



TRICARE® Reimbursements to Sole Community Hospitals

TRICARE is bringing its reimbursement method in closer alignment with Medicare

January 1, 2014, TRICARE will begin a multiyear transition to a new method for reimbursing sole community hospitals (SCH). This change allows TRICARE to comply with federal law by aligning its reimbursements more closely with Medicare's. TRICARE is committed to successfully implementing a responsible payment method that supports the health and readiness of our military.

Most SCHs have a low volume of TRICARE beneficiaries and this change will have very little impact on them. During the several year transition period, additional protections are being put into place to reduce the effects on SCHs (*see Phased-In Approach below*). In line with continuing Defense Department efforts to seek efficiencies, this change in reimbursement methodology is estimated to provide a cost avoidance of \$26.6 million in the first year and just over \$593 million through 2017.

SOLE COMMUNITY HOSPITALS

TRICARE and the Department of Defense value the health care support that SCHs provide to members of the uniformed services, retirees and their families.

A hospital that meets the Centers for Medicare and Medicaid Services requirements to be an SCH is considered to be an SCH under TRICARE.

SCHs include hospitals that are:

- Geographically isolated, serving a population relying on that hospital for most inpatient care
- Certain small hospitals
- Isolated by local topography or periods of extreme weather

In general, an SCH is:

- at least 35 miles or more from another "like" hospital; or
- between 25 and 35 miles from another "like" hospital and meets other criteria such as bed size and a certain number of inpatient admissions.

Prior to January 1, 2014, TRICARE paid SCHs for inpatient services in one of two ways:

- Network: Billed charges/discounted rates for covered care
- Non-Network: Billed charges for covered care

In both instances, TRICARE has been reimbursing SCHs substantially more than Medicare reimburses for equivalent inpatient care.

NEW REIMBURSEMENT GUIDELINES

TRICARE's new reimbursement guidelines for SCH inpatient care approximate Centers for Medicare & Medicaid Services (CMS) methods. The payment method is based on the cost of providing specific services, using an SCH's specific cost-to-charge ratio (CCR).

Effective January 1, 2014, TRICARE will reimburse individual claims from an SCH by multiplying the SCH's charge by the greater of:

- (1) the SCH's Medicare inpatient CCR; or
- (2) a ratio of allowed-to-billed charges using a modified CCR (*calculated with TRICARE claims data from the base year of FY2012*).

In addition, a calculation will determine the allowed amount under TRICARE's Diagnosis-Related Group (DRG)-based payment system. At year-end, a review determines whether, in the aggregate, the DRG amount would have paid more. If so, TRICARE will pay the SCH the aggregate difference.

PHASED-IN APPROACH EASES IMPACT

TRICARE's plan for gradual implementation will help hospitals reduce potential impacts.

1. The new reimbursement rates will be phased in over several years. This transition period will help to buffer any potential revenue reductions and allow hospitals time to plan for the new reimbursement method. Any reductions in the modified CCR to network SCHs will be limited during this transition:
 - Network SCHs will see no more than a 10 percent reduction per year
 - Non-network SCHs will see no more than a 15 percent reduction per year
2. Network SCHs serving a disproportionate number of active duty service members and active duty family members may qualify for an adjustment. Those network SCHs, as well as Critical Access Hospitals, that are deemed essential to readiness, and whose actual costs exceed TRICARE

payments, (or for which other extraordinary economic circumstances exist) may qualify for the adjustments referred to as General Temporary Military Contingency Payment Adjustments (GTMCPA).

- TRICARE has included a special payment rule for labor/delivery and nursery care in SCHs. Based on the assessment that Medicare's CCR does not accurately reflect the CCR for these services. Once an SCH has transitioned to its Medicare CCR level, TRICARE will apply 130 percent of the Medicare CCR for these services.

FREQUENTLY ASKED QUESTIONS

Q: Does this have an effect on beneficiaries?

A: Hospitals that accept Medicare must take TRICARE, so this revised reimbursement should cause no access problems. For beneficiaries whose cost share is a percentage of the allowed amount on a claim, the reduced reimbursement will also reduce their cost share amount.

Q: How does the payment method work?

A: TRICARE will make payments equal to the greater of the SCH's specific Medicare CCR multiplied by the hospital's billed charges for services or a modified CCR (*calculated using TRICARE claims data*) multiplied by the hospital's billed charges for services. This is consistent with the Medicare principle of relating payments for SCHs to the cost of services.

TRICARE will also calculate what the SCH would have been paid under the DRG method for all of that hospital's discharges. At the end of the SCH fiscal year (January 1 - December 31), a comparison of the two amounts will be made. In the event the DRG amount is the greater of the two calculations, a year-end payment will be made to the SCH.

Q: Why doesn't the new payment method adopt current Medicare SCH reimbursement methodology?

A: Establishing a TRICARE SCH inpatient reimbursement method exactly matching the CMS method for reimbursing SCHs is not practicable. Using Medicare's cost per discharge is not

appropriate for TRICARE purposes due to differences in the TRICARE and Medicare beneficiary mix. TRICARE is adopting an approach that approximates the CMS methodology. It also incorporates, following the hospital's transition period (*i.e. when the hospital reaches the Medicare specific CCR*), a special payment rule for labor/delivery and nursery services.

Q: Is it unusual for health plans to pay billed charges?

A: Yes. Billed charges are generally whatever the hospital decides to charge for services. Most hospitals have actual costs equal to 30 to 50 percent of billed charges. Government health care plans, such as Medicare, and most civilian plans, generally pay a discounted rate or have cost controls in place in order to avoid paying whatever the facility decides to charge for the services.

Q: Were alternative methods considered?

A: Yes. Several other methods for reducing TRICARE reimbursements to SCHs were considered. These alternatives were rejected because they resulted in large reductions for some SCHs over a short period of time.

Q: Why has it taken so long for TRICARE to change SCH reimbursements to align with Medicare?

A: This proposed rule was published on July 5, 2011. Public comments were received on the rule, and TRICARE was diligent in ensuring thorough responses to all of the comments. For instance, as a result of public comments, TRICARE adopted a special payment rule for labor/delivery and nursery services to account for the TRICARE population's utilization of these services.

Q: How will new SCHs be treated?

A: TRICARE will pay a new SCH using the average Medicare CCR for all SCHs calculated in the most recent year until its Medicare CCR is available. For existing SCHs that had no inpatient TRICARE claims prior January 1, 2014, payment will be based on their Medicare CCR.

For more visit: www.tricare.mil/SCH

FOR PROVIDER INFORMATION AND ASSISTANCE

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Humana Government Business
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