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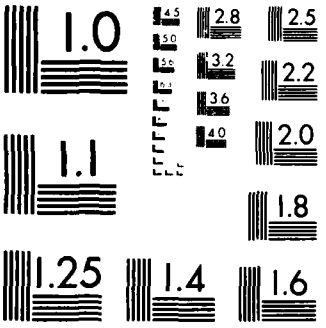

United States General Accounting Office

GAO

Report to the Assistant Secretary of Defense (Health Affairs)

August 1986

DEFENSE HEALTH PROGRAMS

Savings Available by Using Two Medicare Cost-Containment Techniques

GAO/HRD-86-115

GAO

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division
B-223831

August 25, 1986

The Honorable William Mayer, M.D.
Assistant Secretary of Defense
(Health Affairs)

Dear Dr. Mayer:

We have completed a survey to determine if the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) could better contain costs for professional services by adopting two cost containment techniques used by the Medicare program: a fee schedule for outpatient laboratory services and an economic index for physician services. After analyzing payment records for five states, we estimate that CHAMPUS could have saved $2.3 million, or 2.4 percent of the professional service costs spent in those states, if these two techniques had been in effect during the 6-month period October 1984 through March 1985. Adopting these techniques would increase somewhat the amount paid by many families using CHAMPUS—an average of $2.43 per family for laboratory services and an average of $2.85 per family for physician services for the 6-month period.

When dependents of active duty personnel, retirees, and dependents of retired and deceased members seek outpatient medical care, they can either (1) receive the care at no cost at a military hospital or clinic or (2) go to a private health care provider and be reimbursed under CHAMPUS. For outpatient medical care under CHAMPUS, each beneficiary pays a deductible of $50 ($100 maximum per family) each fiscal year. Beneficiaries also share part of the cost of each allowed charge (the charge most providers in a state have billed for a particular medical service) by making a copayment. Dependents of active duty members pay a 20-percent copayment; other beneficiaries pay 25 percent.

CHAMPUS's costs for medical care rendered by physician and other professional health care providers rose from $282 million in fiscal year 1981 to an estimated $476 million in fiscal year 1985, an increase of about 69 percent.

Scope and Methodology

We obtained computer tapes of CHAMPUS claims for five states: California, Florida, Texas, Virginia, and Washington. We selected these states primarily because together they account for a significant percentage of CHAMPUS's costs for professional services—42 percent in calendar year 1984. The tapes we obtained were for claims adjudicated

between October 1, 1984, and March 31, 1985, the latest available 6-month period at the time we started our fieldwork.

For each of the five states, we

- compared CHAMPUS's allowed charges for laboratory services with Medicare's allowed charges for the same services,
- compared the rate of increase in allowed charges for physician services between fiscal year 1983 and the first 6 months of fiscal year 1985 with the increase that would have occurred if CHAMPUS had begun using the Medicare economic index in fiscal year 1984, and
- estimated changes in CHAMPUS and beneficiary costs if CHAMPUS adopted these two cost containment techniques.

CHAMPUS and Medicare Methods for Reimbursement of Laboratories and Physicians

CHAMPUS, like Medicare before 1984, uses a "reasonable charge" system for determining maximum allowable charges for laboratory and physician services. Since 1984, Medicare reimburses providers on the basis of a fee schedule for laboratory services.

CHAMPUS's definition of reasonable charges is the lower of (1) the billed charge for the service or (2) the amount that equals the 80th percentile of the previous year's billed charges for similar services in the state. Medicare defines reasonable charges as the lower of (1) the actual charge for the service, (2) the amount the physician normally charged for the service (the customary charge), or (3) an amount high enough to cover 75 percent of the customary charges for the service by all physicians in the area (the prevailing charge).

In 1978, the Congress enacted 10 U.S.C. 1079(h), which stipulated that CHAMPUS-allowed charges be at least equal to the 90th percentile of customary charges[1] in an area, rather than the 75th percentile used by Medicare. However, DOD appropriation acts since 1978 have effectively superseded 10 U.S.C. 1079(h) by providing that none of the CHAMPUS funds shall be available for ". . . reimbursement of any physician or other authorized individual provider of medical care in excess of the 80th percentile of the customary charges . . ." Thus, notwithstanding 10 U.S.C. 1079(h), the maximum allowable charges have been established at the 80th percentile of customary charges every year since 1978.

[1]Changed from customary to "billed" charges in 1981 by Public Law 97-86

With the enactment of the Deficit Reduction Act of 1984 (Public Law 98-369), the Congress directed the Secretary of Health and Human Services to establish a fee schedule to be used in reimbursement determinations for clinical laboratory services provided to Medicare beneficiaries. According to the legislative history, studies had shown that Medicare, CHAMPUS, and other government programs were being charged for laboratory services at the retail, rather than a wholesale, rate.

Under the fee schedule, independent laboratories (nonhospital laboratories) and hospital laboratories must bill the Medicare program directly and accept assignment—Medicare's payment as payment-in-full—on all claims. Physicians also may bill Medicare for laboratory tests performed in their office, but they are not required to accept assignment. These tests are also paid on the basis of the fee schedule.

The independent laboratory fee schedule amounts are computed at 60 percent of the prevailing charge (an amount that covers 75 percent of the customary charges for a service in a specific geographical area). On assigned claims Medicare pays 100 percent of the fee schedule amount, and the beneficiary is not liable for any payment. On unassigned claims—which are permitted only for laboratory services performed in physician offices—Medicare pays 80 percent of the fee schedule amount after the beneficiary has met the annual $75 deductible. The beneficiary is responsible for paying the difference between the physician's charge and Medicare's payment. For hospital outpatient laboratory services, Medicare's fee schedule amounts are computed at 62 percent of the prevailing charge.

The Social Security Amendments of 1972 (Public Law 92-603) limited increases in allowed charges for physician services under the Medicare Supplementary Medical Insurance program (Medicare Part B) to only those increases resulting from changes in physician office practice and changes in general wage levels. According to officials at the Health Care Financing Administration, this Medicare Economic Index has been effective in limiting increases in physician fees. In 1971, before the index was used, Medicare Part B reasonable charges were reduced about 11.4 percent. In 1984, using the index, reasonable charges were reduced 24.9 percent.

Extending the Laboratory Fee Schedule to CHAMPUS Would Save Money

If CHAMPUS used the Medicare laboratory fee schedule, most allowed charges would be lowered and costs would be reduced for laboratory services. In the five states, we examined each of CHAMPUS's allowed charges for laboratory service that had a comparable Medicare allowed charge. CHAMPUS could have saved about $683,000 for the 6 months ended March 31, 1985, if Medicare's laboratory fee schedule had been used.

To estimate what impact a lower allowed charge might have on CHAMPUS's payments, we used allowed charges from the Medicare laboratory fee schedule to determine what CHAMPUS's payment would have been for laboratory services on actual claims. On all claims from independent laboratories and hospitals, we determined CHAMPUS's potential payment by using Medicare's reimbursement policy, which calls for reimbursements at 100 percent of the fee schedule amount. For all other claims, we followed CHAMPUS's cost-sharing policies—75 percent of allowed charges for retirees and their dependents and 80 percent for dependents of active duty members.

As shown in table 1, we estimate CHAMPUS could have saved about $683,000, or 12.1 percent, in laboratory services costs for five states if the Medicare laboratory fee schedule had been used during the 6-month period.

Table 1: Comparison of Charges for Laboratory Services, October 1984 - March 1985

State	Using CHAMPUS's actual allowed charges	Using Medicare fee schedule	Difference	
			Dollars	Percent
California	$1,937,851	$1,629,128	$308,723	15.9
Florida	1,662,217	1,540,421	121,796	7.3
Texas	1,072,555	968,425	104,130	9.7
Virginia	661,894	572,432	89,462	13.5
Washington	300,405	241,404	59,001	19.6
Total	**$5,634,922**	**$4,951,810**	**$683,112**	**12.1**

If CHAMPUS were to use the Medicare fee schedule, its fiscal intermediaries—contractors that process claims—would no longer have to develop and maintain allowable charge data for most laboratory services. Instead, each year CHAMPUS would have to obtain laboratory fee schedules from Medicare's 57 Part B carrier areas.

Extending the Medicare Economic Index to CHAMPUS

If CHAMPUS were to use the Medicare economic index in calculating allowable payments for physician services, annual increases in many allowed charges would be limited, and costs to CHAMPUS for physician services would be reduced. Since 1973, increases in Medicare's prevailing charge levels have been limited to the increase in an economic index that measures changes in wage levels and the costs of operating a physician's office. In the five states, we determined CHAMPUS's actual rate of increase in allowed charges for physician services between fiscal year 1983 and the first 6 months of fiscal year 1985. We then compared the actual increase with what the increase would have been if CHAMPUS had begun using the index in fiscal year 1984. As shown in table 2, we estimate that during the 6-month period, CHAMPUS could have saved $1.7 million, or 1.8 percent, in physician service costs by using the index.

Table 2: Comparison of Costs for Physician Services, October 1984 - March 1985

State	Costs for physician services: Using CHAMPUS's actual allowed charges	Costs for physician services: Using Medicare economic index	Difference: Dollars	Difference: Percent
California	$36,829,259	$36,156,069	$673,190	1.8
Florida	22,427,889	22,210,848	217,041	1.0
Texas	15,428,283	15,224,675	203,608	1.3
Virginia	13,727,099	13,456,729	270,370	2.0
Washington	4,706,346	4,414,843	291,503	6.2
Total	**$93,118,876**	**$91,463,164**	**$1,655,712**	**1.8**

In future years, the percentage of savings to CHAMPUS could be expected to increase because use of the index in each subsequent year would further limit increases in allowed charges. Savings under Medicare Part B demonstrate this pattern. For example, Medicare's reduction in reasonable charges has grown from 11.4 percent in 1971 without the index to 24.9 percent in 1984 with the index. Health Care Financing Administration officials told us this has occurred mainly because of the economic index.

Using the economic index would require that CHAMPUS modify its method of annually updating prevailing charges for physician services. In addition to its present method of developing prevailing charges from all charges made by providers during a 1-year base period, CHAMPUS would have to determine what the prevailing charge would be using the Medicare economic index. The prevailing charge used would then be the lower of (1) the prevailing charge developed from all charges during the

data base period or (2) last year's prevailing charges adjusted by the Medicare economic index.

Since CHAMPUS's fiscal intermediaries use an automated system to develop prevailing charges, these additional steps should not be overly difficult or time consuming for them to perform each year. Further, since CHAMPUS could input and use the prevailing charges developed under this approach in the same manner as under its present system, CHAMPUS would not have to make any changes in its automated claims processing system.

Effect on CHAMPUS Families

Adopting the Medicare laboratory fee schedule and economic index would increase somewhat the amount some families using CHAMPUS pay for medical care while decreasing the amount others pay. In the five states we examined, laboratory service costs for about 63 percent of the CHAMPUS families would have increased, on average, $2.43 during the 6-month period. Laboratory service costs for the remaining families would have decreased, on average, $1.95 (see table I.1). These estimates are based on the assumption that CHAMPUS, like Medicare, paid 100 percent of allowable charges on all claims from independent laboratories, hospitals, and all providers who accepted CHAMPUS's allowable charges as payments in full.

By using the Medicare economic index, physician service costs for about 64 percent of the CHAMPUS families would have increased, on average, $2.85 during the 6-month period. Physician service costs for the remaining families would have decreased, on average, $4.85. (See table I.2). These estimates assume no change in providers' acceptance of CHAMPUS allowable charges as payment in full.

The actual impact of these alternative reimbursement techniques on CHAMPUS beneficiary costs would depend on providers' willingness to accept the lower CHAMPUS allowable charges as payment in full. When providers do not accept the CHAMPUS allowable charges as payment in full, beneficiaries are responsible for the difference between billed amounts and allowable charges in addition to the legal cost-sharing provisions. Any difference in allowed charges and charges by providers would most likely be passed on to CHAMPUS beneficiaries.

CHAMPUS officials said that past attempts to increase the number of providers willing to accept the CHAMPUS allowable charges as payment in full have met with little success. In 1984, providers were unwilling to

accept the CHAMPUS allowable charges as payment in full on 55 percent of the submitted claims. In contrast, providers under the Medicare Part B program were unwilling to accept the lower Medicare allowable charges on 44 percent of the submitted bills in fiscal year 1984.

CHAMPUS Change Being Considered

Your office is considering a CHAMPUS restructuring initiative that could affect a decision on whether to impose the Medicare techniques discussed in this report. The change being considered involves a program to contract with one or more large private institutions that would provide care "at financial risk" for a fixed price set forth in the contract. The contract award is expected sometime in fiscal year 1988. As explained by officials in your office, the contractor would be required to establish primary care medical centers that would provide free or low-cost care to beneficiaries.

Comments of CHAMPUS Officials and GAO Views

CHAMPUS officials agreed that adopting Medicare's laboratory fee schedule and economic index would reduce costs. They told us, however, that they are opposed to the measures because they would increase beneficiary costs. They also stated that the CHAMPUS restructuring being considered would be a better way to contain CHAMPUS costs.

As discussed on page 6, the financial impact of the Department of Defense's adoption of Medicare's two cost containment techniques on CHAMPUS beneficiaries would be relatively small if the extent to which providers accept CHAMPUS reimbursement payments in full does not decline significantly.

If the proposed CHAMPUS restructuring initiative is implemented, the Department's adoption of these techniques would not be necessary because the contractor would be responsible for direct reimbursement of health care providers. In addition, concerns regarding increased beneficiary costs would become moot because most, if not all, care would be provided at little, if any, cost to beneficiaries in the contractor's primary medical care centers. However, the planned restructuring of CHAMPUS, if made, is not planned to occur until fiscal year 1988. In the interim, savings are available if Medicare's laboratory fee schedule and physician index were adopted for CHAMPUS.

If the 80th percentile provisions (discussed on p. 2) are retained in the Department of Defense's annual appropriation acts, legislation would not be required to implement the changes we are recommending in this

report. If, however, such provisions are not included annually in the appropriation acts, the 90th percentile requirement of 10 U.S.C. 1079(h) would need to be amended or revoked.

Recommendations

We recommend that you take the necessary action to adopt

- the Medicare laboratory fee schedule and associated reimbursement practices as the basis for reimbursing providers for laboratory services under CHAMPUS and
- the Medicare economic index method of limiting increases in allowed charges for physician services.

We would like to be informed of the actions you plan to take as a result of our report.

Sincerely yours,

David P. Bamis

for James F. Walsh
Group Director

Appendix I

Laboratory and Physician Costs for CHAMPUS Families

Table I.1: Laboratory Costs for CHAMPUS Families, October 1984 - March 1985

		Average family costs			
	Total families	Using CHAMPUS actual allowed charges	Using laboratory fee schedule	Increase/decrease using Medicare fee schedule Amount	Percent
Families with increased costs					
[illegible]	29,539	$ 6.81	$ [illegible]	$1.49	21.9
[illegible]	[illegible]	14.23	[illegible]	[illegible]	[illegible]
[illegible]	24,611	11.64	14.46	[illegible]	22.1
[illegible]	21,877	7.54	[illegible]	[illegible]	28.9
[illegible]	9,619	10.63	[illegible]	[illegible]	29.4
Total	**122,913**	$10.30	$12.73	$2.43	23.6
Families with decreased costs					
[illegible]	41,658	$13.30	$10.63	$2.67	[illegible]
[illegible]	11,915	7.76	6.59	[illegible]	[illegible]
[illegible]	7,805	8.89	7.77	[illegible]	12.6
[illegible]	9,882	6.10	5.38	[illegible]	11.8
Washington	2,498	7.90	6.57	[illegible]	[illegible]
Total	**73,758**	$10.79	$8.84	$1.95	18.1

Table I.2: Physician Costs for CHAMPUS Families, October 1984 - March 1985

		Average family costs			
	Total families	Using CHAMPUS actual allowed charges	Using Medicare economic index	Increase/decrease using Medicare economic index Amount	Percent
Families with increased costs					
California	37,848	$136.90	$138.97	$2.07	1.5
[illegible]	38,067	191.67	193.51	1.84	[illegible]
[illegible]	24,613	170.30	172.88	2.58	1.5
[illegible]	16,601	122.69	126.28	3.59	2.9
[illegible]	9,619	166.69	172.80	[illegible]	[illegible]
Total	**126,748**	$160.23	$163.08	$2.85	1.8
Families with decreased costs					
[illegible]	[illegible]	$253.29	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	104.75	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	**69,930**	[illegible]	[illegible]	[illegible]	[illegible]

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