

Chapter 1

Section 41

Hospital Reimbursement - Hospital Value-Based Purchasing (HVBP)

Issue Date: February 3, 2021

Authority: [32 CFR 199.14\(a\)\(1\)](#); National Defense Authorization Act for Fiscal Year 2017 (NDAA FY 2017); Public Law 114-328

Revision: C-54, February 3, 2021

1.0 APPLICABILITY

This policy is mandatory for reimbursement of services provided by either network or non-network providers. However, alternative network reimbursement methodologies are permitted when approved by the Defense Health Agency (DHA) and specifically included in the network provider agreement.

2.0 ISSUE

What is HVBP, and how are hospitals reimbursed under HVBP?

3.0 HVBP BACKGROUND

3.1 The HVBP Program was created by the Centers for Medicare and Medicaid Services (CMS) and rewards acute care hospitals with incentive payments for the quality of care they give to Medicare beneficiaries. This program adjusts payments to hospitals under the Inpatient Prospective Payment System (IPPS) based on the quality of care they deliver.

3.2 The program:

- Withholds participating hospitals' payments by a percentage specified by law.
- Uses the estimated total amount of those reductions to fund value-based incentive payments to hospitals based on their performance in the program, which is used to calculate each hospital's total performance score.
- Applies the net result of the reduction and the incentive as a claim-by-claim adjustment factor (determined by each hospital's total performance score) to the base operating Diagnosis Related Groups (DRG) payment amount for claims in the Fiscal Year (FY) associated with the performance period.

3.3 Hospital reimbursements are adjusted based on how well they perform compared to all hospitals, or how much they improve their own performance compared to their performance during a prior baseline period.

4.0 POLICY

Section 705(a) of the NDAA for FY 2017 authorizes the development and implementation of value-based incentive programs to encourage health care providers to improve the quality and delivery of services to TRICARE beneficiaries. The statute further allows the Secretary to adopt value-based incentive programs conducted by CMS or any other Federal Government, State Government, or commercial health care program in fulfillment of the statutory authority granted under this section. In addition, Title 10, United States Code, Section 1079(i)(2), requires that the amount to be paid to hospitals, Skilled Nursing Facilities (SNFs), and other institutional providers under the TRICARE program, “shall be determined to the extent practicable in accordance with the same reimbursement rules as apply to payments to providers of services of the same type under Medicare”. These statutory provisions have been implemented through an Interim Final Rule (IFR) with Request for Comment, published in the Federal Register on September 3, 2020, amending the TRICARE regulation by adding [32 CFR 199.14\(a\)\(1\)\(iii\)\(E\)\(6\)](#) to allow adoption of Medicare's value-based incentive program as required under Section 3001(a) of PL 111–148 (Patient Protection and Affordable Care Act), which provides for the establishment of the Hospital Value-Based Purchasing Program (HVBP) described in Section 1886(o) of the Social Security Act. In adopting the Medicare HVBP adjustments to TRICARE DRGs, the regulation authorizes the Director, DHA, to provide notice of the issuance of policies and guidelines adopting such adjustments together with any variations deemed necessary to address unique issues involving the beneficiary population or program administration.

4.1 Applicability And Scope Of Coverage

All hospitals that meet the classification criteria for payment under Title 42 Code of Federal Regulation part 412, Section 412.161, are considered to be subject to HVBP under the TRICARE program.

4.2 Payment Method

4.2.1 Each year, the Inpatient Prospective Payment System (IPPS) Final Rule includes a Table of the Actual Hospital Value-Based Purchasing Program (VBP) Adjustment Factors for the Fiscal Year. The contractor shall reimburse hospitals subject to HVBP using HVBP adjustments using the hospital-specific HVBP adjustment factor to be applied to that fiscal year found in the current CMS IPPS Final Rule and IPPS Rule webpage. Past year adjustments are also available on the Medicare HVBP website.

4.2.2 The HVBP adjustment factors within the IPPS Final Rule Table are organized by Medicare CMS Certification Number (also known as MCR Number). The contractor shall determine each hospital's HVBP adjustment factor using the hospital-specific CMS Certification Number within 30 days of publication of the IPPS Final Rule.

4.2.3 The contractor shall be responsible for classifying the appropriate CMS Certification Number to the TRICARE inpatient hospital, since the CMS certification number is not included on the claim.

4.2.4 The contractor shall use the hospital's Medicare ID by Tax ID and NPI, however, it is possible for a TRICARE hospital Tax ID/NPI to have more than one CMS Certification Number. As a result, the contractor shall identify the correct CMS Certification number by either Tax ID (or NPI)/Sub ID in order to accurately map CMS certification numbers to TRICARE facilities.

4.2.5 The contractor shall use the relevant CMS adjustment rate for hospital claims based on the date of admission. For example, the CMS adjustment calculated for FY 2020 would be used for hospital admissions in FY 2020 and the adjustments for FY 2021 would be used for FY 2021 hospital admissions. See [Figure 1.41-1](#).

FIGURE 1.41-1 EXAMPLE OF USE FOR CMS HVBP ADJUSTMENT FACTORS

ADMISSION DATE	DISCHARGE DATE	ADJUSTMENT YEAR
February 12, 2020	February 29, 2020	FY 2020
September 29, 2020	October 4, 2020	FY 2020
December 20, 2020	January 5, 2021	FY 2021
January 25, 2021	February 3, 2021	FY 2021

4.2.6 The contractor shall apply the hospital's HVBP adjustment factor to the base DRG payment amount for each claim, prior to any adjustments for outliers, Indirect Medical Education (IDME), or any other adjustments. If a hospital does not have an adjustment factor listed on the CMS IPPS Final Rule Table, it is assumed that the hospital does not participate in HVBP and the contractor shall use a 1.0 HVBP adjustment factor, meaning no net change in base operating DRG payment. See [Figure 1.41-2](#).

FIGURE 1.41-2 EXAMPLE OF CALCULATION OF NET CHANGE IN BASE OPERATING DRG PAYMENT AMOUNT WITH HVBP ADJUSTMENTS

1. BASE PAYMENT AMOUNT (PRE-OUTLIER OR OTHER ADJUSTMENTS)	2. HVBP ADJUSTMENT FACTOR	3. HVBP ADJUSTMENT x BASE PAYMENT (1 x 2)	NET CHANGE IN BASE OPERATING DRG PAYMENT AMOUNT (3 - 1)
\$20,000	1.023	\$20,460	\$20,460 - \$20,000 = \$460
\$20,000	0.998	\$19,960	\$19,960 - \$20,000 = -\$40

4.2.7 Each inpatient claim will continue to be processed using standard IPPS logic for outliers or other adjustments. The HVBP adjustment as calculated in [paragraph 4.2.5](#) will then be either added (if positive value) or subtracted (if negative value) from the TRICARE allowed amount in order to determine final claims payment amount. See [Figure 1.41-3](#).

FIGURE 1.41-3 EXAMPLE OF CALCULATION FINAL PAYMENT USING HVBP

1. CLAIM ALLOWED AMOUNT (INCLUDING OUTLIER, IF APPLICABLE, FOR CASE)	2. NET CHANGE IN BASE OPERATING DRG PAYMENT AMOUNT (i.e., HVBP ADJUSTMENT AMOUNT)	FINAL PAYMENT AMOUNT (1 + 2)
\$25,000	\$50	\$25,050
\$65,450	- \$500	\$64,950
\$4,000	\$250	\$4,250

5.0 EXCLUSIONS

5.1 Hospitals excluded from IPPS, including:

- Psychiatric Hospitals
- Rehabilitation Hospitals
- Long Term Care (LTC) Hospitals
- Children's Hospitals
- Critical Access Hospitals (CAHs)
- PPS-exempt TRICARE cancer hospitals

5.2 Currently hospitals located in Puerto Rico and other United States territories do not participate in HVBP. If CMS decides at a later date to include these hospitals, TRICARE will also include them in HVBP.

5.3 Hospitals that are located in the state of Maryland participate in the CMS Maryland All-Payer Model, and thus do not participate in HVBP.

5.4 Other hospitals excluded from the CMS HVBP Program.

6.0 EFFECTIVE DATE

HVBP Program adjustment factors are effective for discharges on or after January 1, 2020.

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