CHAPTER 13
SECTION 6.1F

HOSPITAL REIMBURSEMENT - TRICARE/CHAMPUS DRG-BASED PAYMENT SYSTEM (DRG WEIGHTING FACTORS)

Issue Date: October 6, 1987
Authority: 32 CFR 199.14(a)(1)

I. 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 TMA and specifically included in the network provider agreement.

II. ISSUE

What is the purpose of DRG weighting factors under the TRICARE/CHAMPUS DRG-based payment system, and how will they be calculated, used, and updated?

III. POLICY

A. DRG Weighting Factors. The DRG weights reflect the relative resource consumption associated with each DRG. That is, the weight reflects the average resources required by all hospitals to treat a case classified as a specific DRG relative to the resources required to treat cases in each of the other DRGs. All weights are standardized to a theoretical average weight of 1.0 which is the average weight of all TRICARE/CHAMPUS claims in the data base. (This is the relative weight of the national average charge per discharge.)

B. Calculation of DRG weights. The TRICARE/CHAMPUS weights are derived from charges. They will not reflect standardization for capital or direct medical education expenses, but the charges on which they are based are standardized for indirect medical education differences. The TRICARE/CHAMPUS DRG weights will be discharge-weighted. Specifically, the denominator used to calculate each weight represents the national average charge per discharge for the average patient. In order to calculate the DRG relative weights the following procedures will be followed.

1. Grouping of charges. All discharge records in the database will be grouped by DRG using the current Medicare grouper program.

2. Remove DRGs 469 and 470. DRGs 469 and 470 represent discharges with invalid data or diagnoses insufficient for DRG assignment purposes. Therefore, these records are removed from the database.

3. Indirect medical education standardization. To standardize the charges for the cost effects of indirect medical education factors, each teaching hospital's charges will be divided by 1.0 plus the following ratio on a hospital-specific basis:

$$1.43 \times \left[\left(1.0 + \frac{\text{number of interns + residents}}{\text{number of beds}} \right)^{.5795} - 1.0 \right]$$

For admissions occurring during FY 1988, the same formula was used except the first number was 1.5 rather than 1.43.

For admissions occurring during FY 1998, the same formula was used except the first number was 1.30 rather than 1.43.

For admissions occurring during FY 1999, the same formula shall be used except the first number shall be 1.21.

For admissions occurring during FY 2000, the same formula shall be used except the first number shall be 1.11.

For admissions occurring during FY 2001, and subsequent years, the same formula shall be used except the first number shall be 1.02.

4. Calculation of DRG average charges. After the standardization for indirect medical education, an average charge for each DRG category will be computed by summing charges in a DRG and dividing that sum by the number of records in the DRG.

5. Calculation of national average charge per discharge. A national average charge per discharge will be calculated by summing all charges and dividing that sum by the total number of records from all DRG categories.

6. DRG relative weights. DRG relative weights will be calculated for each DRG category by dividing each DRG average charge by the national average charge.

C. Empty and low-volume DRGs. For any DRG with less than ten (10) occurrences in the TRICARE/CHAMPUS database, the Director, TMA, or designee, has the authority to consider alternative methods for estimating TRICARE/CHAMPUS weights in these low-volume DRG categories.

D. Updating DRG weights. Medicare is required to adjust the DRG relative weights under the Prospective Payment System annually to ensure that the weights reflect the use of new technologies and other practice pattern changes that affect the relative use of hospital resources among DRG categories. Likewise, every year during the annual DRG update TMA will recalculate all DRG weights using TRICARE/CHAMPUS charge data and the methodology described above.

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