

Chapter 13

Section 1

General

Issue Date: July 27, 2005

Authority: 10 USC 1079(i)(2) and 10 USC 1079(h)

Revision: C-21, May 30, 2018

1.0 APPLICABILITY

This policy is mandatory for the reimbursement of services provided either by 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

A general overview of the coverage and reimbursement of hospital outpatient services.

3.0 POLICY

3.1 Statutory Background

3.1.1 Under 10 United States Code (USC) 1079(i)(2), the amount to be paid to hospitals, Skilled Nursing Facilities (SNFs), and other institutional providers under CHAMPUS shall, by regulation, be established "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." Similarly, under 10 USC 1079(h), the amount to be paid to health care professionals and other non-institutional health care providers "shall be equal to an amount determined to be appropriate, to the extent practicable, in accordance with the same reimbursement rules used by Medicare." Based on these statutory provisions, CHAMPUS adopted Medicare's Prospective Payment System (PPS) for reimbursement of hospital outpatient services currently in effect for the Medicare program as required under the Balanced Budget Act (BBA) of 1997 (Public Law 105-33), which provided comprehensive provisions for establishment of a hospital Outpatient Prospective Payment System (OPPS).

3.1.2 Centers for Medicare and Medicaid Services (CMS) published a proposed rule in the **Federal Register** (FR) on September 8, 1998 (63 FR 47552) setting forth the proposed PPS for hospital outpatient services. On June 30, 1999, a correction notice was published (64 FR 35258) to correct a number of technical and typographical errors contained in the September 8, 1998 Proposed Rule.

3.1.3 Subsequent to publication of the proposed rule, the Balanced Budget Refinement Act (BBRA) of 1999, enacted on November 29, 1999, made major changes that affected the proposed OPPS. The following BBRA 1999 provisions were implemented in a Final Rule (65 FR 18434) published on April 7, 2000:

3.1.3.1 Made adjustments for covered services whose costs exceeded a given threshold (i.e., an outlier payment).

3.1.3.2 Established transitional pass-through payments for certain medical devices, drugs, and biologicals.

3.1.3.3 Placed limitations on judicial review for determining outlier payments and the determination of additional payments for certain medical devices, drugs, and biologicals.

3.1.3.4 Included as covered outpatient services implantable prosthetics and Durable Medical Equipment (DME) and diagnostic x-ray, laboratory, and other tests associated with those implantable items.

3.1.3.5 Limited the variation of costs of services within each payment classification group by providing that the highest median cost for an item or service within the group cannot be more than two times greater than the lowest median cost for an item or service within the group (referred to as the "two times rule"). An exception to this requirement may be made in unusual cases, such as low volume items and services, but may not be made in the case of a drug or biological that has been designated as an orphan drug under Section 526 of the Federal Food, Drug and Cosmetic Act.

3.1.3.6 Required at least annual review of the groups, relative payment weights, and the wage and other adjustments to take into account changes in medical practice, the addition of new services, new cost data, and other relevant information or factors.

3.1.3.7 Established transitional corridors that would limit payment reductions under the hospital OPPS.

3.1.3.8 Established hold harmless provisions for rural and cancer hospitals.

3.2 Participation Requirement

In order to be an authorized provider under the TRICARE OPPS, an institutional provider must be a participating provider for all claims in accordance with [32 CFR 199.6\(a\)\(8\)](#).

3.3 Unbundling Provisions

As a prelude to implementation of the OPPS, Omnibus Budget Reconciliation Act (OBRA) of 1996 prohibited payment for nonphysician services furnished to hospital patients (inpatients and outpatients), unless the services were furnished either directly or under arrangement with the hospital except for services of Physician Assistants (PAs), Nurse Practitioners (NPs), and Clinical Nurse Specialists (CNSs). This facilitated the payment of services included within the scope of each Ambulatory Payment Classification (APC). The Act provided for the imposition of civil money penalties not to exceed \$2,000, and a possible exclusion from participation in Medicare, Medicaid and other federal health care programs for any person who knowingly and willfully presents, or causes to be presented, a bill or request for payment for a hospital outpatient service that violates the requirement for billing subject to the following exceptions:

3.3.1 Payment for clinical diagnostic lab may be made only to the person or entity that performed or supervised the performance of the test. In the case of a clinical diagnostic laboratory test

that is provided under arrangement made by a hospital or Critical Access Hospital (CAH), payment is made to the hospital. The hospital is not responsible for billing for the diagnostic test if a hospital patient leaves the hospital and goes elsewhere to obtain the diagnostic test.

3.3.2 See [Chapter 8, Section 1, paragraph 4.2.14.5.10](#) for outpatient services provided to SNF patients.

3.4 Applicability and Scope of Coverage

Following are the providers and services for which TRICARE will make payment under the OPPTS.

3.4.1 Provider Categories

3.4.1.1 Providers Included In OPPTS

3.4.1.1.1 All hospitals participating in the Medicare program, except for those excluded under [paragraph 3.4.1.2](#).

3.4.1.1.2 Hospital-based PHPs do not require separate TRICARE authorization. Authorization of a hospital by TRICARE is sufficient for its PHP to be an authorized TRICARE provider.

3.4.1.1.3 Hospitals or distinct parts of hospitals that are excluded from the inpatient Diagnosis Related Groups (DRG) to the extent that the hospital or distinct part furnishes outpatient services.

Note: All Hospital Outpatient Departments (HOPDs) will be subject to the OPPTS unless specifically excluded under this chapter. The marketing contractor shall have responsibility for educating providers to bill under the OPPTS even if they are not a Medicare participating/certified provider (i.e., not subject to the DRG inpatient reimbursement system).

3.4.1.1.4 Small Rural and Sole Community Hospitals (SCHs) in Rural Areas

TRICARE delayed implementation of its OPPTS for small rural hospitals with 100 or fewer beds and rural SCHs with 100 or fewer beds until January 1, 2010.

3.4.1.2 Providers Excluded From OPPTS

3.4.1.2.1 Outpatient services provided by hospitals of the Indian Health Service (IHS) will continue to be paid under separately established rates.

3.4.1.2.2 Certain hospitals that qualify for payment under the state's cost containment waiver, e.g., Maryland.

3.4.1.2.3 CAHs. See [Chapter 15, Section 1](#).

3.4.1.2.4 Hospitals located outside one of the 50 United States (U.S.), the District of Columbia, and Puerto Rico.

3.4.1.2.5 Specialty care providers to include:

- Cancer and children's hospitals
- Freestanding Ambulatory Surgery Centers (ASCs)
- Freestanding PHPs and Intensive Outpatient Programs ((IOPs) that offer psych and substance use treatments, Substance Use Disorder Rehabilitation Facilities (SUDRFs), and freestanding Opioid Treatment Programs (OTPs)
- Comprehensive Outpatient Rehabilitation Facilities (CORFs)
- Home Health Agencies (HHAs)
- Hospice programs
- Community Mental Health Centers (CMHCs)
- Other corporate services providers (e.g., Freestanding Cardiac Catheterization, Sleep Disorder Diagnostic Centers, and Freestanding Hyperbaric Oxygen Treatment Centers).

Note: Antigen, splints, casts and hepatitis B vaccines furnished outside the patient's plan of care in CORFs, HHAs and hospice programs will continue to receive reimbursement under current TRICARE allowable charge methodology.

- Freestanding Birthing Centers
- Department of Veterans Affairs (DVA) Hospitals
- Freestanding End Stage Renal Disease (ESRD) Facilities
- SNFs
- Psychiatric Residential Treatment Centers (RTCs)

3.4.2 Scope of Services

3.4.2.1 Services excluded under the hospital OPs and paid under the CHAMPUS Maximum Allowable Charge (CMAC) or other TRICARE recognized allowable charge methodology.

3.4.2.1.1 Physician services.

3.4.2.1.2 Nurse Practitioner (NP) and Clinical Nurse Specialist (CNS) services.

3.4.2.1.3 Physician Assistant (PA) services.

3.4.2.1.4 Certified Nurse-Midwife (CNM) services.

3.4.2.1.5 Services of qualified psychologists.

3.4.2.1.6 Clinical Social Worker (CSW) services.

3.4.2.1.7 Services of an anesthetist.

3.4.2.1.8 Screening and diagnostic mammographies.

3.4.2.1.9 Influenza and pneumococcal pneumonia vaccines.

Note: Hospitals, HHAs, and hospices will continue to receive CMAC payments for influenza and pneumococcal pneumonia vaccines due to considerable fluctuations in their availability and cost.

3.4.2.1.10 Clinical diagnostic laboratory services. Effective January 1, 2014, most laboratory tests will be packaged under OPPS. See [Section 4, paragraph 3.6](#).

3.4.2.1.11 Take home surgical dressings.

3.4.2.1.12 Non-implantable DME, prosthetics (prosthetic devices), orthotics, and supplies (DMEPOS) paid under the DMEPOS fee schedule when the hospital is acting as a supplier of these items.

- An item such as crutches or a walker that is given to the patient to take home, but that may also be used while the patient is at the hospital, would be paid for under the hospital OPPS.
- Payment may not be made for items furnished by a supplier of medical equipment and supplies unless the supplier obtains a supplier number. However, since there is no reason to split a claim for DME payment under TRICARE, a separate supplier number will not be required for a hospital to receive reimbursement for DME.

3.4.2.1.13 Hospital outpatient services furnished to SNF inpatients as part of their resident assessment or comprehensive care plan that are furnished by the hospital “under arrangements” but billable only by the SNF.

3.4.2.1.14 Services and procedures designated as requiring inpatient care.

3.4.2.1.15 Services excluded by statute (excluded from the definition of “covered Outpatient Department (OPD) Services”):

- Ambulance services
- Physical Therapy (PT)
- Occupational Therapy (OT)
- Speech-Language Pathology (SLP)

Note: The above services are subject to the CMAC or other TRICARE recognized reimbursement methodology (e.g., statewide prevailings).

3.4.2.1.16 Ambulatory surgery procedures performed in freestanding ASCs will continue to be reimbursed under the per diem system established in [Chapter 9, Section 1](#).

3.4.2.2 Costs excluded under the hospital OPPS:

3.4.2.2.1 Direct cost of medical education activities.

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- 3.4.2.2.2** Costs of approved nursing and allied health education programs.
- 3.4.2.2.3** Costs associated with interns and residents not in approved teaching programs.
- 3.4.2.2.4** Costs of teaching physicians.
- 3.4.2.2.5** Costs of anesthesia services furnished to hospital outpatients by qualified non-physician anesthetists (Certified Registered Nurse Anesthetists (CRNAs) and Anesthesiologist Assistants (AAs)) employed by the hospital or obtained under arrangements, for hospitals.
- 3.4.2.2.6** Bad debts for uncollectible and coinsurance amounts.
- 3.4.2.2.7** Organ acquisition costs.
- 3.4.2.2.8** Corneal tissue acquisition costs incurred by hospitals that are paid on a reasonable cost basis.
- 3.4.2.2.9** Autologous stem cell processing and harvesting procedures.
- 3.4.2.3** Services included in payment under the OPPS (not an all-inclusive list).
- 3.4.2.3.1** Hospital-based PHPs (psych and Substance Use Disorder SUD) which are paid a per diem OPPS, and for dates of service on or after October 3, 2016, Intensive Outpatient Programs (IOPs). Partial hospitalization is a distinct and organized intensive psychiatric outpatient day treatment program, designed to provide patients who have profound and disabling mental health and SUD conditions with an individualized, coordinated, comprehensive, and multidisciplinary treatment program. IOP is a comprehensive and complementary schedule of recognized treatment approaches that may include day, evening, night, and weekend services consisting of individual and group counseling or therapy, and family counseling or therapy as clinically indicated for children and adolescents, or adults aged 18 and over, and may include case management to link patients and their families with community-based support systems.
- 3.4.2.3.2** OTPs are organized, ambulatory, addiction treatment services for patients with an opioid use disorder. Hospital-based Methadone OTPs shall be reimbursed a weekly all-inclusive per diem rate, including the cost of the drug and related services (i.e., the costs related to the initial intake/assessment, drug dispensing and screening, and integrated psychosocial and medical treatment and support services). The bundled weekly per diem payments shall be accepted as payment in full, subject to the outpatient cost-sharing provisions under [32 CFR 199.4\(f\)](#). When providing other medications which are more likely to be prescribed and administered in an Office-Based Opioid Treatment (OBOT) setting, but which are still available for treatment of SUDs in an outpatient treatment program setting, OTPs shall be reimbursed on a fee-for-service basis (i.e., separate payments will be allowed for both the medication and accompanying support services), subject to the outpatient cost-sharing provisions under [32 CFR 199.4\(f\)](#).
- 3.4.2.3.3** All hospital outpatient services, except those that are identified as excluded. The following are services that are included in OPPS:
- 3.4.2.3.3.1** Surgical procedures.

Note: All hospital based ASC claims that are submitted to be paid under OPPS must be submitted with a Type Of Bill (TOB) 13X. If a claim is submitted to be paid with TOB 83X the claim will be denied.

3.4.2.3.3.2 Radiology, including radiation therapy.

3.4.2.3.3.3 Clinic visits.

3.4.2.3.3.4 Emergency Department (ED) visits.

3.4.2.3.3.5 Diagnostic services and other diagnostic tests.

3.4.2.3.3.6 Surgical pathology.

3.4.2.3.3.7 Cancer chemotherapy.

3.4.2.3.3.8 Implantable medical items.

- Prosthetic implants (other than dental) that replace all or part of an internal body organ (including colostomy bags and supplies directly related to colostomy care and including replacement of these devices);
- Implantable DME (e.g., pacemakers, defibrillators, drug pumps, and neurostimulators);
- Implantable items used in performing diagnostic x-rays, diagnostic laboratory tests, and other diagnostic tests.

Note: Because implantable items are now packaged into the APC payment rate for the service or procedure with which they are associated, certain items may be candidates for the transitional pass-through payment.

3.4.2.3.3.9 Specific hospital outpatient services furnished to a beneficiary who is admitted to a Medicare-participating SNF for those services that are beyond the scope of SNF comprehensive care plans. See [Chapter 8, Section 1, paragraph 4.2.14.5.10](#) for outpatient services provided to SNF patients.

3.4.2.3.3.10 Certain preventive services furnished to healthy persons, such as colorectal cancer screening.

3.4.2.3.3.11 Acute dialysis (e.g., dialysis for poisoning).

3.4.2.3.3.12 ESRD Services. Since TRICARE does not have an ESRD composite rate, ESRD services are included in TRICARE's OPPS.

3.4.2.3.3.13 Acquisition costs for allogenic stem cell transportation.

3.4.2.3.3.14 Autologous stem cell processing and harvesting procedures.

3.5 Description of APC Groups

3.5.1 Group services identified by Healthcare Common Procedure Coding System (HCPCS) codes and descriptors within APC groups are the basis for setting payment rates under the hospital OPPS.

3.5.2 The APC system establishes groups of covered services so that the services within each group are comparable clinically and with respect to the use of resources. The fundamental criteria for grouping procedures/services are: resource homogeneity; clinical homogeneity; provider concentration; and frequency of service. See the TRICARE OPPS Final Rule for descriptions (73 FR 74945).

3.6 Basic Reimbursement Methodology

3.6.1 Under the OPPS, hospital outpatient services are paid on a rate-per-service basis that varies according to the APC group to which the service is assigned.

3.6.2 The APC classification system is composed of groups of services that are comparable clinically and with respect to the use of resources. Level I and Level II HCPCS codes and descriptors are used to identify and group the services within each APC. Costs associated with items or services that are directly related and integral to performing a procedure or furnishing a service have been packaged into each procedure or service within an APC group with the exception of:

- New temporary technology APCs for certain approved services that are structured based on cost rather than clinical homogeneity.
- Separate APCs for certain medical devices, drugs, biologicals, radiopharmaceuticals and devices of brachytherapy under transitional pass-through provisions.

3.6.3 Each APC weight represents the median hospital cost of the services included in the APC relative to the median hospital cost of services included in the hospital clinic visits APC. APC weights are scaled to the hospital clinic visits APC because it is one of the most frequently performed services in the outpatient setting.

3.6.4 The items and services within an APC group cannot be considered comparable with respect to the use of resources if the highest median cost for an item or service in the group is more than two times greater than the lowest median cost for an item or service within the same group. However, exceptions may be made to the two times rule "in unusual cases, such as low volume items and services."

3.6.5 The prospective payment rate for each APC is calculated by multiplying the APC's relative weight by the conversion factor.

3.6.6 A wage adjustment factor will be used to adjust the portion of the payment rate that is attributable to labor-related costs for relative differences in labor and non-labor-related costs across geographical regions.

3.6.7 Applicable deductible and/or cost-sharing/copayment amounts will be subtracted from the adjusted APC payment rate based on the eligibility status of the beneficiary at the time outpatient services were rendered (e.g., Prime or Select). See [Chapter 2](#).

Note: The ASC cost-sharing provision (i.e., assessment of a single copayment for both the professional and facility charge for a Prime or Select enrollee) will be adopted as long as it is administratively feasible. For beneficiary categories where cost-sharing is based on a percentage of the maximum allowable amount, the ASC cost-sharing provision does not apply. The copayment is based on site of service, except for venipuncture and fetal monitoring. Reference [Chapter 2, Section 1, paragraphs 1.2.4.5 and 1.2.4.7](#).

3.6.8 Reimbursement hierarchy for procedures paid outside the OPPS. For information related to the CMAC Facility Pricing Hierarchy, see [Chapter 5, Section 3, paragraph 3.7.2.4](#).

3.6.9 Composite APCs provide a single payment for a comprehensive diagnostic and/or treatment service defined as a service typically reported with multiple HCPCS codes. See [Section 2](#) for additional information.

3.6.10 Comprehensive APCs provide a single payment for a primary service, and payment for all adjunctive services reported on the same claim are packaged into the payment for the primary service. See [Section 2](#) for additional information.

3.7 Outpatient Code Editor (OCE)

3.7.1 The OCE with APC program edits patient data to help identify possible errors in coding and assigns APC numbers based on HCPCS codes for payment under the OPPS. The OPPS is an outpatient equivalent of the inpatient, DRG-based PPS. Like the inpatient system based on DRGs, each APC has a pre-established prospective payment amount associated with it. However, unlike the inpatient system that assigns a patient to a single DRG, multiple APCs can be assigned to one outpatient record. If a patient has multiple outpatient services during a single visit, the total payment for the visit is computed as the sum of the individual payments for each service. Updated versions of the OCE and data files, along with installation and user manuals, will be delivered electronically to the contractors. The contractors will be required to replace the existing OCE with the updated OCE within 21 calendar days of receipt. See [Addendum A](#), for quarterly review/update process.

3.7.2 The OCE incorporates the National Correct Coding Initiatives (NCCI) edits used by the CMS. Claims reimbursed under the OPPS methodology are exempt from the claims auditing software referenced in [Chapter 1, Section 3](#).

3.7.3 Under certain circumstances (e.g., active duty claims), the contractor may override claims that are normally not payable.

3.7.4 CMS has agreed to the use of 900 series numbers (900-999) within the OCE for TRICARE specific edits.

3.8 PRICER Program

3.8.1 The APC PRICER will be straightforward in that the site-of-service wage index will be used to wage adjust the payment rate for the particular APC HCPCS Level I and II code (e.g., a HCPCS code with a designated Status Indicator (SI) of J1, S, T, V, or **X**¹) reported off of the hospital outpatient claim. The PRICER will also apply discounting for multiple surgical procedures performed during a single

¹ Effective January 1, 2015, SI of **X** is no longer recognized.

operative session and outlier payments for extraordinarily expensive cases. DHA will provide the contractor's with a common TRICARE PRICER and will provide quarterly updates. The contractors shall replace the existing PRICER with the updated PRICER within 21 days of receipt.

Note: Claims received with service dates on or after the OPPS quarterly effective dates (i.e., January 1, April 1, July 1, and October 1 of each calendar year) but prior to 21 days from receipt of either the OPPS OCE or PRICER update cartridge may be considered excluded claims as defined by the TRICARE Operations Manual (TOM), [Chapter 1, Section 3, paragraph 1.4.2](#).

3.8.2 The contractors shall provide 3M with those pricing files to maintain and update the TRICARE OPPS Pricer within five weeks prior to the quarterly update. For example, statewide prevailings for services that do not have a CMAC and state specific non-professional component birthing center rates. Appropriate deductible, cost-sharing/copayment amounts and catastrophic caps limitations will be applied outside the PRICER based on the eligibility status of the TRICARE beneficiary at the time the outpatient services were rendered.

3.9 Geographical Wage Adjustments

DRG wage indexes will be used for adjusting the OPPS standard payment amounts for labor market differences. Refer to the OPPS Provider File with Wage Indexes on DHA's OPPS home page at <https://health.mil/Military-Health-Topics/Business-Support/Rates-and-Reimbursement/Outpatient-Prospective-Payment-System> for annual OPPS wage index updates. The annual DRG wage index updates will be effective January 1 of each year for the OPPS.

3.10 Provider-Based Status for Payment Under OPPS

The CMS will retain sole responsibility for determining provider-based status under the OPPS.

3.11 Implementing Instructions

Since this issuance only deals with a general overview of the OPPS reimbursement methodology, the following cross-reference is provided to facilitate access to specific implementing instructions within Chapter 13:

| IMPLEMENTING INSTRUCTIONS/SERVICES | |
|--|----------------------------|
| POLICIES | |
| General Overview | Section 1 |
| Billing and Coding of Services under APC Groups | Section 2 |
| Reimbursement Methodology | Section 3 |
| Claims Submission and Processing Requirements | Section 4 |
| Medical Review Under the Hospital OPPS | Section 5 |
| ADDENDA | |
| Development Schedule for TRICARE OCE/APC - Quarterly Update | Addendum A |
| OPPS OCE Notification Process for Quarterly Updates | Addendum B |
| Approval Of OPPS - OCE/APC And NGPL Quarterly Update Process | Addendum C |

3.12 OPPS Data Elements Available On DHA's Web Site

The OPPS data elements are available on DHA's OPPS web site at <https://health.mil/Military-Health-Topics/Business-Support/Rates-and-Reimbursement>.

4.0 EFFECTIVE DATES

4.1 May 1, 2009.

4.2 October 3, 2016, for IOPs.

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