

## Hospital Reimbursement - TRICARE DRG-Based Payment System (DRG Weighting Factors)

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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 TRICARE Management Activity (TMA) and specifically included in the network provider agreement.

### 2.0 ISSUE

What is the purpose of DRG weighting factors under the TRICARE DRG-based payment system, and how will they be calculated, used, and updated?

### 3.0 POLICY

**3.1 DRG Weighting Factors.** The DRG weights reflect the relative resource consumption associated with each DRG. That is, the weight reflects the average resources required by all hospitals to treat a case classified as a specific DRG relative to the resources required to treat cases in each of the other DRGs. All weights are standardized to a theoretical average weight of 1.0 which is the average weight of all TRICARE claims in the data base. (This is the relative weight of the national average charge per discharge.)

**3.2 Calculation of DRG weights.** The TRICARE weights are derived from charges. They will not reflect standardization for capital or direct medical education expenses, but the charges on which they are based are standardized for Indirect Medical Education (IDME) differences. The TRICARE DRG weights will be discharge-weighted. Specifically, the denominator used to calculate each weight represents the national average charge per discharge for the average patient. In order to calculate the DRG relative weights the following procedures will be followed.

**3.2.1 Grouping of charges.** All discharge records in the database will be grouped by DRG using the current Medicare grouper program.

**3.2.2** Remove DRGs **that** represent discharges with invalid data or diagnoses insufficient for DRG assignment purposes. Therefore, these records are removed from the database.

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**3.2.3** IDME standardization. To standardize the charges for the cost effects of IDME factors, each teaching hospital's charges will be divided by 1.0 plus the following ratio on a hospital-specific basis:

$$1.04 \times \left[ \left( 1.0 + \frac{\text{number of interns + residents}}{\text{number of beds}} \right)^{.5795} - 1.0 \right]$$

- For admissions occurring during Fiscal Year (FY) 2006, the above formula applies.
- For admissions occurring during FY 2007, the same formula shall be used except the first number shall be 1.00.
- For admissions occurring during FY 2008 and subsequent years, the same formula shall be used except the first number shall be 1.02.

**3.2.4** Calculation of DRG average charges. After the standardization for IDME, an average charge for each DRG category will be computed by summing charges in a DRG and dividing that sum by the number of records in the DRG.

**3.2.5** Calculation of national average charge per discharge. A national average charge per discharge will be calculated by summing all charges and dividing that sum by the total number of records from all DRG categories.

**3.2.6** DRG relative weights. DRG relative weights will be calculated for each DRG category by dividing each DRG average charge by the national average charge.

**3.3** Empty and low-volume DRGs. For any DRG with less than 10 occurrences in the TRICARE database, the Director, TMA, or designee, has the authority to consider alternative methods for estimating TRICARE weights in these low-volume DRG categories.

**3.4** Updating DRG weights. Medicare is required to adjust the DRG relative weights under the Prospective Payment System annually to ensure that the weights reflect the use of new technologies and other practice pattern changes that affect the relative use of hospital resources among DRG categories. Likewise, every year during the annual DRG update TMA will recalculate all DRG weights using TRICARE charge data and the methodology described above.

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