

CHAPTER 13  
SECTION 6.1H

HOSPITAL REIMBURSEMENT - TRICARE/CHAMPUS DRG-  
BASED PAYMENT SYSTEM (ADJUSTMENTS TO PAYMENT  
AMOUNTS)

Issue Date: October 8, 1987

Authority: [32 CFR 199.14\(a\)\(1\)](#)

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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 are the adjustments to the TRICARE/CHAMPUS DRG-based payment amounts?

III. POLICY

A. Adjustments to the DRG-Based Payment Amounts. There are several adjustments to the basic DRG-based amounts (the weight multiplied by the adjusted standardized amount) which can be made.

B. Specific Adjustments.

1. Capital costs. TRICARE/CHAMPUS will reimburse hospitals for their capital costs as reported annually to the contractor (see below). Payment for capital costs will be made annually. See the Operations Manual (TRICARE **Operations** Manual) for the procedures for paying capital costs.

a. Required reductions in capital payments. The basic capital payments (as determined above) shall be reduced in accordance with the statutorily-required reductions for Medicare, and if they are legislatively-changed for Medicare, the TRICARE/CHAMPUS reductions will conform to the Medicare reductions. The required reductions and the periods to which they apply are:

3.5 percent for October 1 through November 20, 1987;

7 percent for November 21 through December 31, 1987;

12 percent for January 1 through September 30, 1988;

15 percent for FY 1989;

2 percent for October 1 through December 31, 1989;

15 percent for January 1, 1990, through September 30, 1992;

10 percent beginning October 1, 1992, through September 30, 1995; and

17.78 percent beginning October 1, 1997, through September 30, 2002.

*NOTE: The capital percentage reduction beginning October 1, 1997, was initially listed incorrectly as 17.68 instead of 17.78 and also incorrectly reflected the reduction was to be applied through September 30, 2003, instead of 2002. Beginning October 1, 1999, the contractors shall apply the 17.78 percentage reduction. The contractor is not required to identify and reprocess those reimbursement requests for capital that were processed using the 17.68 percent reduction.*

The capital payments will be prorated for the different percentage reductions based on the days in the reporting period which fall into each category. For example, the capital costs for a cost-reporting period which runs from November 1, 1987, through October 31, 1988, would have the following reductions.

(1) November 1 through November 20 equals 5.5 percent of the year (20 days of 366 days).

(2) November 21 through December 31 equals 11.2 percent of the year (41 days of 366 days).

(3) January 1 through September 30 equals 74.9 percent of the year (274 days of 366 days).

(4) October 1 through October 31 equals 8.4 percent of the year (31 days of 366 days). Therefore, the contractor would determine the total capital amount applicable to TRICARE/CHAMPUS and reduce 5.5 percent of it by 3.5 percent, 11.2 percent of it by 7 percent, 74.9 percent of it by 12 percent, and 8.4 percent of it by 15 percent.

b. For days occurring on or after October 1, 1995, through September 30, 1997, TRICARE/CHAMPUS will reimburse 100% of capital-related costs.

c. Allowable capital costs are those specified in Medicare Regulation Section 413.130 of Title 42 CFR.

d. To obtain the total allowable capital costs from the Medicare cost reports prior to October 1992, the contractor shall add the figures from Worksheet D, Part I, Column 1, lines 25-28, lines 29 and 30 if the cost report reflects intensive care unit costs, and line 33, to the costs from Worksheet D, Part II, Column 1, lines 37-63. The capital payment shall then be reduced by the applicable percentages and time periods outlined in [paragraph III.B.1.a.](#) above.

e. To obtain the total allowable capital costs from the Medicare cost reports as of October 1992, the contractor shall add the figures from Worksheet D, Part I, Columns 3 and 6, lines 25-28, lines 29 and 30 if the cost report reflects intensive care unit costs, and line 33, to the figures from Worksheet D, Part II, Columns 1 and 2, lines 37-63. The capital payment shall then be reduced by the applicable percentages and time periods outlined in [paragraph III.B.1.a.](#) above.

*NOTE: The instructions provided in Policy Manual Change 35, published on November 4, 1998, incorrectly eliminated allowable capital costs for lines 29 and 30 from Worksheet D, Part I, Column 1, and lines 60-63 from Worksheet D, Part II, Columns 1 and 2. The contractor is not required to identify those finalized reimbursement requests processed under the instructions outlined in Policy Manual Change 35, however, if the hospital requests reimbursement for the above listed costs, the contractor shall reprocess the request accordingly.*

f. The instructions outlined in [paragraph III.B.1.a.](#) and [paragraph III.B.1.e.](#) above, are effective for initial and amended requests received on or after October 1, 1998.

g. Services, facilities, or supplies provided by supplying organizations. If services, facilities, or supplies are provided to the hospital by a supplying organization related to the hospital within the meaning of Medicare Regulation Section 413.17, then the hospital must include in its capital-related costs, the capital-related costs of the supplying organization. However, if the supplying organization is not related to the provider within the meaning of 413.17, no part of the charge to the provider may be considered a capital-related cost unless the services, facilities, or supplies are capital-related in nature and:

- (1) The capital-related equipment is leased or rented by the provider;
- (2) The capital-related equipment is located on the provider's premises; and
- (3) The capital-related portion of the charge is separately specified in the charge to the provider.

2. Direct medical education costs. TRICARE/CHAMPUS will reimburse hospitals their actual direct medical education costs as reported annually to the contractor (see below). Such direct medical education costs must be for a teaching program approved under Medicare Regulation Section 413.85. Payment for direct medical education costs will be made annually and will be calculated using the same steps required for calculating capital payments below. Allowable direct medical education costs are those specified in Medicare Regulation Section 413.85. See the Operations Manual (TRICARE **Operations** Manual) for the procedures for paying direct medical education costs.

a. Direct medical education costs generally include:

- (1) Formally organized or planned programs of study usually engaged in by providers in order to enhance the quality of care in an institution.
- (2) Nursing schools.
- (3) Medical education of paraprofessionals (e.g., radiological technicians).

b. Direct medical education costs do not include:

(1) On-the-job training or other activities which do not involve the actual operation or support, except through tuition or similar payments, of an approved education program.

(2) Patient education or general health awareness programs offered as a service to the community at large.

c. To obtain the total allowable direct medical education costs from the Medicare cost reports on all initial and amended requests, the contractor shall add the figures from Worksheet B, Part I, Columns 21-24, lines 25-28, lines 29 and 30 if the cost report reflects intensive care unit costs, line 33, and lines 37-63. These instructions are effective for all initial and amended requests received on or after October 1, 1998.

*NOTE: The instructions provided in Policy Manual Change 35, published on November 4, 1998, incorrectly eliminated allowable direct medical education costs for lines 60-63 from Worksheet B, Part I, Columns 21-24. The contractor is not required to identify those finalized reimbursement requests processed under the instructions outline in Policy Manual Change 35, however, if the hospital requests reimbursement for the above listed costs, the contractor shall reprocess the request accordingly.*

3. Determining amount of capital and direct medical education payment. In order to account for payments by other health insurance, TRICARE/CHAMPUS' payment amounts for capital and direct medical education will be determined according to the following steps. Throughout these calculations claims on which TRICARE/CHAMPUS made no payment because other health insurance paid the full TRICARE/CHAMPUS-allowable amount are not to be counted.

Step 1: Determine the ratio of TRICARE/CHAMPUS inpatient days to total inpatient days using the data described below. In determining total TRICARE/CHAMPUS inpatient days the following are not to be included:

- (1) Any days determined to be not medically necessary, and
- (2) Days included on claims for which TRICARE/CHAMPUS made no payment because other health insurance paid the full TRICARE/CHAMPUS-allowable amount.

Step 2: Multiply the ratio from STEP 1 by total allowable capital costs.

Step 3: Reduce the amount from STEP 2 by the appropriate capital reduction percentage(s). This is the total allowable TRICARE/CHAMPUS capital payment for DRG discharges.

Step 4: Multiply the ratio from STEP 1 by total allowable direct medical education costs. This is the total allowable TRICARE/CHAMPUS direct medical education payment for DRG discharges.

Step 5: Combine the amounts from STEP 3 and STEP 4. This is the amount of TRICARE/CHAMPUS payment due the hospital for capital and direct medical education.

4. Payment of capital and direct medical education costs.

a. General. All hospitals subject to the TRICARE/CHAMPUS DRG-based payment system, except for children's hospitals (see below), may be reimbursed for allowed capital and direct medical education (DME) costs by submitting a request and the applicable pages from the Medicare cost-report to the TRICARE/CHAMPUS contractor.

(1) Beginning October 1, 1998, initial requests for payment of capital and DME shall be filed with the TRICARE/CHAMPUS contractor on or before the last day of the twelfth month following the close of the hospitals' cost-reporting period. The request shall cover the one-year period corresponding to the hospital's Medicare cost-reporting period. Thus, for cost-reporting periods ending on or after March 1, 1998, requests for payment of capital and DME must be filed no later than 12 months following the close of the cost-reporting period. For example, if a hospital's cost-reporting period ends on June 30, 1998, the request for payment shall be filed on or before June 30, 1999. Those hospitals that are not Medicare participating providers are to use an October 1 through September 30 fiscal year for reporting capital and DME costs.

(a) An extension of the due date for filing the initial request may only be granted if an extension has been granted by HCFA due to a provider's operations being significantly adversely affected due to extraordinary circumstances over which the provider has no control, such as flood or fire, as described in Section 413.24 of Title 42 CFR.

(b) All costs reported to the TRICARE/CHAMPUS contractor must correspond to the costs reported on the hospital's Medicare cost report. If the costs change as a result of a subsequent Medicare desk review, audit or appeal, the revised costs along with the applicable pages from the amended Medicare cost report shall be provided to the TRICARE/CHAMPUS contractor within 30 days of the date the hospital is notified of the change. The request must be signed by the hospital official responsible for verifying the amounts. The Medicare Notice of Program Reimbursement (NPR) letter should be submitted with the amended cost report.

(c) The 30 day period is a means of encouraging hospitals to report changes in its capital and DME costs in a timely manner. If the contractor receives an amended request beyond the 30 days, it shall process the adjustment and inform the provider of the importance of submitting timely amendments.

(d) The hospital official is certifying in the initial submission of the cost report that any changes resulting from a subsequent Medicare audit will be promptly reported. Failure to promptly report the changes resulting from a Medicare audit is considered a misrepresentation of the cost report information. Such a practice can be considered fraudulent, which may result in criminal civil penalties or administrative sanctions of suspension or exclusion as an authorized provider.

(2) Prior to October 1, 1998, TRICARE/CHAMPUS had no time limit for filing initial requests for reimbursement of capital and DME, other than the six-year statute of limitations. The time limitation for filing claims does not apply to capital and DME payment requests. To allow TRICARE/CHAMPUS contractors to close out prior year data, all initial payment requests for capital and DME for cost-reporting periods ending before March 1, 1998, shall be filed with the TRICARE/CHAMPUS contractor no later than 5 months after October 1, 1998. Requests for reimbursement for these periods must be post-marked on or before March 1, 1999. During this 5 month period, the following criteria apply:

(a) If a hospital has documentation indicating it was underpaid based on the number of inpatient days reported on the initial request, the hospital may request separate reimbursement for these costs, however, it is the hospital's responsibility to provide documentation substantiating the number of TRICARE/CHAMPUS inpatient days.

(b) The contractor shall follow the instructions for processing initial requests as outlined in [paragraph III.B.4.c.\(1\)](#) below.

b. Information necessary for payment of capital and direct medical education costs. The following information must be reported to the contractor:

- (1) The hospital's name.
- (2) The hospital's address.
- (3) The hospital's TRICARE/CHAMPUS provider number.
- (4) The hospital's Medicare provider number.
- (5) The period covered--this must correspond to the hospital's Medicare cost-reporting period.
- (6) Total inpatient days provided to all patients in units subject to DRG-based payment.
- (7) Total TRICARE/CHAMPUS inpatient days provided in units subject to DRG-based payment. (This is to be only days which were "allowed" for payment. Therefore, days which were determined to be not medically necessary are not to be included.)
  - (a) Total inpatient days provided to active duty members in units subject to DRG-based payment.
- (8) Total allowable capital costs. This must correspond with the applicable pages from the Medicare cost-report.
- (9) Total allowable direct medical education costs. This must correspond with the applicable pages from the Medicare cost-report.
- (10) Total full-time equivalents for:

- (a) Residents,
  - (b) Interns (see below).
- (11) Total inpatient beds (see below).
  - (12) Title of official signing the report.
  - (13) Reporting date.
  - (14) The report must contain a certification statement that any changes to items (6), (7), (8), (9), and (10), which are a result of a review, audit, or appeal of the provider's Medicare cost-report, must be reported to the contractor within 30 days of the date the hospital is notified of the change.
  - (15) All cost reports must be certified by an officer or administrator of the provider. The general concept is to notify the certifying official that misrepresentation or falsification of any of the information in the cost report is punishable by fine and/or imprisonment. The signing official must acknowledge this as well as certify that the cost report filed, together with any supporting documentation, is true, correct and complete based upon the books and records of the provider.
- c. Contractor actions.
- (1) Initial requests for capital/direct medical education payment.
    - (a) The contractor may, but is not required, to provide inpatient day verification reports to hospitals prior to an initial request being submitted.
    - (b) The contractor shall verify the number of TRICARE/CHAMPUS and active duty inpatient days with its data. If the contractor's data represents a greater number of days than submitted on the hospital's request, payment shall be based on the contractor's data. If the hospital's request represents a greater number of days than the contractor's data, the contractor shall notify the hospital of the discrepancy and inform them payment will be based on the number of days it has on file unless they can provide documentation substantiating the additional days. The notification to the hospital must be made within ten working days of identification of the discrepancy and include the inpatient day verification report.
    - (c) The contractor shall wait until the end of the following month to hear from the hospital. If the hospital does not respond, the contractor shall make payment based on its totals.
    - (d) The contractor shall verify the accuracy of the financial amounts listed for capital and DME with the applicable pages of the Medicare cost report. If the financial amounts do not match, the contractor shall reimburse the hospital based on the figures in the cost-report and notify the hospital of the same.



(e) The contractor must make the capital and direct medical education payment to the hospital within 30 days of the initial request unless notification has been sent to the hospital regarding a discrepancy in the number of days as outlined in [paragraph III.B.4.c.\(1\)\(b\)](#) above.

(2) Amended Requests for Capital/DME.

(a) The contractor may, but is not required, to provide inpatient day verification reports to hospitals prior to an amended request being submitted.

(b) The contractor shall process amended payment requests based on changes in the Medicare cost-report as a result of desk reviews, audits and appeals. An adjustment will not be processed unless there are changes to items 6 through 10 on the initial capital and DME reimbursement request. The contractor will not process amended requests for days only.

(c) The contractor shall verify the number of TRICARE/CHAMPUS and active duty inpatient days with its data. If the contractor's data represents a greater number of days than submitted on the hospital's request, payment shall be based on the contractor's data. If the hospital's request represents a greater number of days than the contractor's data, the contractor shall notify the hospital of the discrepancy and inform them payment will be based on the number of days it has on file unless they can provide documentation substantiating the additional days. The notification to the hospital must be made within ten working days of identification of the discrepancy and include the inpatient day verification report.

(d) The contractor shall wait until the end of the following month to hear from the hospital. If the hospital does not respond, the contractor shall make payment based on its totals.

(e) The contractor shall verify the accuracy of the financial amounts listed for capital and DME with the applicable pages of the amended Medicare cost report. If the financial amounts do not match, the contractor shall reimburse the hospital based on the figures in the cost-report and notify the hospital of the same.

(f) The contractor must make the capital and direct medical education payment to the hospital within 30 days of the amended request unless notification has been sent to the hospital regarding a discrepancy in the number of days as outlined in [paragraph III.B.4.c.\(2\)\(c\)](#) above.

(3) The contractor shall prepare a voucher in accordance with the requirements of the Operations Manual and send it to the TMA Contract Resource Management Directorate for clearance before releasing the checks.

(4) Requests for reimbursement of DRG capital and DME costs shall be paid as pass-through costs. The MCS contractors are not at-risk for these costs.

d. Negotiated Rates. If a contract between the MCS prime contractor and a subcontractor or institutional network provider does not specifically state the negotiated rate



includes all costs that would otherwise be eligible for additional payment, such as capital and DME, the MCS prime contractor is responsible for reimbursing these costs to the subcontractors and institutional network providers if a request for reimbursement is made.

e. Capital and direct medical education costs for children's hospitals. Amounts for capital and direct medical education are included in both the hospital-specific and the national children's hospital differentials (see below). The amounts are based on national average costs. No separate or additional payment is allowed.

#### 5. Children's Hospital Differential.

a. General. All DRG-based payments to children's hospitals for admissions occurring on or after April 1, 1989, are to be increased by adding the applicable children's hospital differential to the appropriate adjusted standardized amount (ASA) prior to multiplying by the DRG weight.

b. Qualifying for the children's hospital differential. In order to qualify for a children's hospital differential adjustment, the hospital must be exempt from the Medicare PPS as a children's hospital. If the hospital is not Medicare-participating, it must meet the criteria in [32 CFR 199.6\(b\)\(4\)\(i\)](#). In addition, more than half of its inpatients must be individuals under the age of 18.

c. Calculation of the children's hospital differentials. The differentials will be equal to the difference between a specially-calculated ASA for children's hospitals (using the procedures described in [Chapter 13, Section 6.1G](#)) and the ASA for FY 1988 which would otherwise be applicable. They will be calculated so that they are "revenue neutral" for children's hospitals; that is, for FY 1988 overall TRICARE/CHAMPUS payments to children's hospitals under the DRG-based payment system would have been equal to those under the old payment system. To accomplish this, TMA (the Office of Program Development) calculated separate ASAs for children's hospitals. Normally in calculating ASAs, TMA reduces the adjusted charges according to the Medicare cost-to-charge ratio (.66 during FY 1988). However, in recognition of the higher costs of children's hospitals, we do not use this step in calculating the children's hospital differentials. We subtract the appropriate ASA from the children's hospital ASAs, and these amounts are the children's hospital differentials. The differentials will not be subject to annual inflation updates nor will they be recalculated except as provided below.

#### d. Differential amounts.

(1) Admissions prior to April 1, 1992. High volume children's hospitals (those children's hospitals with 50 or more TRICARE/CHAMPUS discharges during FY 1988) have a hospital-specific differential for a three-year transition period ending April 1, 1992. All other children's hospitals use national differentials. There are two national differentials--one for large urban areas and one for other urban areas.

(a) Calculation of the national children's hospital differentials. These differentials are calculated using the procedures described in [paragraph III.B.5.c.](#), above, but based on a database of only low-volume children's hospitals. They were calculated initially using a database of claims processed from July 1, 1987, through June 30, 1988 and updated to

FY 1988 using the hospital market basket. They were subsequently finalized based on claims processed from April 1, 1989, through March 31, 1990.

(b) Calculation of the hospital-specific differentials for high-volume children's hospitals. The hospital-specific differentials were calculated using the same procedures used for calculating the national differentials, except that the database used was limited to claims from the specific high-volume children's hospital.

(c) Administrative corrections. Any children's hospital that believed TMA erroneously failed to classify the hospital as a high-volume hospital or correctly calculate (in the case of a high-volume hospital) the hospital's differential could obtain administrative corrections by submitting appropriate documentation to TMA. The corrected differential was effective retroactively to April 1, 1989, so this process included adjustments, by the contractor, to any previously processed claims which were processed using an incorrect differential.

(2) Admissions on or after April 1, 1992. These claims are reimbursed using a single set of differentials which do not distinguish high-volume and low-volume children's hospitals. The differentials are:

Large Urban Areas	
Labor portion	\$1,945.99
Non-labor portion	<u>689.42</u>
	\$2,635.41

Other Areas	
Labor portion	\$1,483.21
Non-labor portion	<u>525.47</u>
	\$2,008.68

e. Hold harmless provision. At such time as the weights initially assigned to neonatal DRGs are recalibrated based on a sufficient volume of TRICARE/CHAMPUS claims records, TMA will recalculate children's hospital differentials and appropriate retrospective and prospective adjustments will be made. To the extent possible, the recalculation will also include reestimated values of other factors (including, but not limited to, direct and indirect medical education and capital costs) for which more accurate data become available. This will probably occur about one year after implementation of the neonatal DRGs, and it will not require any actions by the contractors.

#### 6. Outliers.

a. General. TRICARE/CHAMPUS will adjust the DRG-based payment to a hospital for atypical cases. These outliers are those cases that have either an unusually short length-of-stay or extremely long length-of-stay or that involve extraordinarily high costs when compared to most discharges classified in the same DRG. Recognition of these outliers is particularly important, since the number of TRICARE/CHAMPUS cases in many hospitals is relatively small, and there may not be an opportunity to "average out" DRG-based payments over a number of claims. Contractors will not be required to document or verify the medical necessity of outliers prior to payment, since outlier review will be part of the

admission and quality review system. However, in determining additional cost outlier payments on all claims qualifying as a cost outlier, the contractor must identify and reduce the billed charge for any non-covered items such as comfort and convenience items (line N), as well as any duplicate charges (line X) and services which can be separately billed (line 7) such as professional fees, outpatient services, and solid organ transplant acquisition costs. Comfort and convenience items are defined as those optional items which the patient may elect at an additional charge (i.e., television, guest trays, beautician services, etc.), but are not medically necessary in the treatment of a patient's condition.

b. Payment of outliers. For all admissions occurring before October 1, 1988, if the claim qualifies as both a length-of-stay outlier and a cost outlier, payment shall be based on the length-of-stay outlier. For admissions occurring on or after October 1, 1988, claims which qualify as both a length-of-stay outlier and a cost outlier shall be paid at whichever outlier calculation results in the greater payment.

c. Provider Reporting of outliers. The provider is to identify outliers on the UB-92, form locator 24 - 30. Code 60 is to be used to report length-of-stay outliers, and code 66 is to be used to signify that a cost outlier is not being requested. If a claim qualifies as a cost outlier and code 66 is not entered in the appropriate form locator (i.e., it is blank or code 61), the contractor is to accept this as a request for cost outlier payment by the hospital.

d. Length-of-stay outliers. The TRICARE/CHAMPUS DRG-based payment system uses both short-stay and long-stay outliers, and both are reimbursed using a per diem amount. All length-of-stay outliers must be identified by the contractor when the claims are processed, and necessary adjustments to the payment amounts must be made automatically.

(1) Short-stay outliers.

(a) Any discharge which has a length-of-stay (LOS) less than 1.94 standard deviations below the DRG's geometric LOS shall be classified as a short-stay outlier. In determining the actual short-stay threshold, the calculation will be rounded down to the nearest whole number, and any stay equal to or less than the short-stay threshold will be considered a short-stay outlier.

(b) Short-stay outliers will be reimbursed at 200 percent of the per diem rate for the DRG for each covered day of the hospital stay, not to exceed the DRG amount. The per diem rate shall equal the wage-adjusted DRG amount divided by the geometric mean length-of-stay for the DRG. For admissions occurring on or after October 1, 1998, the per diem rate shall equal the wage-adjusted DRG amount divided by the arithmetic mean length of stay for the DRG. The per diem rate is to be calculated before the DRG-based amount is adjusted for indirect medical education.

(c) Any stay which qualifies as a short-stay outlier (a transfer cannot qualify as a short-stay outlier), even if payment is limited to the normal DRG amount, is to be considered and reported on the payment records as a short-stay outlier. This will ensure that outlier data is accurate and will prevent the beneficiary from paying an excessive cost-share in certain circumstances.

(2) Long-stay outliers.

(a) Long-stay outliers are determined by thresholds which are calculated from the length-of-stay (LOS) criteria below. In determining the actual long-stay threshold, the calculation will be rounded down to the nearest whole number, and any stay greater than the long-stay threshold will be considered a long-stay outlier.

For admissions occurring on or after October 1, 1996, the long-stay threshold shall equal the lesser of 3.0 standard deviations or 24 days above the DRG's geometric LOS.

(b) For admissions occurring on or after October 1, 1996, long-stay outliers will be reimbursed the DRG-based amount plus 33 percent of the per diem rate for the DRG for each covered day of care beyond the long-stay outlier threshold.

(c) For admissions occurring on or after October 1, 1997, payment for long-stay outliers has been eliminated for all cases, except neonates and childrens' hospitals.

(d) For admissions occurring on or after October 1, 1998, payment for long-stay outliers has been eliminated for all neonates and childrens' hospitals.

e. Cost outliers.

(1) Any discharge which has standardized costs that exceed the thresholds outlined below, will be classified as a cost outlier.

(a) For admissions occurring prior to October 1, 1997, the standardized costs will be calculated by first subtracting the noncovered charges, multiplying the total charges (less lines 7, N, and X) by the cost-to-charge ratio and adjusting this amount for indirect medical education costs by dividing the amount by one (1) plus the hospital's indirect medical education adjustment factor. For admissions occurring on or after October 1, 1997, the costs for indirect medical education are no longer standardized.

(b) Cost outliers will be reimbursed the DRG-based amount plus 80 percent effective 10/1/94 of the standardized costs exceeding the threshold.

(c) For admissions occurring on or after October 1, 1997, the following steps shall be followed when calculating cost outlier payments for all cases other than neonates and children's hospitals:

Standard Cost = (Billed Charges x Cost-to-Charge Ratio)

Outlier Payment = 80 percent of (Standard Cost - Threshold)

Total Payments = Outlier Payments + (DRG Base Rate x (1 + IDME))

*NOTE: Noncovered charges should continue to be subtracted from the billed charges prior to multiplying the billed charges by the cost-to-charge ratio.*

(d) The cost-to-charge ratio for admissions occurring on or after October 1, 1999, is .5489. The cost-to-charge ratio for admissions occurring on or after October 1, 2000, is .5408. **The cost-to-charge ratio for admissions occurring on or after October 1, 2001, is .5073.**

(e) The National Operating Standard Cost as a share of total costs for calculating the cost-outlier threshold for FY 99 and FY 2000 is 0.913. The National Operating Standard Cost as a share of total cost for calculating the cost-outlier threshold for FY 2001 is 0.914. **The National Operating Standard Cost as a share of total cost for calculating the cost-outlier threshold for FY 2002 is 0.918.**

(2) For FY 1999, a fixed loss cost-outlier threshold is set of \$10,129. Effective October 1, 1998, the cost-outlier threshold shall be the DRG-based amount (wage-adjusted) plus the IDME payment, plus the flat rate of \$10,129 (also wage-adjusted).

(3) For FY 2000, a fixed loss cost-outlier threshold is set of \$12,827. Effective October 1, 1999, the cost-outlier threshold shall be the DRG-based amount (wage-adjusted) plus the IDME payment, plus the flat rate of \$12,827 (also wage-adjusted).

(4) For admissions on or after October 1, 2000, through July 14, 2001, a fixed loss cost-outlier threshold is set of \$16,036. Effective October 1, 2000, the cost-outlier threshold shall be the DRG-based amount (wage-adjusted) plus the IDME payment, plus the flat rate of \$16,036 (also wage-adjusted).

(5) For admissions on or after July 15, 2001, through September 30, 2001, a fixed loss cost-outlier threshold is set of \$14,940. Effective July 15, 2001, the cost-outlier threshold shall be the DRG-based amount (wage-adjusted) plus the IDME payment, plus the flat rate of \$14,940 (also wage-adjusted).

**(6) For FY 2002, a fixed loss cost-outlier threshold is set of \$19,226. Effective October 1, 2001, the cost-outlier threshold shall be the DRG-based amount (wage-adjusted) plus the IDME payment, plus the flat rate of \$19,226 (also wage-adjusted).**

The cost-outlier threshold shall be calculated as follows:

{[Fixed Loss Threshold x ((Labor-Related Share x Applicable wage index) + Non-labor-related share) x National Operating Standard Cost as a Share of Total Costs] + (DRG Base Payment (wage-adjusted) x (1 + IDME))}

EXAMPLE: Using FY99 figures {[10,129 x ((.7110 x Applicable wage index) + .2890) x 0.913] + (DRG Based Payment (wage-adjusted) x (1 + IDME))}

f. Burn outliers. Burn outliers generally will be subject to the same outlier policies applicable to the CHAMPUS DRG-based payment system except as indicated below. For admissions prior to October 1, 1998, there are six DRGs related to burn cases. They are:

- 456 - Burns, transferred to another acute care facility
- 457 - Extensive burns w/o O.R. procedure

- 458 - Non-extensive burns with skin graft
- 459 - Non-extensive burns with wound debridement or other O.R. procedure
- 460 - Non-extensive burns w/o O.R. procedure
- 472 - Extensive burns with O.R. procedure

Effective for admissions on or after October 1, 1998, the above listed DRGs are no longer valid.

For admissions on or after October 1, 1998, there are eight DRGs related to burn cases. They are:

- 504 - Extensive 3rd degree burn w skin graft
- 505 - Extensive 3rd degree burn w/o skin graft
- 506 - Full thick burn w sk graft or inhal inj w cc or sig tr
- 507 - Full thick burn w sk graft or inhal inj w/o cc or sig tr
- 508 - Full thick burn w/o sk graft or inhal inj w cc or sig tr
- 509 - Full thick burn w/o sk graft or inhal inj w/o cc or sig tr
- 510 - Non-extensive burns w cc or significant trauma
- 511 - Non-extensive burns w/o cc or significant trauma

(1) For burn cases with admissions occurring prior to October 1, 1988, there are no special procedures. The marginal cost factor for outliers for all such cases will be 60 percent.

(2) Burn cases which qualify as short-stay outliers, regardless of the date of admission, will be reimbursed according to the procedures for short-stay outliers.

(3) Burn cases with admissions occurring on or after October 1, 1988, which qualify as cost outliers will be reimbursed using a marginal cost factor of 90 percent.

(4) Burn cases which qualify as long-stay outliers will be reimbursed as follows.

(a) Admissions occurring from October 1, 1988, through September 30, 1990 will be reimbursed using a marginal cost factor of 90 percent.

(b) Admissions occurring on or after October 1, 1990, will be reimbursed using a marginal cost factor of 60 percent.

(5) For admissions occurring on or after October 1, 1997, payment for long-stay outliers has been eliminated for all cases, except neonates and children's hospitals.

(6) For admissions occurring on or after October 1, 1998, payment for long-stay outliers has been eliminated for all neonates and children's hospitals.

(7) For a burn outlier in a children's hospital, the appropriate children's hospital outlier threshold is to be used (see below), but the marginal cost factor is to be either 60 or 90 percent according to the criteria above.



g. Children's hospital outliers. Children's hospitals will be subject to the same outlier policies applicable to other hospitals except that:

(1) For long-stay outliers the threshold shall be the lesser of 1.94 standard deviations or 17 days from the DRG's geometric mean LOS. (See the addenda to this chapter for the actual outlier thresholds and their effective dates.) For admissions occurring on or after October 1, 1998, payment for long-stay outliers has been eliminated.

(2) The following special provisions apply to cost outliers.

(a) The threshold shall be the greater of two times the DRG-based amount (wage-adjusted but prior to adjustment for indirect medical education) or \$13,500.

(b) Effective October 1, 1998, the threshold shall be the same as that applied to other hospitals.

(c) Effective October 1, 2001, the standardized costs are calculated using a cost-to-charge ratio of .5520. For FY 2001, the cost-to-charge ratio was .5913. For FY 2000, the cost-to-charge ratio was .6004. (This is equivalent to the Medicare cost-to-charge ratio increased to account for capital and direct medical education costs.)

(d) The marginal cost factor shall be 80 percent.

(e) For admissions occurring during FY 2001, and subsequent years, the marginal cost factor shall be adjusted by 1.17 to ensure budget neutrality is maintained. For admissions occurring during FY 1999 and FY 2000, the marginal cost factor shall be adjusted by 1.37.

(f) The National Operating Standard Cost as a share of total costs for calculating the cost-outlier threshold for FY 99 and FY 2000 is 0.913. The National Operating Standard Cost as a share of total costs for calculating the cost-outlier threshold for FY 2001 is 0.914. The National Operating Standard Cost as a share of total costs for calculating the cost-outlier threshold for FY 2002 is 0.918.

The following calculation shall be used in determining cost outlier payments for children's hospitals and neonates:

Step 1: Computation of Standardized Costs:  
Billed Charges x Cost to Charge Ratio  
(Non-covered charges shall be subtracted from the billed charges prior to multiplying the charges by the cost-to-charge ratio.)

Step 2: Determination of Cost-Outlier Threshold:  
{[Fixed Loss Threshold x ((Labor-Related Share x Applicable wage index) + Non-labor-related share) x National Operating Standard Cost as a Share of Total Costs] + [DRG Based Payment (wage-adjusted) x (1 + IDME)]}



Step 3: Determination of Cost Outlier Payment  
 $\{[(\text{Standardized costs} - \text{Cost-Outlier Threshold}) \times \text{Marginal Cost Factor}] \times \text{Adjustment Factor}\}$

Step 4: Total Payments = Outlier Payments + [DRG Base Rate  
 $\times (1 + \text{IDME})]$

h. Neonatal outliers. Neonatal outliers in hospitals subject to the CHAMPUS DRG-based payment system (other than children's hospitals) shall be determined under the same rules applicable to children's hospitals, except that the standardized costs for cost outliers shall be calculated using the cost-to-charge ratio of .64.

7. Indirect medical education adjustment.

a. General. The DRG-based payments for any hospital which has a teaching program approved under Medicare Regulation Section 413.85, Title 42 CFR shall be adjusted to account for indirect medical education costs. The adjustment factor used shall be the one in effect on the date of discharge (see below). The adjustment will be made by multiplying the total DRG-based amount by 1.0 plus a hospital-specific factor equal to:

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

For admissions occurring during FY 1988, the same formula was used except that the first number was 1.5 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, the same formula shall be used except the first number shall be 1.16.

For admissions occurring during FY 2002, the same formula shall be used except the first number shall be 1.21.

For admissions occurring during FY 2003 and subsequent years, the same formula shall be used except the first number shall be 1.02.

b. Number of interns and residents. Initially, the number of interns and residents will be derived from the most recently available audited HCFA cost-report data (1984). Subsequent updates to the adjustment factor will be based on the count of interns and residents on the annual reports submitted by hospitals to the contractors (see above). The number of interns and residents is to be as of the date the report is submitted and is to include only those interns and residents actually furnishing services in the reporting hospital and only in those units subject to DRG-based reimbursement. The percentage of time used in

calculating the full-time equivalents is to be based on the amount of time the interns and residents spend in the portion of the hospital subject to DRG-based payment or in the outpatient department of the hospital on the reporting date. Beginning in FY 1999, TRICARE/CHAMPUS will use the number of interns and residents from HCFA's most recently available Provider Specific File.

c. Number of beds. Initially, the number of beds will be those reported on the most recent AHA Annual Survey of Hospitals (1986). Subsequent updates to the adjustment factor will be based on the number of beds reported annually by hospitals to the contractors (see above). The number of beds in a hospital is determined by counting the number of available bed days during the period covered by the report, not including beds or bassinets assigned to healthy newborns, custodial care, and excluded distinct part hospital units, and dividing that number by the number of days in the reporting period. Beginning in FY 1999, TRICARE/CHAMPUS will use the number of beds from HCFA's most recently available Provider Specific File.

d. Updates of indirect medical education factors. It is the contractor's responsibility to update the adjustment factors based on the data contained in the annual report. The effective date of the updated factor shall be the date payment is made to the hospital (check issued) for its capital and direct medical education costs, but in no case can it be later than thirty (30) days after the hospital submits its annual report. The updated factor shall be applied to claims with a date of discharge on or after the effective date. Similarly, contractors may correct initial factors if the hospital submits information (for the same base periods) which indicates the factor provided by TMA is incorrect.

(1) Beginning in FY 1999, TRICARE/CHAMPUS will use the ratio of interns and residents to beds from HCFA's most recently available Provider Specific File to update the IDME adjustment factors. The ratio will be provided to the contractors to update each hospital's IDME adjustment factor at the same time as the annual DRG update. The updated factors shall be applied to claims with a date of discharge on or after October 1 of each year. The contractor is no longer required to update a hospital's IDME factor based on data contained in the hospital's annual request for reimbursement for its capital and direct medical education costs.

(2) This alternative updating method shall only apply to those hospitals subject to the Medicare PPS as they are the only ones included in the Provider Specific File.

e. Adjustment for children's hospitals. An indirect medical education adjustment factor will be applied to each payment to qualifying children's hospitals. The factors for children's hospitals will be calculated using the same formula as for other hospitals. The initial factor will be based on the number of interns and residents and hospital bed size as reported by the hospital to the contractor. If the hospital provides the data to the contractor after payments have been made, the contractor will not make any retroactive adjustments to previously paid claims, but the amounts will be reconciled during the "hold harmless" process. At the end of its fiscal year, a children's hospital may request that its adjustment factor be updated by providing the contractor with the necessary information regarding its number of interns and residents and beds. The number of interns, residents, and beds must conform to the requirements above. The contractor is required to update the

factor within thirty (30) days of receipt of the request from the hospital, and the effective date shall conform to the policy contained above.

(1) Beginning in August 1998, and each subsequent year, the contractor shall send a notice to each children's hospital in its Region, who have not provided the contractor with updated information on its number of interns, residents and beds since the previous October 1 and advise them to provide the updated information by October 1 of that same year.

(2) The contractors shall send the updated ratios for children's hospitals to TMA, MB&RS, or designee, by April 1 of each year to be used in our annual DRG update calculations.

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