

Chapter 3

Section 1

Reimbursement Of Individual Health Care Professionals And Other Non-Institutional Health Care Providers

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1.0 GENERAL

1.1 Reimbursement of a non-network individual health care professional or other non-institutional health care provider shall be determined under the allowable charge method specified in [Chapter 1, Section 7](#) and [Chapter 5, Section 1](#). For network providers, the contractor is free to negotiate rates that would be less than the rates established under the allowable charge methodology.

1.2 Unless otherwise stated in the TRICARE Policy Manual (TPM), inpatient or outpatient services rendered by all individual professional providers and suppliers must be billed on the Centers for Medicare and Medicaid Services (CMS) 1500 Claim Form, except as indicated in [paragraphs 1.4](#) and [1.5](#). This requirement also applies to individual professional providers employed by or under contract to an institution. When inpatient services are rendered by a provider employed by or under contract to a participating institution, the services must be billed on a participating basis.

1.3 Contractors are not required to individually certify the professional providers employed by or under contract to an institutional provider billing for their services under the institution's federal tax number since these types of providers are not recognized as authorized TRICARE professional providers because of their "contracted" status ([32 CFR 199.6\(c\)\(1\)](#)). However, reimbursement for services of institutional-based professional providers is limited to the services of those providers that would otherwise meet the qualifications of individual professional providers except that they are either employed by or under contract to an institutional provider. Institutional-based professional services are subject to the allowable charge methodology; see [32 CFR 199.14\(j\)](#). For TRICARE Encounter Data (TED)/TRICARE Encounter Provider (TEPRV) reporting, refer to the TRICARE Systems Manual (TSM), [Chapter 2](#).

1.4 Some institutions are required to include the institutional-based professional charges on the CMS 1450 UB-04 claim form. The contractor's system must recognize these charges as noncovered institutional charges when the CMS 1450 UB-04 indicates professional component charges using Value Code "05" (see the CMS 1450 UB-04 Instructions Manual, Form Locator (FL) 39 - 41). Value code "05" indicates that the charges are included on the CMS 1450 UB-04 and will also be billed separately on the CMS 1500 Claim Form. The CMS 1450 UB-04 may be used by institutional providers and Home Health Care (HHC) Agencies to bill for professional services. The CMS 1450 UB-04 must include all the required information needed to process the professional services and reimburse the services using the

allowable charge payment methodology, to include any negotiated rates. The contractors shall contact any HHC Agency that has requested to bill for professional services on the CMS 1450 UB-04 to assist them with the proper billing requirements, e.g., Current Procedural Terminology, 4th Edition (CPT-4) procedure codes, name of the actual provider, etc.

1.5 Professional charges may be billed on a CMS 1450 UB-04, either on the same claim as the facility charges or on a separate claim. If professional charges are submitted on the same CMS 1450 UB-04 claim form as other outpatient facility charges, the contractor shall require the provider to submit them on a separate claim form.

2.0 ALLOWABLE CHARGE METHOD

2.1 General

2.1.1 The allowable charge for a service or supply shall be the lowest of the billed charge, the prevailing charge, or the Medicare Economic Index (MEI) adjusted prevailing charge (known as the maximum allowable prevailing charge). The profiled amount (the prevailing charge or the maximum allowable prevailing charge, whichever is lower) to be used is based upon the date of service. Regardless of the profiled amount, no more than the billed amount may ever be allowed.

Note: If, under a program approved by Defense Health Agency (DHA), a provider has agreed to discount his or her normal billed charges below the profiled amounts, the amount allowed may not be more than the negotiated or discounted charges. When calculating the allowable charge, use the discounted charge in place of the provider's actual billed charge unless the discounted amount is above the billed charge. When the discounted amount is above the billed charge, the actual billed charge shall be used.

2.1.2 The contractor has primary responsibility for determining allowable charges according to the law, the Regulation, and the broad principles and policy guidelines issued.

2.1.3 Allowable charge determinations made by contractors are not normally reviewed by DHA on a case-by-case basis. However, DHA will review allowable charge determinations of contractors through profile analysis, sample case review and periodic review of profile development procedures. Therefore, each contractor shall maintain, in accessible form, the following data:

2.1.3.1 The charge data used to develop prevailing charges. For every prevailing charge, this must include a list identifying each provider whose charges were used in developing the prevailing charge as well as the provider's charges. The list shall be arrayed in ascending order by the amount of the billed charges.

2.1.3.2 The summary data used to develop prevailing conversion factors. This is to include every prevailing charge (identified by amount, procedures, weighted frequency, and Relative Value Units (RVUs)) which was used in calculating each conversion factor.

2.2 Database And Profile Updating

Note: Annual update of state prevailing amounts, reference [Chapter 5, Section 3, paragraph 3.7.5](#).

TRICARE Reimbursement Manual 6010.61-M, April 1, 2015

Chapter 3, Section 1

Reimbursement Of Individual Health Care Professionals And Other Non-Institutional Health Care Providers

2.2.1 The 80th percentile of charges shall be determined on a date or dates specified by DHA. Profile update data used shall be charges for services and supplies provided during the 12 month period ending on June 30 prior to the update. The contractor shall maintain two sets of profiles; the current profiles and the previous year's profiles. The contractor shall apply profiles based on the date of service. The fee screen year is the calendar year.

2.2.2 Each contractor shall develop procedures to ensure that the data base used to develop the profile for any procedure contains only charges actually made for that procedure. Thus, edits must be developed which will eliminate charges for individual consideration cases, and charges for multiple surgery, as well as aberrant data resulting from coding errors and other data problems. A description of these procedures is to be available for DHA review.

2.2.3 All charges, except those identified above, made by individual providers for services rendered to TRICARE beneficiaries during the data base period must be included in the data base. The usual (pre-discount) charges of network providers or the contractor's or a subcontractor's private business may be included if the billing arrangement with the provider or other source of data for the data base is such that accurate data for the state will be obtained.

2.2.4 Except when an error has occurred, updated actual prevailings are not to be lower than the previous year's actual prevailings. However, if for two consecutive years the rates are lower than the established profiles, then, in the second year, the rates will be lowered to the higher of the two profiles which are below the established profile. However, if the updated prevailing charge is lower, contractors shall continue using the previous actual prevailing charge. When the updated prevailing charge is 25% or more lower than the previous prevailing charge, the contractor shall review the development of both profiles. If no errors are found, the new profile is to be increased to the level of the previous profile. If the previous profile is higher due to an error in its calculation, the updated profile shall be used. The same rules apply to conversion factors when the updated conversion factor is less than the previous one. However, in all cases an actual profile on a procedure takes precedence over an allowance based on a conversion factor.

2.2.4.1 When the current allowance based on a conversion factor is less than the previous allowance based on an actual profile, the previous profile amount is to be used.

2.2.4.2 When the current allowance based on an actual profile is less than the previous allowance based on a conversion factor, the actual profile is to be used.

Note: This provision does not apply to those instances where profiles are initially developed for a distinct class of provider which was previously included with providers having higher profiles.

2.2.5 Once the contractor has completed the update of its profiles, further revisions in the profiles will not be permitted, except to correct erroneous calculations or to establish profiles for new services. If the contractor finds it necessary to correct profiles or to establish a profile fee for a new procedure, the action will be thoroughly documented and retained in accessible form for not less than the retention period for the claims processed during the active life of that profile.

2.3 Prevailing Charges

2.3.1 Prevailing charges are those charges which fall within the range of charges that are most frequently used in a state for a particular procedure or service. The top of this range establishes an overall limitation on the charges which the contractor shall accept as allowable for a given procedure or service, except when unusual circumstances or medical complications warrant an additional charge (see [Chapter 5, Section 4](#)).

2.3.2 Unless DHA, has made a specific exception, prevailing profiles shall be developed on a statewide basis. Localities within states are not to be used, nor are prevailing profiles to be developed for any area larger than individual states.

2.3.3 Prevailing profiles shall be developed on a nonspecialty basis. Of course, types of services are to be differentiated. For example, for a given surgical procedure the surgeon, assistant surgeon, and the anesthesiologist would all be reimbursed based on different profiles. However, reimbursement for the actual surgery shall be based on only one profile, regardless of whether the surgery was performed by a specialist or a general surgeon. An exception to this rule is that when services are performed by different classes of providers; e.g., a physician vis-a-vis a non-physician, separate profiles shall be developed for each class of provider. For example, there are three distinct classes of providers who render similar psychiatric services; psychiatrists, psychologists and others (medical social workers (MSWs), marriage and family counselors, pastoral counselors, mental health counselors, etc.). Moreover, two distinct classes of providers render obstetrical services; physicians and nurse midwives. Separate profiles shall be developed for each of the classes. Since a physician can render more comprehensive services than non-physicians (and likewise for psychologists as opposed to MSWs) the profile for the lesser-qualified class of provider shall never be higher than that for a higher-qualified class of provider. For example, in cases in which psychologists' profiles are higher than psychiatrists', the psychologists' profiles shall be lowered to that of the psychiatrists' profiles.

2.3.4 When there are two or more procedures which are identical except for the amount of time involved (e.g., CPT procedure codes 90843 and 90844), the contractor shall ensure that the profile for the shorter procedure does not exceed the profile for the longer procedure. In those cases in which it does, the contractor shall reduce the profile for the shorter procedure to that of the longer procedure (see [Chapter 5, Section 3](#)).

2.4 Conversion Factors

2.4.1 General

Submitted charges shall be compared with the applicable prevailing charge to determine the allowable charge for the service. If there is insufficient actual charge data to determine the prevailing charge in the state for a service, the contractor shall calculate a prevailing charge by multiplying the appropriate prevailing charge conversion factor by the appropriate RVUs.

2.4.1.1 Conversion factors shall be developed for broad types of services. As a minimum, the types of service shall include medicine, surgery, anesthesia, radiology, and pathology. In addition, separate conversion factors shall be developed for each class of provider which can provide a particular type of

TRICARE Reimbursement Manual 6010.61-M, April 1, 2015

Chapter 3, Section 1

Reimbursement Of Individual Health Care Professionals And Other Non-Institutional Health Care Providers

service. For example, there should be three medicine conversion factors - one for physicians, one for psychologists, and one for other non-physician providers.

2.4.1.2 Conversion factors shall be used to derive “approximate” prevailing charges. Since prevailing charges based on conversion factors are estimates of actual (but unknown) “average” charges, their reliability is only as good as the known, but often limited, data. Contractors shall exercise extreme care in developing conversion factors. When beneficiaries, physicians, and suppliers inquire regarding reimbursement based on the use of a conversion factor, the contractor shall use its best judgment based on the data available to it (including information the physician or supplier may furnish) to resolve the issue.

2.4.1.3 In those cases in which a profile has been increased to the previous year’s level, the contractor shall also use the higher previous amount in calculating a conversion factor. A conversion factor is simply a mathematical representation of what is currently being paid for similar services, and thus it should be based on the profiles actually in use.

2.4.2 Relative Value Scales

Relative value scales developed or adopted by the contractor shall be carefully reviewed and validated before they are used. The contractor is responsible for ensuring that a relative value scale which is used to estimate prevailing charges accurately reflects charge patterns in the area serviced by the contractor. When a conversion factor results in an obviously incorrect amount (either high or low), the contractor is to make an adjustment in its relative value scale which will correct the error. Such corrections are to be reviewed in subsequent profile updates to ensure they are accurate.

2.4.3 Calculation Of Prevailing Charge Conversion Factors

2.4.3.1 Prevailing charge conversion factors used with relative value scales to fill gaps in contractor prevailing charge screens shall be calculated from the following formula:

C/F = Prevailing charge conversion factor.
CHG = The fully adjusted prevailing charge for a procedure.
SVC = The number of times the procedure was performed by all physicians in the state.
RVU = The RVU assigned to the procedure.
SUM OF SVC = The total number of times all procedures for which actual prevailing charges have been established and were performed in the state.

$$C/F = \frac{\frac{CHG}{RVU} \times SVC + \frac{CHG}{RVU} \times SVC + \dots + \frac{CHG}{RVU} \times SVC}{\text{Sum of SVC}}$$

Example: Compute a prevailing charge conversion factor on the basis of known prevailing charges within the same type of service.

TRICARE Reimbursement Manual 6010.61-M, April 1, 2015

Chapter 3, Section 1

Reimbursement Of Individual Health Care Professionals And Other Non-Institutional Health Care Providers

PROCEDURE	FREQUENCY	ACTUAL CHARGE	RELATIVE VALUE
1	30	\$5.00	1
2	70	12.00	2
3	50	35.00	5
4	40	20.00	3
5	60 250	8.00	1.5

2.4.3.2 Method

- For each procedure, divide the prevailing charge by the relative value and multiply the result by the frequency of that procedure in the charge history.
- Add all the results of these computations.
- Divide the result by the sum of all the frequencies.

2.4.3.3 Solution

$$\frac{(5 \times 30)}{1} + \frac{(12 \times 70)}{2} + \frac{(35 \times 50)}{5} + \frac{(20 \times 40)}{3} = \frac{(8 \times 60)}{1.5} =$$

250

$$(5 \times 30) + (6 \times 70) + (7 \times 50) + (6.67 \times 40) = (5.33 \times 60) =$$

250

$$150 + 420 + 350 + 266.8 + 319.8 =$$

250

$$\frac{1,506.6}{250} = \$6.03$$

2.4.3.4 The conversion factors calculated for any profile year shall reflect prevailing charges calculated on the basis of charge data for the applicable profile year. Also, prevailing charges established through the use of a relative value scale and conversion factors, in effect, consist of two components. Consequently, the conversion factors used shall be recalculated when there is an extensive change in the RVUs assigned to procedures (as may occur if the contractor begins to use a different or updated relative value scale but not if the unit value of a single procedure is changed) in order to ensure that the change(s) in unit values do not change resultant conversion factors.

2.4.3.5 Since conversion factors are a calculated amount and shall only be used when multiplied by a relative value, conversion factors are to be rounded only to the nearest whole cent. It is not acceptable to round to the nearest dollar or tenth dollar (dime).

2.5 Procedure Codes

The CPT Coding System includes Level I: CPT Codes and Level II: Alpha Character and DHA approved codes for retail and Mail Order Pharmacy (MOP). (Reference the TSM, [Chapter 2, Addendum E.](#))

2.6 Professional surgical procedures shall be subject to the same multiple procedure discounting guidelines and modifier requirements as prescribed under the Outpatient Prospective Payment System (OPPS). Refer to [Chapter 1, Section 16, paragraphs 3.1.1.1 through 3.1.1.3](#) and [Chapter 13, Section 3, paragraphs 3.1.5.2 and 3.1.5.3](#) for further detail.

2.7 Professional procedures which are terminated or are bilateral shall be subject to discounting based on modifier guideline requirements as prescribed under the OPPS. Refer to [Chapter 1, Section 16, paragraphs 3.1.1.1 through 3.1.1.3](#) and [Chapter 13, Section 3, paragraphs 3.1.5.2 and 3.1.5.3](#) for further detail.

2.8 Prevention Of Gross Dollar Errors

Parameters Consistent With Private Business. The contractor shall establish procedures for the review and authorization of payment for all claims exceeding a predetermined dollar amount. These authorization schedules shall be consistent with the contractor's private business standards.

2.9 Industry standard modifiers and condition codes may be billed on individual professional claims to further define the procedure code or indicate that certain reimbursement situations may apply to the billing. Recognition and utilization of modifiers are essential for ensuring accurate processing and payment of these claims.

3.0 CHAMPUS MAXIMUM ALLOWABLE CHARGE (CMAC) SYSTEM

3.1 General

The CMAC system is effective for all services. The zip code where the service was rendered determines the locality code to be used in determining the allowable charge under CMAC. In most instances the zip code used to determine locality code will be the zip code of the provider's office. For processing an adjustment, the zip code which was used to process the initial claim must be used to determine the locality for the allowable charge calculation for the adjustment. Adjustments shall be processed using the appropriate rate based on the date of service. Post office box zip codes are acceptable only for Puerto Rico and for providers whose major specialty is anesthesiology, radiology or pathology (see [Chapter 5, Section 3](#)).

3.2 Locality Code

For TED reporting, the locality code used in the reimbursement of the procedure code shall be

TRICARE Reimbursement Manual 6010.61-M, April 1, 2015

Chapter 3, Section 1

Reimbursement Of Individual Health Care Professionals And Other Non-Institutional Health Care Providers

reported for each payment record line item, i.e., on each line item where payment is based on a CMAC, the locality shall be reported. Any adjustment to a claim originally paid under CMAC without a locality code, shall include the locality code that it was priced on at the time of the initial payment. The locality code reported on the initial claim shall be used to process any future adjustments of that claim unless one of the conditions listed below occurs:

- The adjustment is changing the type of pricing from CMAC to a different payment method, in which case the locality code should be blank filled, or;
- The initial claim was priced incorrectly because of using a wrong locality code, in which case the correct locality code should be used.

4.0 BALANCE BILLING LIMITATION FOR NON-PARTICIPATING PROVIDERS

4.1 General

Non-participating providers may not balance bill the beneficiary more than 115% of the allowable charge.

Note: When the billed amount is less than 115% of the allowed amount, the provider is limited to billing the billed charge to the beneficiary. The balance billing limit shall be applied to each line item on a claim.

Example 1: No Other Health Insurance (OHI)

Billed charge	\$500
Allowable charge	\$200
Amount billed to beneficiary (115% of \$200)	\$230

Example 2: OHI

Billed charge	\$500
Allowable charge	\$200
Amount paid by OHI to the beneficiary	\$200
Amount billed to beneficiary (115% of \$200)	\$230

Note: When payment is made by OHI, this payment does not affect the amount billable to the beneficiary by the non-participating provider except, when it can be determined, that the OHI limits the amount that can be billed to the beneficiary by the provider.

Example 3: Provider Refuses To File Claim Or Has Charged An Administrative Fee

Billed charge	\$100.00
CMAC	\$110.00
Allowed amount	\$100.00
10% abatement ($\$100 \times 0.10$)	\$10.00
Adjusted allowed amount ($\$100 - \10)	\$90.00
Provider billed charge to beneficiary (Limited to billed amount.)	\$100.00

TRICARE Reimbursement Manual 6010.61-M, April 1, 2015

Chapter 3, Section 1

Reimbursement Of Individual Health Care Professionals And Other Non-Institutional Health Care Providers

Example 4: Non-Participating Provider Refuses To File Claim Or Has Charged An Administrative Fee

Billed charge	\$150.00
CMAC	\$100.00
Allowed amount	\$100.00
10% abatement ($\$100 \times 0.10$)	\$10.00
Adjusted allowed amount ($\$100 - \10)	\$90.00
Provider billed charge to beneficiary ($\$90.00 \times 115\%$)	\$103.50

4.1.1 Provider bulletins shall be used to notify authorized providers of the balance billing limitation of the amount that may be billed by a non-participating provider to the beneficiary.

4.1.2 The contractor shall notify beneficiaries of the balance billing limitation and the amount that may be legally billed by a non-participating provider to the beneficiary through stuffers.

4.1.3 The following language shall be used to respond to beneficiary inquiries concerning the TRICARE non-participating provider balance billing provision. Routine stuffers shall not be used to convey this information.

Note: In accordance with 32 CFR 199, a balance billing limitation for services provided by non-participating providers was effective on and after November 1, 1993. This provision limits non-participating providers from billing TRICARE beneficiaries more than 115% of the allowable charge authorized by TRICARE which is shown on the Explanation Of Benefits (EOB). Please note when the provider's billed charge is less than 115% of the allowed amount, the billed charge becomes the billable amount to the beneficiary. However, this restriction does not apply to noncovered services. Nonparticipating providers who do not comply with the limitation shall be subject to exclusion from the TRICARE program as authorized providers and may be excluded as a Medicare provider. If a non-participating provider bills and/or collects more from the beneficiary than the amount the provider may bill, contact the contractor's Program Integrity department in writing. The beneficiary should include information which documents the higher billed amount, such as a copy of the EOB, bills from the non-participating provider to the beneficiary, demand letter from the non-participating provider to the beneficiary requesting an amount above the 115% of the allowable amount, and copies of cancelled checks that would identify excessive amounts paid by the beneficiary to the non-participating provider.

4.2 Failure To Comply

4.2.1 If a non-participating provider fails to comply with this balance billing limitation requirement, the provider shall be subject to exclusion from the TRICARE Program as an authorized provider and may be excluded as a Medicare provider.

4.2.2 When the contractor receives a complaint that a non-participating provider is balance billing a beneficiary for an amount greater than 115% of the allowable charge, the contractor shall follow the instructions in the TRICARE Operations Manual (TOM), [Chapter 13, Section 5](#).

4.3 Granting of Waiver Of Limitation

When requested by a TRICARE beneficiary, the contractor, on a case-by-case basis, may waive

TRICARE Reimbursement Manual 6010.61-M, April 1, 2015

Chapter 3, Section 1

Reimbursement Of Individual Health Care Professionals And Other Non-Institutional Health Care
Providers

the balance billing limitation. If the beneficiary is willing to pay the non-participating provider for his/her billed charges, then the waiver shall be granted. The contractor shall obtain a signed statement from the beneficiary stating that he/she is aware that the provider is billing above the 115% limit, however, they feel strongly about using that provider and they are willing to pay the additional money. The beneficiary shall be advised that the provider still may be excluded from the TRICARE program, if he/she is over billing other TRICARE beneficiaries and they object. The waiver is controlled by the contractor, not by the provider. The contractor is responsible for communicating the potential costs to the beneficiary if the waiver statement is signed. A decision by the contractor to waive or not to waive the limit shall not be subject to the TRICARE appeals process.

- END -