



ASSOCIATION OF  
AMERICAN  
MEDICAL COLLEGES

# **MEDICARE PAYMENTS** for **GRADUATE MEDICAL EDUCATION:**

**What Every Medical  
Student, Resident, and  
Advisor Needs to Know**

In nearly every area of your life, the choices you make today will have a direct impact on options available to you in the future. The same is true for your medical education. The more you know, the better position you are in to make clear and informed decisions—decisions that should not be entered into blindly.

The Association of American Medical Colleges (AAMC) developed this brochure to help medical students, residents, and advisors understand Medicare rules related to graduate medical education. After reading it, you will be in a better position to assess the impact of decisions about your future.

### 1. What are Medicare and Medicaid?

Medicare is a federally administered health insurance program for people 65 or older and certain disabled people. Part A of Medicare pays for inpatient hospital services, skilled nursing facility care, home health, and hospice care. Part B pays for physicians' services, outpatient hospital services, durable medical equipment, and a number of other medical services and supplies that are not covered by Part A. Medicare payments for graduate medical education are made under Part A.

The Medicare program is different from the Medicaid program. Medicaid is a health insurance program for low income families jointly financed by the federal government and each state. The Health Care Financing Administration, known as HCFA, is the federal agency that administers the Medicare program and the federal portion of Medicaid.

### 2. Does Medicare have a role in Graduate Medical Education?

**Yes.** Medicare estimates its payments to hospitals for costs related to graduate physician training at about \$6.5 billion in federal fiscal year 1996. Medicare payments for graduate medical education (GME) may have a direct impact on you. Medicaid also pays hospitals for GME in some states, but that topic is outside the scope of this brochure.

### 3. Why is it important for a medical student to understand how Medicare pays hospitals for graduate medical education?

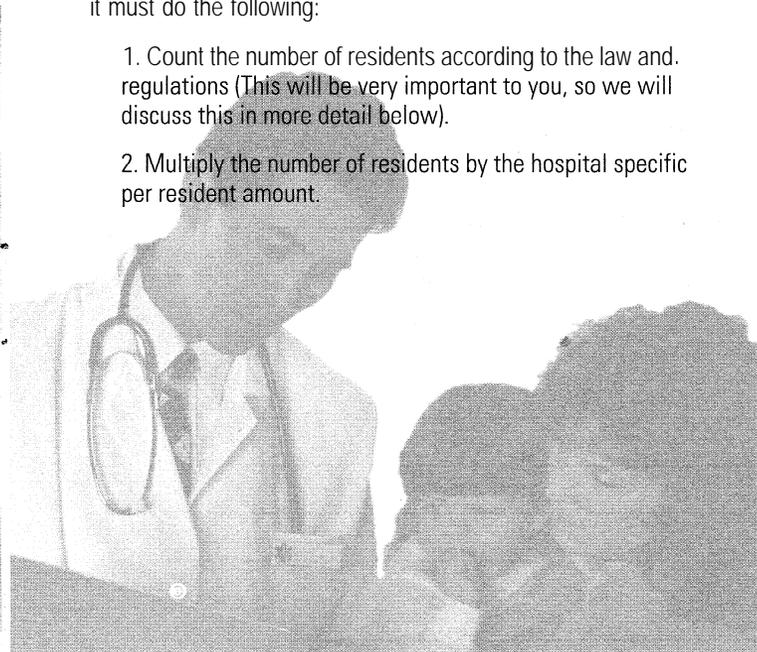
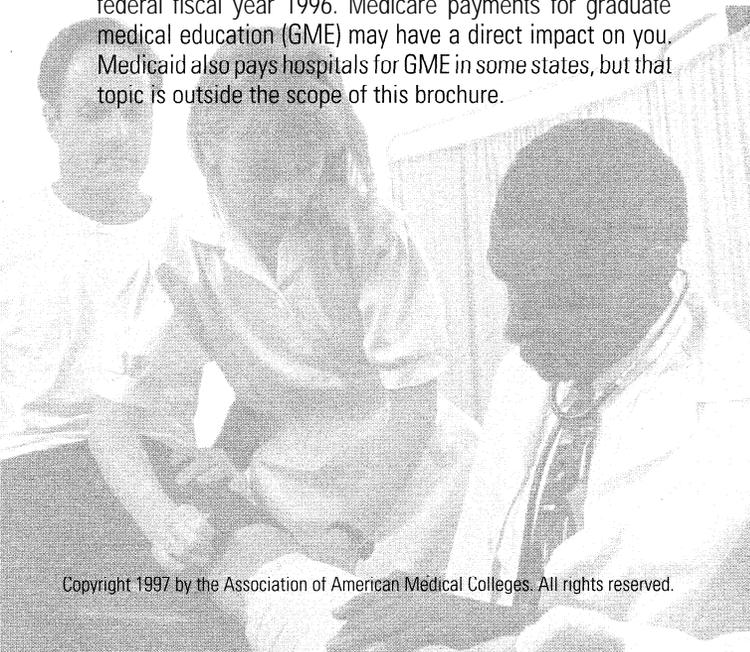
The way in which Medicare pays hospitals for medical education may limit some residents' opportunities to switch from one specialty to another. Hospitals receive payment for patient care services from many different payers, such as insurance companies, health maintenance organizations, and Medicare. In some states, the Medicaid program also provides payment for graduate medical education and some state laws require private payers to support medical education training. However, since Medicare is the largest single insurance program providing explicit support for graduate medical education, the impact of Medicare requirements is often of paramount concern to hospitals.

### 4. What do I need to know about the way in which Medicare pays hospitals?

Every hospital that trains residents in an approved residency program is entitled to receive Medicare's direct graduate medical education payment, also known as DGME. The amount of the DGME payment varies for each hospital. It is based on an amount known as the "hospital specific per resident amount," which, according to law, was determined by HCFA for each teaching hospital in the 1980's and periodically updated by an inflation factor. It covers the direct costs of training residents, such as residents' salaries, teaching physicians' salaries, and related overhead expenses. For each hospital receiving a DGME payment, Medicare pays a portion of the hospital specific per resident amount.

For a hospital to calculate its current Medicare DGME payment, it must do the following:

1. Count the number of residents according to the law and regulations (This will be very important to you, so we will discuss this in more detail below).
2. Multiply the number of residents by the hospital specific per resident amount.



3. Multiply the product in #2 above by Medicare's share of the hospital's inpatient days (called the Medicare patient load). Here's an example:

University Hospital has 400 residents (assumed at 1 .0 full time equivalent (FTE) each). Its updated hospital specific per resident amount for 1997 is \$60,000. 30 percent of its inpatient days are attributed to Medicare beneficiaries. Medicare will pay University Hospital \$7,200,000 for direct medical education  $([400 \times 60,000] \times .30)$ .

NOTE: As of October 1, 1997, Congress has placed limits on the number of residents a hospital or other provider may count for purposes of the DGME payment. Except for a few combined residency programs, the counting rules for residents described below remain unchanged.

#### 5. Does Medicare cover any other costs related to medical education?

Teaching hospitals also receive an indirect medical education (IME) adjustment from Medicare. Medicare provides the IME adjustment to teaching hospitals to recognize their higher cost of inpatient care when compared to nonteaching hospitals. The IME adjustment is an additional payment for each Medicare inpatient stay. Among other factors, the IME adjustment is based on the ratio of interns and residents to beds. Residents may be counted for the IME adjustment if they are working in the inpatient or the outpatient department of the hospital, or in a nonhospital setting if certain conditions are met. Exempt hospitals (such as psychiatric, rehabilitation, and children's hospitals) are paid based on their costs, including IME costs, so for them payment for IME is not an explicit adjustment to Medicare's payment rate.

#### 6. How does all of this affect me?

Residents working in all areas of the hospital complex may be included in a hospital's FTE count for the DGME payment. A hospital may also include residents working in nonhospital sites in its FTE count if the site is part of the resident's educational program and there is a written agreement that the

hospital will continue to pay the resident's salary for training time spent outside of the hospital. When Medicare counts the number of residents for determining a hospital's DGME payment, each full-time intern and resident is counted as 1.0 FTE during what is called an initial residency period. After the initial residency period, a full-time resident can be counted only as a 0.5 FTE for Medicare's DGME payment.

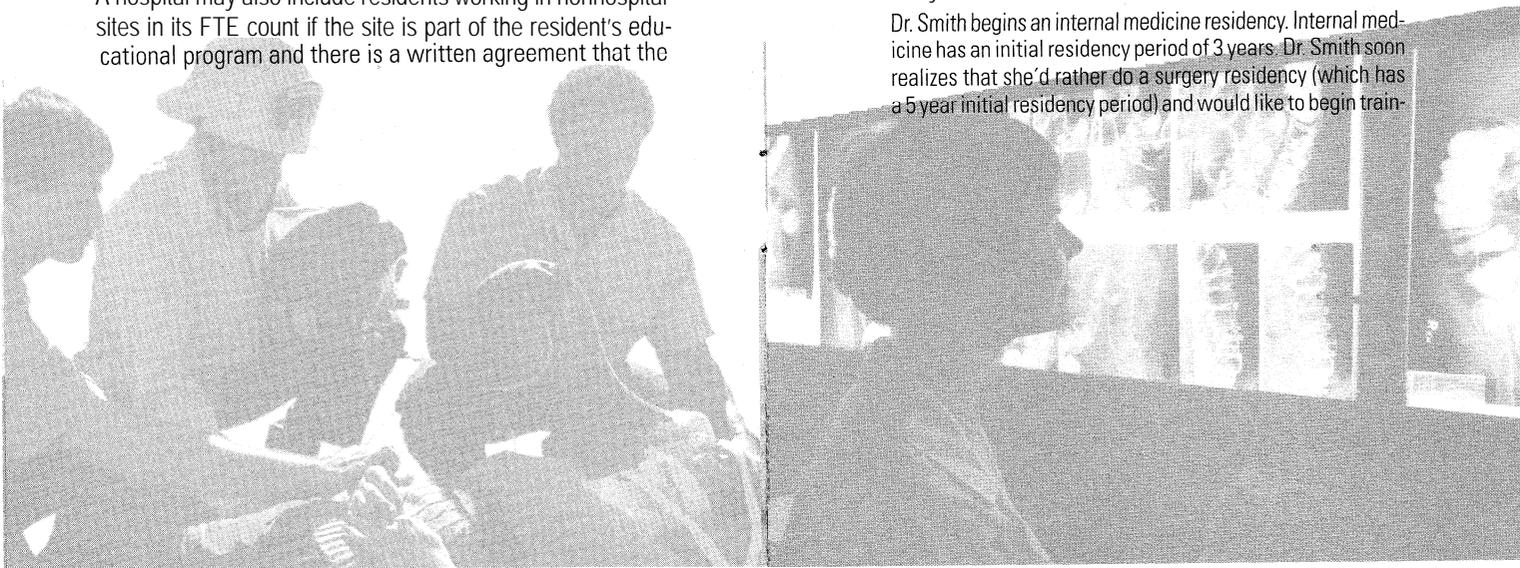
#### 7. What is considered an initial residency period, and when does it begin?

The initial residency period is the minimum number of years in which a resident is eligible for specialty certification. It is based on the minimum accredited length listed for each specialty in the Graduate Medical Education Directory (sometimes called the Green Book), published by the American Medical Association (AMA). The initial residency period is determined at the time the resident first enters a training program and does not change, even if the resident later changes specialties. For this reason, it is very important that you understand that the residency program in which you begin training determines the number of years in which Medicare will make full direct graduate medical education payment to the hospital for your training. The Medicare program has published a list of specialties and initial residency periods, which may be found in the Appendix. Except for geriatrics and preventive medicine, all subspecialty training is beyond the initial residency period, and each FTE is counted as a 0.5 FTE.

If you started your residency training before July 1, 1995, your initial residency period is counted differently. It is the minimum number of years required to be eligible for board certification plus one year. Regardless of when your training begins the initial residency period may not exceed 5 years

Here's an example for a resident who began her training after July 1, 1995:

Dr. Smith begins an internal medicine residency. Internal medicine has an initial residency period of 3 years. Dr. Smith soon realizes that she'd rather do a surgery residency (which has a 5 year initial residency period) and would like to begin train-



ing the following year. However, even if Dr. Smith is accepted into a surgery program, her initial residency period remains 3 years. She would be counted as '1 .0 FTE during her first and second year of the surgery residency and 0.5 FTE during her third, fourth, and fifth years. The hospital will be paid less for her last three years of training than for other surgery residents who are still in their initial residency period.

**8. I intend to train in a specialty that requires me to complete a prerequisite year in another specialty. How will this affect my initial residency period limitation?**

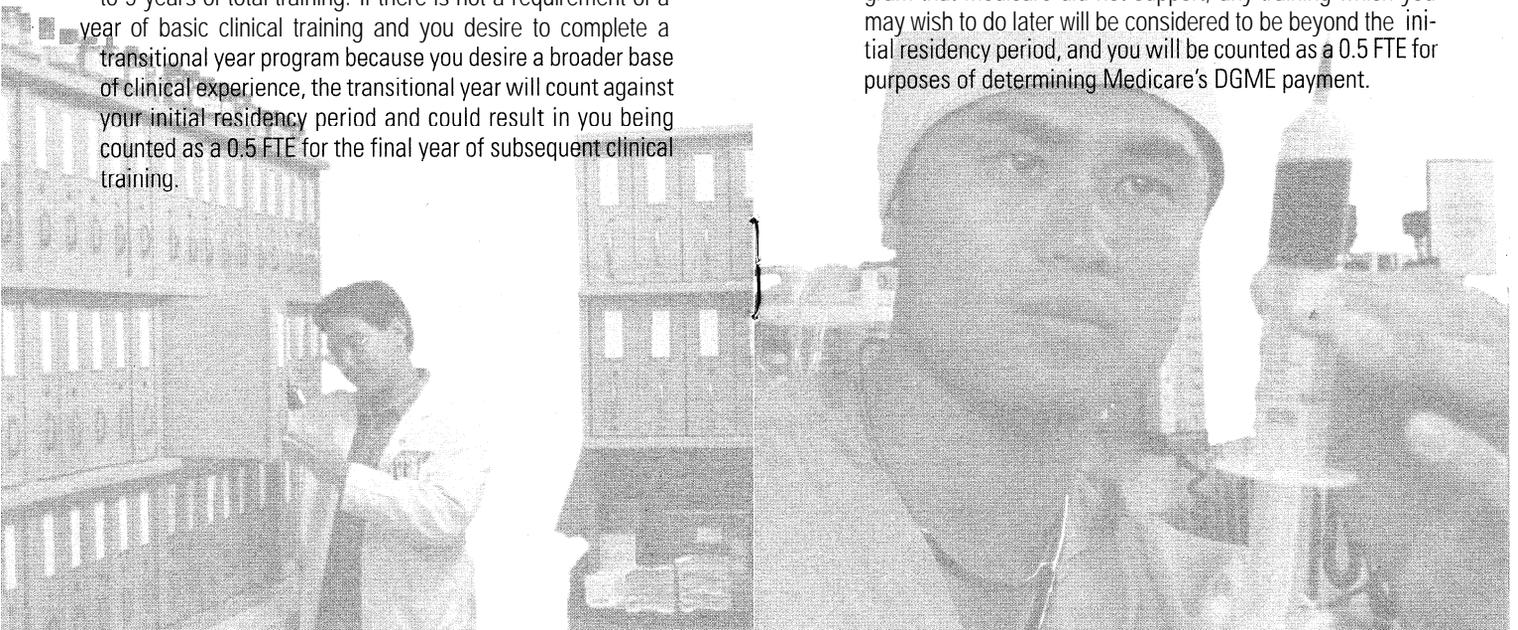
Some specialties require a year or more of generalized training in a specialty other than the one in which you are seeking board certification. Since the law requires that the initial residency period be determined at the time a resident enters a training program, your initial residency period will be based on the specialty that you begin training in even if you ultimately intend to train in another specialty. For instance, if you begin training in internal medicine your initial residency period is 3 years even if you intend to train in another specialty which requires a total of 4 years of training, such as anesthesiology. In this example, you will be weighted as a 0.5 FTE for your fourth year of training. Some programs, however, are accredited as transitional year programs. Typically, transitional year programs can be used to meet the required year of generalized training. HCFA has said that it will count training in a transitional year program as an additional year beyond the initial residency period at a full FTE if the resident has chosen a career specialty that requires as a prerequisite an entry year of fundamental clinical education. Continuing with the earlier example, if you complete the transitional year and then do 4 years of training where a total of 5 years of training is required, you can be counted as a full FTE for up to 5 years of total training. If there is not a requirement of a year of basic clinical training and you desire to complete a transitional year program because you desire a broader base of clinical experience, the transitional year will count against your initial residency period and could result in you being counted as a 0.5 FTE for the final year of subsequent clinical training.

**9. I completed a year of clinical training after medical school, and now I am fulfilling a military commitment. How does the initial residency period limit affect me?**

Many medical students who have military commitments are required to complete 1 year of post-medical school training in an accredited program before entering the military. If you are in your first residency program after graduation from medical school or have not exceeded the limits of an initial residency period in another specialty, you will be counted as a '1 .0 FTE during the required year of training prior to entering the military. If you subsequently leave the military and enter a residency program, the year of training previously completed will count toward that resident's initial residency period. If the residency year completed prior to entering the military was in a specific specialty, such as internal medicine, your initial residency period will be based on that program—even though you left the program to complete a military commitment. If the training prior to entering the military was in a transitional or preliminary year program, then the initial residency period will be based on the specialty in which the resident resumes training. Any training in a residency program operated by the military that may be counted towards board certification also counts toward the initial residency period.

**10. Does training time for which Medicare does not pay count against my initial residency period limitation?**

**Yes.** It does not matter whether or not Medicare makes any payment towards your training. All training time that counts towards certification in a specialty is counted against your initial residency period for purposes of determining Medicare's DGME payment. So even if you completed a residency program that Medicare did not support, any training which you may wish to do later will be considered to be beyond the initial residency period, and you will be counted as a 0.5 FTE for purposes of determining Medicare's DGME payment.



### **11. I plan to begin a combined residency training program. What is my initial residency period?**

The answer depends on the type of combined program in which you will be training. If each of the individual programs that makes up the combined program is a primary care specialty, such as internal medicine-pediatrics, then you will count as a 1.0 FTE for the minimum number of years required for board eligibility for the longer of the two programs, plus for one additional year. Congress has defined primary care to mean general internal medicine, general pediatrics, family practice, geriatrics, preventive medicine, and osteopathic general practice. Congress also has determined that this rule applies to a combined program that includes an obstetrics and gynecology program. For example, if you enter a combined internal medicine-family practice program, both of which require 3 years for board eligibility, you will be counted as a 1.0 FTE for 4 years—the 3 years required for internal medicine or pediatrics, plus one year. For any additional years of training in an approved program, you will be counted as a 0.5 FTE. If you enter a combined program in which one of the two programs is not a primary care program, such as internal medicine-emergency medicine, then the rules are different. HCFA determines the initial residency period based on the longer of the two composite programs. In the internal medicine-emergency medicine example, HCFA stated last year that since the initial residency period for each program taken separately is 3 years, the initial residency period for combined internal medicine/emergency medicine programs is 3 years. You will be counted as 0.5 FTE for the fourth year of the combined internal medicine-emergency medicine program.

### **12. Which training programs does Medicare support?**

Hospitals are entitled to count all residents who are participating in approved educational activities. Typically, this means programs which are accredited by the Accreditation Council on Graduate Medical Education and included in the AMA's Green Book. Medicare also includes programs not included in the Green Book but for which an American Board of Medical Specialties organization issues a certificate.

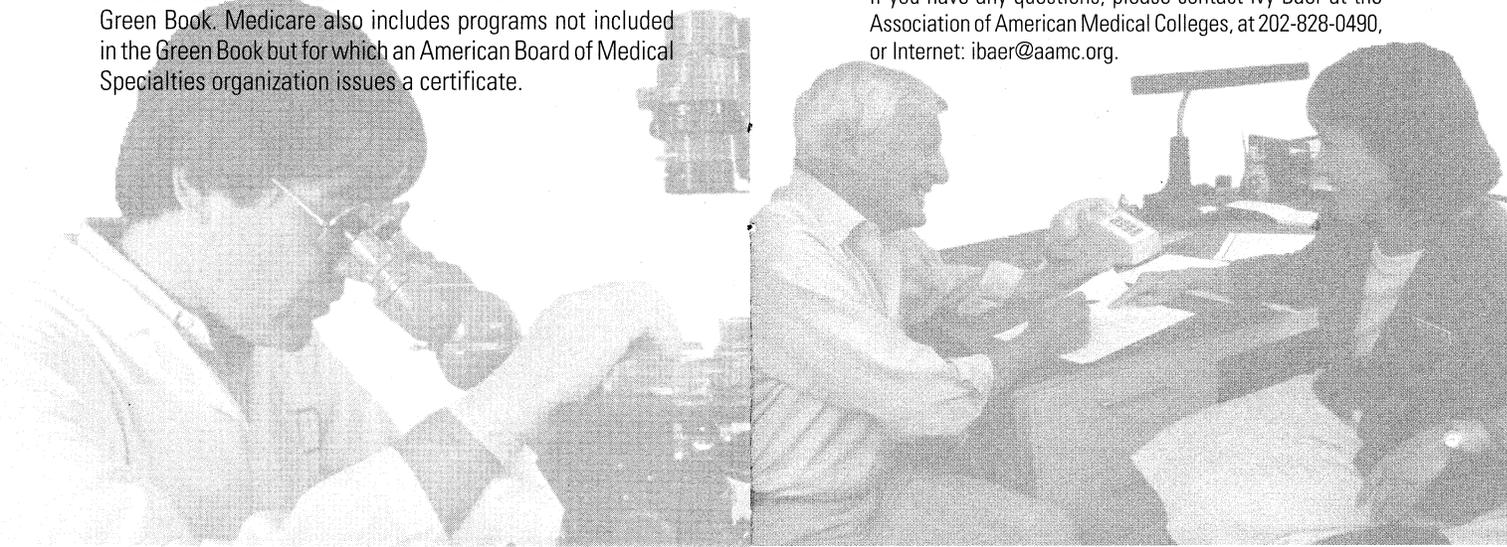
### **13. I have already begun training in a 3 year program and want to switch to a longer program. What do I do now?**

It is important for both you and the program director to fully understand the financial implications of Medicare's initial residency period limitation to the institution. The precise financial impact of a resident beyond the initial residency period will differ for each hospital and depends on the hospital specific per resident amount and on the percentage of inpatient days in each hospital attributable to Medicare. Let's look at a sample teaching hospital in 1996.

Sample hospital specific per resident amount: .....	\$65,000
Average Medicare patient load: .....	30%
Medicare per resident payment: .....	\$19,750
Potential annual loss for a .5 FTE resident: .....	\$9,875

The rules regarding the initial residency period apply only to the hospital's Medicare DGME payment. Residents participating in an accredited training program are counted as 1.0 FTE for the IME adjustment when they are beyond the initial residency period. For most hospitals, Medicare's IME adjustment far exceeds Medicare's DGME payment. So, as a percentage of the hospital's total Medicare medical education payment, the financial impact of a resident beyond the initial residency period may be small. The impact will also be more or less for any institution, depending on its per resident amount and percentage of Medicare inpatient days. For instance, pediatric hospitals typically have few or no Medicare patients. If a hospital has no Medicare inpatient days, the hospital will be unaffected by your participation in a training program. Similarly, a hospital's payment for your training time beyond the initial residency period will be less if the hospital's per resident amount is very low. In short, both you and the residency director should fully consider the financial impact on the hospital before making any decisions that would affect your future career.

If you have any questions, please contact Ivy Baer at the Association of American Medical Colleges, at 202-828-0490, or Internet: [ibaer@aamc.org](mailto:ibaer@aamc.org).



A P P E N D I X

Initial Residency Periods

Residency Type	Initial Residency Period Limitation (No. of Years)
ALLOPATHY	
ALLERGY AND IMMUNOLOGY .....	3
ANESTHESIOLOGY .....	4
Critical Care Medicine .....	4
Pain Management .....	4
COLON AND RECTAL SURGERY .....	5
DERMATOLOGY .....	4
Dermatopathology .....	4
Clinical and Laboratory Dermatological Immunology.....	4
EMERGENCY MEDICINE .....	3
Sports Medicine .....	3
FAMILY PRACTICE .....	3
Geriatric Medicine .....	5
Sports Medicine .....	3
INTERNAL MEDICINE .....	3
Adolescent Medicine .....	3
Cardiovascular Disease .....	3
Clinical Cardiac Electrophysiology .....	3
Clinic and Laboratory Immunology .....	3
Critical Care Medicine .....	3
Endocrinology, Diabetes, and Metabolism.....	3
Gastroenterology .....	3
Geriatric Medicine .....	5
Hematology .....	3
Hematology and Oncology .....	3
Infectious Disease .....	3
Medical Oncology.....	3
Nephrology .....	3
Pulmonary Disease .....	3
Pulmonary Disease and Critical Care Medicine .....	3
Rheumatology .....	3
Sports Medicine .....	3
MEDICAL GENETICS .....	4
NEUROLOGICAL SURGERY .....	5
Pediatric Neurological Surgery.....	5
NEUROLOGY .....	4
Child Neurology .....	4
Clinical Neurophysiology .....	4
NUCLEAR MEDICINE .....	3
OBSTETRICS AND GYNECOLOGY .....	4
Critical Care Medicine .....	4
Gynecological Oncology .....	4
Maternal and Fetal Medicine.....	4
Reproductive Endocrinology .....	4
OPHTHALMOLOGY .....	4
ORTHOPAEDIC SURGERY .....	5
Adult Reconstructive Orthopaedics .....	5
Foot and Ankle Orthopaedics .....	5
Hand Surgery .....	5
Musculoskeletal Oncology .....	5
Pediatric Orthopaedics .....	5
Spinal Cord Injury .....	5
Sports Medicine .....	5
OTOLARYNGOLOGY.....	5
Neurotology/Otolaryngology .....	5
Pediatric Otolaryngology .....	5
PATHOLOGY, ANATOMIC .....	3
PATHOLOGY, CLINICAL.....	3

PATHOLOGY, ANATOMIC AND CLINICAL .....	4
Blood Banking/Transfusion Medicine .....	4
Chemical Pathology .....	4
Cytopathology .....	4
Dermatopathology .....	4
Forensic Pathology .....	4
Hematology .....	4
Immunopathology.....	4
Medical Microbiology .....	4
Neuropathology .....	4
Pediatric Pathology.....	4
PEDIATRICS .....	3
Adolescent Medicine .....	3
Clinical and Laboratory Immunology .....	3
Neonatal-Perinatal Medicine .....	3
Pediatric Cardiology .....	3
Pediatric Critical Care Medicine.....	3
Pediatric Emergency Medicine.....	3
Pediatric Endocrinology .....	3
Pediatric Gastroenterology.....	3
Pediatric Hematology/Oncology.....	3
Pediatric Infectious Disease.....	3
Pediatric Nephrology .....	3
Pediatric Ophthalmology .....	3
Pediatric Pulmonology .....	3
Pediatric Rheumatology .....	3
Pediatric Sports Medicine .....	3
PHYSICAL MEDICINE AND REHABILITATION .....	4
PLASTIC SURGERY .....	5
Hand Surgery .....	5
PREVENTIVE MEDICINE.....	3
Aerospace Medicine .....	3
Medical Toxicology.....	3
Occupational Medicine .....	3
Public Health and General Preventive Medicine .....	3
PSYCHIATRY .....	4
Addiction Medicine .....	4
Child and Adolescent Psychiatry .....	4
Forensic Psychiatry .....	4
Geriatric Psychiatry .....	5
RADIOLOGY, DIAGNOSTIC.....	4
Neuroradiology.....	4
Nuclear Radiology .....	4
Pediatric Radiology.....	4
Vascular and Interventional Radiology.....	4
Radiation Oncology .....	4
SURGERY, GENERAL .....	5
Critical Care Medicine .....	5
Hand Surgery .....	5
Pediatric Surgery .....	5
Thoracic Surgery.....	5
Vascular Surgery.....	5
UROLOGY.....	5
Pediatric Urology .....	5
PODIATRY	
ROTATING PODIATRIC RESIDENCY (PRIMARY CARE).....	2
PODIATRIC ORTHOPAEDIC RESIDENCY .....	2
PODIATRIC SURGICAL RESIDENCY .....	2
DENTISTRY	
DENTAL PUBLIC HEALTH .....	1
ENDODONTICS .....	2

ORAL PATHOLOGY .....	3
ORAL AND MAXILLOFACIAL SURGERY .....	4
ORTHODONTICS .....	2
PEDIATRIC DENTISTRY .....	2
PERIODONTICS .....	3
PROSTHODONTICS .....	3
PROSTHODONTICS/MAXILLOFACIAL .....	3
GENERAL DENTISTRY .....	1
ADVANCED GENERAL DENTISTRY .....	2

ALLOPATHY COMBINED PROGRAMS

FAMILY PRACTICE (3) AND PSYCHIATRY (4) .....	4
INTERNAL MEDICINE (3) AND EMERGENCY MEDICINE (3) .....	3
INTERNAL MEDICINE (3) AND FAMILY PRACTICE (3) .....	4
INTERNAL MEDICINE (3) AND NEUROLOGY (4) .....	4
INTERNAL MEDICINE (3) AND PEDIATRICS (3) .....	4
INTERNAL MEDICINE (3) AND PHYS MED AND REHABILITATION (4) .....	4
INTERNAL MEDICINE (3) AND PREVENTIVE MEDICINE (5) .....	5
INTERNAL MEDICINE (3) AND PSYCHIATRY (4) .....	4
NEUROLOGY (4) AND PHYS MEDICINE AND REHAB (4) .....	4
PEDIATRICS (3) AND EMERGENCY MEDICINE (3) .....	3
PEDIATRICS (3) AND PHYSICAL MEDICINE AND REHAB (4) .....	4
PEDIATRICS (3)/PSYCHIATRY (4)/CHILD AND ADOL PSYCH (4) .....	4
PSYCHIATRY (4) AND NEUROLOGY (4) .....	4

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