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Partner Insight Series:

ASC Tricare Reimbursement Makes the Move to Medicare

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TRICARE – What is it and Who Does it Serve?

TRICARE is the health care coverage program for uniformed service members, retirees, and their families, and is managed by the U.S. Defense Health Agency ("DHA"), which is ultimately under the leadership of the Assistant Secretary of Defense. TRICARE serves approximately 9.5 million people, including active-duty service members and their families as well as inactive members and retirees. TRICARE acts as an insurance payer to provide comprehensive health care coverage to its beneficiaries. The Department of Defense ("DoD") published a final rule[1] effective October 1, 2023, stipulating that TRICARE reimbursement at ambulatory surgery centers ("ASCs") would be updated to match the current Medicare reimbursement methodology. Historically, TRICARE paid for health care services through a locality-based grouper fee schedule. This fee schedule was based on groups of procedure codes and locality-based codes. Those procedure codes were compiled into 43 groups, and each group received a different payment based on the related metropolitan statistical area ("MSA") code. The MSA impacted the pricing methodology based on zip code location. In recent history, TRICARE has reimbursed providers at higher rates than Medicare in aggregate, meaning that this final ruling by the DoD raises a myriad of concerns for providers and patients across the country.

Reasons for the Change

The DoD originally proposed this rule for two primary reasons. First, the TRICARE program includes a statutory requirement that TRICARE payment methodologies, when practicable, be consistent with the Medicare reimbursement platform. In the final rule, the DoD notes that "over one-half of the procedures under the current TRICARE ASC system have rates and groups based on assignments made prior to 2001"[2] Accordingly, it appears that the historical TRICARE fee schedules contain antiquated reimbursement rates.

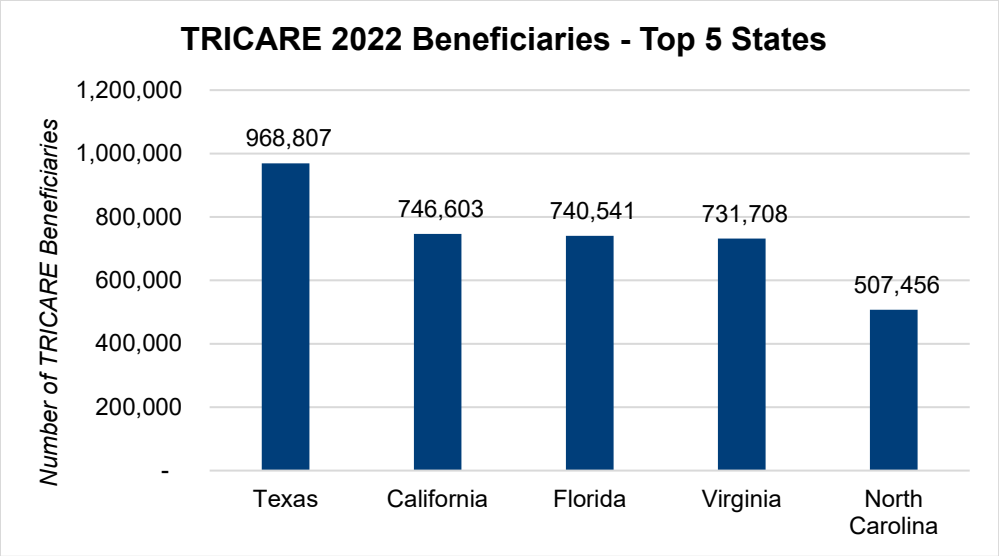
Second, TRICARE's reimbursement methodology was based on the outdated Medicare ASC reimbursement system, which has now been retired. Therefore, the TRICARE reimbursement platform is difficult to update and, in some instances, has caused anomalies in payments. The DoD's intention with utilizing the Medicare ASC system is that current Medicare rates are based on annual assessments by the Centers for Medicare and Medicaid Services ("CMS") and are, therefore, considered to be more appropriate levels of reimbursement for ASCs than the prior TRICARE payment system. This would eliminate the significant differences between the TRICARE and Medicare fee schedules. The DoD's discussion of the final ruling suggests that TRICARE has always been intended to reimburse at or near Medicare, and the lack of adherence to its statutory requirement has caused unintended inconsistencies in the program's reimbursement methodology.

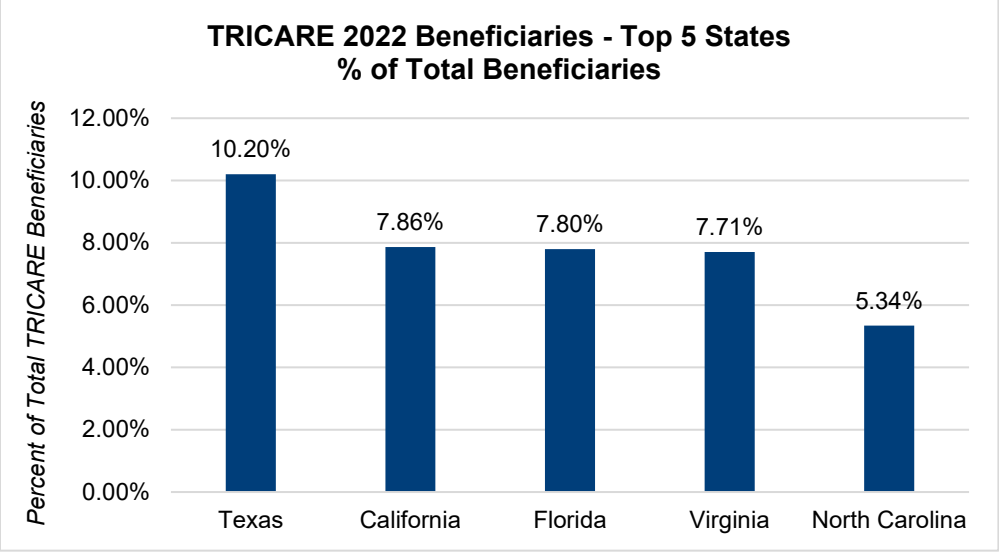
In its response to public comments, the DoD claimed that its analysis of the impact on TRICARE rates showed an overall decrease of approximately 14% based on a service mix of 40 different surgery categories[1]. Our analysis comparing the existing TRICARE reimbursement rates to the current Medicare rate indicates that specialties such as Gynecology, Neurology, Oral Maxillofacial, and Plastic Reconstructive (primarily Mastectomy providers) may experience an aggregate increase in reimbursement as a result of the change. Conversely, Gastroenterology, Nerve, Orthopedic, and Pain Management specialties may experience an aggregate decrease in reimbursement.

Regardless of the flaws that may exist in the historical TRICARE reimbursement model, there is no avoiding the fact that the impact yields both "winners" who will benefit from this final rule, and "losers" who will be burdened by it. While the impact will vary across specialties, it will also vary across states. Providers in

[1] 88 FR 19844 (April 4, 2023). "TRICARE; Reimbursement of Ambulatory Surgery Centers and Outpatient Services Provided in Cancer and Children's Hospitals." Final Rule. https://www.federalregister.gov/documents/2023/04/04/2023-06452/tricare-reimbursement-of-ambulatory-surgery-centers-and-outpatient-services-provided-in-cancer-and
[2] Ibid.

states with the highest TRICARE volume will be impacted more significantly than states with lower volume. The graphs below illustrate the top five highest number of TRICARE beneficiaries by state. Texas leads the group with almost one million beneficiaries. The higher volume of TRICARE does not necessarily dictate that the impact will be negative for all TRICARE cases, but it does increase the magnitude of the impact, whether higher or lower.





Incentivizing Care & Access to Care

Overall, the impact of the final rule varies by specialty and location. However, it is concerning that the rule does not necessarily consider the impact on access to care for specialties that may experience a sharper decline in reimbursement. For example, based on our calculations, Pain Management will likely experience much lower reimbursement under the current Medicare rates compared to what TRICARE previously paid for those services. If the new TRICARE rates are substantially lower than what providers have previously received, ASCs may be less inclined to serve TRICARE patients. Fewer incentives to serve TRICARE patients may cause facilities to limit the number of TRICARE cases they accept each month, resulting in

beneficiaries waiting longer to receive the care they need or being forced to travel to other locations that will provide that care. For any specialty, this would clearly be a negative consequence of the final ruling, but it is particularly troubling for Pain Management, given that the TRICARE patient population may require a larger degree of pain management care resulting from their military service. This could lead to a decreased quality of life for a large number of individuals.

As an example, the below chart illustrates a common case for a pain management device implanted into the spine to relieve back pain. TRICARE previously reimbursed this case combination at approximately $115,000, while Medicare currently reimburses this combination at approximately $35,000. For this singular case combination – for one patient - the new TRICARE rate will decrease reimbursement by 70%. In states such as Texas where TRICARE volume is high, and considering that active and retired military members may require more pain management services than the general public, this decrease would be multiplied exponentially to an even greater negative impact that for some ASCs may be unsustainable.

Procedure Combination	Prior TRICARE Reimbursement	Current Medicare Reimbursement	Variance	
			$	%
63685 63650 63650 C1767 C1778 C1778	$115,000	$35,000	$80,000	-70%

Only Time Will Tell

Healthcare reimbursement is ever-changing and complex. Contemplating only the aggregate financial impact of the DoD's change to TRICARE ASC reimbursement approach oversimplifies the magnitude of this change. The shift in TRICARE's payment methodology has serious implications on both TRICARE beneficiaries and providers. While the intention to create reimbursement consistency with Medicare seems logical on the surface, the final rule disproportionately impacts certain specialties, and the impact on reimbursement is severe. This could lead to reduced access to care for those patients who need it the most. Only time will tell what the true impact patients will experience as ASCs suffer the consequences of this new payment mechanism.

Arielle Schmeck, CPA/ABV, CM&AA
Partner – Consulting Services
817.502.7041 | aschmeck@jtaylor.com

Arielle provides consulting and valuation services. Her fields of expertise include transaction advisory, due diligence related to mergers and acquisitions, and business valuations. Clients served by Arielle in the healthcare industry include independent physician practices and national physician management companies, ASCs, free-standing cancer clinics, and large multi-hospital and health systems.

Katrina Metcalf
Analyst – Consulting Services
817.560.0608 | kmetcalf@jtaylor.com

Katrina provides a variety of consulting and advisory services with an emphasis in the healthcare industry. Prior to joining JTaylor, Katrina's experience includes a Spring audit internship at Deloitte where she specialized in the healthcare industry of their audit practice Katrina is currently working to complete the examination requirements to become a licensed CPA.