

## Hospital Reimbursement - TRICARE Diagnosis Related Group (DRG)-Based Payment System (Adjusted Standardized Amounts (ASAs))

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### 1.0 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 the Defense Health Agency (DHA) and specifically included in the network provider agreement.

### 2.0 ISSUE

What are the Adjusted Standardized Amounts (ASAs) under the TRICARE DRG-based payment system, and how are they used and calculated?

### 3.0 POLICY

#### 3.1 General

The ASA represents the adjusted average operating cost for treating all TRICARE beneficiaries in all DRGs during the database period. Rural hospitals and hospitals located in other areas shall receive the same ASA payment rate as large urban hospitals.

#### 3.2 Calculation Of The ASA

The following procedures will be followed in calculating the TRICARE ASA.

##### 3.2.1 Apply the Cost-to-Charge Ratio (CCR)

In this step each charge is reduced to a representative cost by using the Medicare CCR. Effective FY 2018, the CCR is 0.2566. Effective FY 2019, the CCR is 0.2514. **Effective CY 2020, the CCR is 0.2567.**

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##### **3.2.2 Increase for Bad Debts**

The base standardized amount will be increased by 0.01 in order to reimburse hospitals for bad debt expenses attributable to TRICARE beneficiaries. Effective FY 2013, the base standardized amount will be increased by 0.0065.

##### **3.2.3 Update for Inflation**

Any recalculation of the ASA will use an inflation factor equal to the hospital market basket index used by the Centers of Medicare and Medicaid Services (CMS) in their Inpatient Prospective Payment System (IPPS).

##### **3.2.4 Preliminary Non-Teaching Standardized Amount**

At this point Indirect Medical Education (IDME) costs have been removed through standardization in the weight methodology and direct medical education costs have been removed through the application of the Medicare CCR which does not include direct medical education costs. Therefore, a non-teaching standardized amount will be computed by dividing aggregate costs by the number of discharges in the database.

##### **3.2.5 Preliminary Teaching Standardized Amounts**

A separate standardized amount will be calculated for each teaching hospital to reimburse for IDME expenses. This will be done by multiplying the non-teaching standardized amount by 1.0 plus each hospital's IDME factor.

##### **3.2.6 System Standardization**

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

##### **3.2.7 Labor-Related and Nonlabor-Related Portions of the ASA**

The ASA shall be divided into labor-related and nonlabor-related portions according to the ratio of these amounts in the national ASA under the Medicare IPPS. Effective October 1, 2013, and subsequent years, for wage index values greater than 1.0, the labor related portion of the ASA shall equal 68.3%, and the non-labor related portion shall equal 31.7%. For wage indexes less than or equal to 1.0 the labor-related portion for the ASA shall equal 62% and the non-labor-related portion shall equal 38%.

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**3.2.8 Updating the Standardized Amounts**

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

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