CHAPTER 13
SECTION 6.1G

HOSPITAL REIMBURSEMENT - TRICARE/CHAMPUS DRG-BASED PAYMENT SYSTEM (ADJUSTED STANDARDIZED AMOUNTS)

Issue Date: October 8, 1987
Authority: 32 CFR 199.14(a)(1)

I. APPLICABILITY

This policy is mandatory for reimbursement of services provided by either network providers. However, alternative network reimbursement methodologies are permitted when approved by TMA and specifically included in the network provider agreement.

II. ISSUE

What are the adjusted standardized amounts under the TRICARE/CHAMPUS DRG-based payment system, and how are they used and calculated?

III. POLICY

A. General. The adjusted standardized amount (ASA) represents the adjusted average operating cost for treating all TRICARE/CHAMPUS beneficiaries in all DRGs during the database period. During FY 1988 the TRICARE/CHAMPUS DRG-based payment system used two ASAs--one for urban areas and one for rural areas. Beginning in FY 1989 (admissions on or after October 1, 1988), three ASAs are used--one for large urban areas, one for other urban areas, and one for rural areas. Effective October 1, 1994, rural hospitals will receive the same payment rate as other urban hospitals.

B. Calculation of the ASA. The following procedures will be followed in calculating the TRICARE/CHAMPUS ASA.

1. Apply the cost to charge ratio. In this step each charge is reduced to a representative cost by using the Medicare cost-to-charge ratio. Effective FY 1996, the cost-to-charge ratio is 0.6103. Effective FY 1997, the cost-to-charge ratio is 0.5895. Effective FY 1998, the cost-to-charge ratio is 0.5536. Effective FY 1999, the cost-to-charge ratio is 0.5562.

2. Increase for bad debts. The base standardized amount will be increased by .01 in order to reimburse hospitals for bad debt expenses attributable to TRICARE/CHAMPUS beneficiaries. The base standardized amount will be increased by .0075 for FY 1999, .0060 for FY 2000 and .0055 for FY 2001 and subsequent years.

3. Update for inflation. Each record in the database will be updated to fiscal year 1988 using a factor equal to 1.07. Thereafter, any recalculation of the adjusted standardized

amount will use an inflation factor equal to the hospital market basket index used by HCFA in their Prospective Payment System.

4.   Preliminary non-teaching standardized amount. At this point indirect medical education costs have been removed through standardization in the weight methodology and direct medical education costs have been removed through the application of the Medicare cost-to-charge ratio which does not include direct medical education costs. Therefore, a non-teaching standardized amount will be computed by dividing aggregate costs by the number of discharges in the database.

5.   Preliminary teaching standardized amounts. A separate standardized amount will be calculated for each teaching hospital to reimburse for indirect medical education expenses. This will be done by multiplying the non-teaching standardized amount by 1.0 plus each hospital's indirect medical education factor.

6.   System standardization. The preliminary standardized amounts will be further standardized using a factor which equals total DRG payments using the preliminary standardized amounts divided by the sum of all costs in the database (updated for inflation). To achieve standardization, each preliminary standardized amount will be divided by this factor. This step is necessary so that total DRG system outlays, given the same distribution among hospitals and diagnoses, are equal whether based on DRGs or on charges reduced to costs.

7.   Labor-related and nonlabor-related portions of the adjusted standardized amount. The adjusted standardized amount shall be divided into labor-related and nonlabor-related portions according to the ratio of these amounts in the national ASA under the Medicare PPS.

8.   Updating the standardized amounts. For years subsequent to the initial year, the standardized amounts will be updated by the final published Medicare annual update factor, unless the standardized amounts are recalculated.

- END -