reasonable-cost payments as more Medicare beneficiaries enrolled in managed care plans. The rise in enrollment reduced Medicare reasonable-cost payments, because plans limited many beneficiaries' ability to seek service at teaching hospitals, resulting in decreased Medicare volume.[8] The formula for Medicare reasonable-cost payment is linked to Medicare patient days. As Medicare volume decreased, so did pass-through payments to teaching hospitals nursing and allied health education program payments and provides a mechanism for providers to recover the reduction in pass-through payments.

Q: How does a program qualify for payment for Medicare+Choice nursing and allied health education program payments?

A: For a PGY1 program to qualify for such payments, the hospital must have received Medicare reasonable-cost reimbursement for the program in its cost-reporting period ending in the federal fiscal year (FY) two years before the current calendar year.[9,10] For example, if a hospital receives its first pass-through payments in FY 2009, it will first be eligible to receive an additional payment amount in 2011. Further, the hospital must have received Medicare reasonable-cost payment for the pharmacy residency program in the current calendar year. Finally, the hospital must have Medicare+Choice utilization greater than zero in its reporting periods ending in the FY two years before the current calendar year.[9,10]

Q: How is the payment for Medicare+Choice nursing and allied health education programs determined?

A: The steps to calculate the Medicare+Choice nursing and allied health education program payment amount are listed in the Figure. Reimbursement is dependent on a number of factors (e.g., Medicare+Choice patients as a ratio of total patients), but an organization with four PGY1 residents, 200,000 inpatient days, and approximately 30% Medicare+Choice patients may expect to see upward of $150,000. This funding allows providers to narrow the financial gap between pass-through payments and total PGY1 residency program expenses. The amount of the payment will be dependent on the percentage of managed care Medicare+Choice patients at each specific institution.

Q: Why should both 42 CFR 413.85 and 413.87 be used to calculate resident reimbursement?

A: The demand for additional pharmacy residency positions will continue to grow. With PGY2 programs not eligible for reall funding available for PGY1 programs. By using payments for Medicare+Choice nursing and allied health education programs in addition to pass-through funds listed in 42 CFR 413.85, hospitals can maximize reimbursement and secure funding to expand or create pharmacy residency training programs.

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3. Smith KM, Sorensen T, Connor KA et al. Value of conducting pharmacy residency training—the organizational perspective. *Pharmacotherapy.* 2010; 30:490-510.
4. Code of Federal Regulations. Cost of approved nursing and allied health education activities. http://cfr.vlex.com/vid/413-85-cost-approved-nursing-allied-19802768 (accessed 2011 Nov 12).
5. Miller DE, Woller TW. Understanding reimbursement for pharmacy residents. *Am J Health-Syst Pharm.* 1998; 55:1620-3.
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8. Congressional Record Online. The Medicare Nursing and Paramedical Education Act of 1998. 1998; 144:E1988-9.
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The author has declared no potential conflicts of interest.