



**Billing Code: 5001-06**

**DEPARTMENT OF DEFENSE**

**Office of the Secretary**

**TRICARE; Civilian Health and Medical Program of the Uniformed Services (CHAMPUS);  
Fiscal Year 2017 Diagnosis Related Group (DRG) Updates and Notice of Termination of  
Future Federal Register Notices Regarding the DRG Update**

**AGENCY:** Office of the Secretary, Department of Defense.

**ACTION:** Notice of DRG revised rates and notice to terminate future Federal Register publication of the DRG Updates.

**SUMMARY:** This notice describes the changes made to the TRICARE DRG-based payment system in order to conform to changes made to the Medicare Prospective Payment System (PPS). It also provides the updated fixed loss cost outlier threshold, cost-to-charge ratios, and the data necessary to update the Fiscal Year (FY) 2017 rates. This notice also announces there will be no future Federal Register notices published for the annual DRG updates, as all information included in this notice will now be published on the Defense Health Agency's official website found at <http://www.health.mil>. As a result, FY 2017 is the last year for publication of the DRG notice.

**DATES:** The rates, weights, and Medicare PPS changes which affect the TRICARE DRG-based payment system contained in this notice are effective for discharges occurring on or after October 1, 2016.

**ADDRESSES:** Defense Health Agency (DHA), TRICARE, Medical Benefits and Reimbursement Office, 16401 East Centretech Parkway, Aurora, CO 80011-9066.

**FOR FURTHER INFORMATION CONTACT:** Sharon L. Seelmeyer, Medical Benefits and Reimbursement Section, TRICARE, telephone (303) 676-3690. Questions regarding payment of

specific claims under the TRICARE DRG-based payment system should be addressed to the appropriate contractor.

**SUPPLEMENTARY INFORMATION:** The final rule published on September 1, 1987 (52 FR 32992) set forth the basic procedures used under the CHAMPUS DRG-based payment system. This was subsequently amended by final rules published August 31, 1988 (53 FR 33461); October 21, 1988 (53 FR 41331); December 16, 1988 (53 FR 50515); May 30, 1990 (55 FR 21863); October 22, 1990 (55 FR 42560); and September 10, 1998 (63 FR 48439).

An explicit tenet of these final rules, and one based on the statute authorizing the use of DRGs by TRICARE, is that the TRICARE DRG-based payment system is modeled on the Medicare PPS, and that, whenever practicable, the TRICARE system will follow the same rules that apply to the Medicare PPS. The Centers for Medicare & Medicaid Services (CMS) publishes these changes annually in the **Federal Register** and discusses in detail the impact of the changes.

In addition, this notice updates the rates and weights in accordance with our previous final rules. The actual changes we are making, along with a description of their relationship to the Medicare PPS, are detailed in this notice. While the initial intent of this notice was to provide notification of the revised DRG weights and rates affecting the DRG based payment system, its relevance has been subsequently overshadowed by the public's online accessibility to the TRICARE manuals and reimbursement rates on the official website of the Military Health System (MHS) and the DHA (<http://www.health.mil>). As a result, the public has ready online access to all information published in this notice (e.g. DRG weights and rates, to include adjusted standardized amounts, wage indexes and Indirect Medical Education (IDME) factors, and changes to rate variables, etc.) in either the TRICARE Reimbursement Manual or on the official website of the MHS and the DHA (<http://www.health.mil>). Because of the readily available

online access to updated DRG rates and the ongoing administrative burden of publishing annual notices to the **Federal Register**, the publication of the annual notice is terminated and no further notices will be published. Again, updates to the DRG weights and rates, and all information in this notice, will be maintained on the Agency's official website. FY 2017 will be the last year of publishing the annual notice to the **Federal Register**.

## **I. Medicare PPS Changes Which Affected the TRICARE DRG-Based Payment System**

Following is a discussion of the changes CMS has made to the Medicare PPS that affect the TRICARE DRG-based payment system.

### *A. DRG Classifications*

Under both the Medicare PPS and the TRICARE DRG-based payment system, cases are classified into the appropriate DRG by a Grouper program. The Grouper classifies each case into a DRG on the basis of the diagnosis and procedure codes and demographic information (that is; sex, age, and discharge status). The Grouper used for the TRICARE DRG-based payment system is the same as the current Medicare Grouper with two modifications. The TRICARE system has replaced Medicare DRG 435 with two age-based DRGs (900 and 901), and has implemented thirty-four (34) neonatal DRGs in place of Medicare DRGs 385 through 390. For admissions occurring on or after October 1, 2001, DRG 435 has been replaced by DRG 523. The TRICARE system has replaced DRG 523 with the two age-based DRGs (900 and 901). For admissions occurring on or after October 1, 1995, the CHAMPUS Grouper hierarchy logic was changed so the age split (age <29 days) and assignments to Major Diagnostic Category (MDC) 15 occur before assignment of the pre-MDC DRGs. This resulted in all neonate tracheostomies and organ transplants to be grouped to MDC 15 and not to DRGs 480-483 or 495. For admissions occurring on or after October 1, 1998, the CHAMPUS Grouper hierarchy logic was changed to move DRG 103 to the pre-MDC DRGs and to assign patients to pre-MDC DRGs

480, 103, and 495 before assignment to MDC 15 DRGs and the neonatal DRGs. For admissions occurring on or after October 1, 2001, DRGs 512 and 513 were added to the pre-MDC DRGs, between DRGs 480 and 103 in the TRICARE Grouper hierarchy logic. For admissions occurring on or after October 1, 2004, DRG 483 was deleted and replaced with DRGs 541 and 542, splitting the assignment of cases on the basis of the performance of a major operating room procedure. The description for DRG 480 was changed to “Liver Transplant and/or Intestinal Transplant,” and the description for DRG 103 was changed to “Heart/Heart Lung Transplant or Implant of Heart Assist System.” For FY 2007, CMS implemented classification changes, including surgical hierarchy changes. The TRICARE Grouper incorporated all changes made to the Medicare Grouper, with the exception of the pre-surgical hierarchy changes, which will remain the same as FY 2006. For FY 2008, Medicare implemented their Medicare-Severity DRG (MS-DRG) based payment system. TRICARE, however, continued with the Centers for Medicare & Medicaid Services DRG-based (CMS-DRG) payment system for FY 2008. For FY 2009, the TRICARE/CHAMPUS DRG-based payment system shall be modeled on the MS-DRG system, with the following modifications.

The MS-DRG system consolidated the 43 pediatric CMS DRGs that were defined based on age less than or equal to 17 into the most clinically similar MS-DRGs. In their Inpatient Prospective Payment System final rule for MS-DRGs, Medicare stated for their population these pediatric CMS DRGs contained a very low volume of Medicare patients. At the same time, Medicare encouraged private insurers and other non-Medicare payers to make refinements to MS-DRGs to better suit the needs of the patients they serve. Consequently, TRICARE finds it appropriate to retain the pediatric CMS-DRGs for our population. TRICARE is also retaining the TRICARE-specific DRGs for neonates and substance use.

For FY09, TRICARE will use the MS-DRG v26.0 pre-MDC hierarchy, with the exception that MDC 15 is applied after DRG 011- 012 and before MDC 24.

For FY10, there are no additional or deleted DRGs.

For FY 11, the added DRGs and deleted DRGs are the same as those included in CMS' final rule published on August 16, 2010 (75 FR 50041-50677). That is, DRG 009 is deleted; DRGs 014 and 015 are being added.

For FY 12, the added DRGs and deleted DRGs are the same as those included in CMS' final rule published on August 18, 2011 (76 FR 51476–51846). That is, DRG 015 is deleted; DRGs 016 and 017 are being added.

For FY 2013 there are no new, revised, or deleted DRGs.

For FY 2014 there are no new, revised, or deleted DRGs.

For FY 2015 the added, deleted, and revised DRGs are the same as those included in the CMS' final rule published on August 22, 2014 (79 FR 49880) with the exception of endovascular cardiac valve replacement for which CMS added DRGs 266/267 and TRICARE added DRGs 317/318 because the TRICARE Grouper already has DRGs 266/267 assigned to a pediatric procedure.

For FY2016 the added, deleted, and revised DRGs are the same as those included in the CMS' final rule published on August 17, 2015 (80 FR 49326) with the exception of the cardiovascular procedure for which CMS added DRGs 268-272 and TRICARE added DRGs 275-279, because the TRICARE Grouper already has DRGs 268-272 assigned to a pediatric procedure. Effective October 1, 2015 (FY 2016), the ICD-10 coding system was implemented, replacing the ICD9 coding system.

For FY17 the added, deleted, and revised DRGs are the same as those included in the CMS' final rule published on August 22, 2016 (81 FR 56761). That is, DRG 230 is deleted; DRGs 229, 884, and 208 have been renamed.

*B. Wage Index and Medicare Geographic Classification Review Board Guidelines*

TRICARE will continue to use the same wage index amounts used for the Medicare PPS. TRICARE will also duplicate all changes with regard to the wage index for specific hospitals that are redesignated by the Medicare Geographic Classification Review Board. In addition, TRICARE will continue to utilize the out-commuting wage index adjustment.

*C. Revision of the Labor-Related Share of the Wage Index*

TRICARE is adopting CMS' percentage of labor related share of the standardized amount. For wage index values greater than 1.0, the labor related portion of the Adjusted Standardized Amount (ASA) shall continue to equal 69.6 percent. For wage index values less than or equal to 1.0 the labor related portion of the ASA shall continue to equal 62 percent.

*D. Hospital Market Basket*

TRICARE will update the adjusted standardized amounts according to the final updated hospital market basket used for the Medicare PPS for all hospitals subject to the TRICARE DRG-based payment system according to CMS' August 22, 2016 final rule. For FY17, the market basket is 2.7 percent. Note: Medicare's FY17 market basket index adjusts according to hospitals' compliance with quality data and electronic health record meaningful use submissions. These adjustments do not apply to the TRICARE Program.

*E. Outlier Payments*

Since TRICARE does not include capital payments in our DRG-based payments (TRICARE reimburses hospitals for their capital costs as reported annually to the contractor on a pass through basis), we will use the fixed loss cost outlier threshold calculated by CMS for

paying cost outliers in the absence of capital prospective payments. For FY17, the TRICARE fixed loss cost outlier threshold is based on the sum of the applicable DRG-based payment rate plus any amounts payable for IDME plus a fixed dollar amount. Thus, for FY17, in order for a case to qualify for cost outlier payments, the costs must exceed the TRICARE DRG base payment rate (wage adjusted) for the DRG plus the IDME payment (if applicable) plus \$21,710 (wage adjusted). The marginal cost factor for cost outliers continues to be 80 percent.

*F. National Operating Standard Cost as a Share of Total Costs*

The FY17 TRICARE National Operating Standard Cost as a Share of Total Costs (NOSCASTC) used in calculating the cost outlier threshold is 0.921. TRICARE uses the same methodology as CMS for calculating the NOSCASTC; however, the variables are different because TRICARE uses national cost to charge ratios while CMS uses hospital specific cost to charge ratios.

*G. IDME Adjustment*

Passage of the Medical Modernization Act of 2003 modified the formula multipliers to be used in the calculation of IDME adjustment factor. Since the IDME formula used by TRICARE does not include disproportionate share hospitals, the variables in the formula are different than Medicare's; however, the percentage reductions that will be applied to Medicare's formula will also be applied to the TRICARE IDME formula. The multiplier for the IDME adjustment factor for TRICARE for FY17 is 1.02.

*H. Cost to Charge Ratio*

TRICARE uses a national Medicare cost-to-charge ratio (CCR). For FY17, the Medicare CCR used for the TRICARE DRG-based payment system for acute care hospitals and neonates will be 0.2541. This is based on a weighted average of the hospital-specific Medicare CCRs (weighted by the number of Medicare discharges) after excluding hospitals not subject to the

TRICARE DRG system (Sole Community Hospitals, Indian Health Service hospitals, and hospitals in Maryland). The Medicare CCR is used to calculate cost outlier payments, except for children's hospitals. The Medicare CCR has been increased by a factor of 1.0065 to include an additional allowance for bad debt. The 1.0065 factor reflects the provisions of the Middle Class Tax Relief and Job Creation Act of 2012. For children's hospital cost outliers, the CCR used is 0.2760.

*I. Pricing of Claims*

The final rule published on May 21, 2014 (79 FR 29085) set forth all final claims with discharge dates of October 1, 2014, or later and reimbursed under the TRICARE DRG-Based payment system, are to be priced using the rules, weights and rates in effect on as of the date of discharge. Prior to this, all final claims were priced using the rules, weights, and rates in effective as of the date of admission.

*J. Updated Rates and Weights*

The updated rates and weights are accessible through the Internet at <http://www.health.mil/rates>. The implementing regulations for the TRICARE/CHAMPUS DRG-based payment system are in 32 CFR part 199.

Dated: January 30, 2017.

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Alternate OSD Federal Register Liaison Officer,  
Department of Defense.

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