ATTACHMENT J-6 HYPOTHETICAL EXAMPLE OF THE EXTERNAL TREND INCENTIVE CALCULATION

Hypothetical Example of the External Trend Incentive Calculation
(Reference Section H, H.2)

Assume for this example that the incentive result is being calculated for Option Period 3 (OP3). Values below are rounded for simplicity in this example. See Table 1 below for a high-level summary of this example.

Step 1. Divide OP2 and OP3 underwritten contractor network and MTF workload for Contractor Network Prime enrollees into four categories: inpatient ADFM, inpatient NADFM, outpatient ADFM, and outpatient NADFM. The contractor network inpatient workload will reflect admissions tabulated from TRICARE Encounter Data (TED) records. The MTF inpatient workload will reflect dispositions tabulated from MTF Standard Inpatient Data Records (SIDRs). The contractor network outpatient workload will reflect outpatient visits tabulated from TED records. The MTF outpatient workload will reflect outpatient encounters tabulated from MTF Standard Ambulatory Data Records (SADRs), excluding telephone consults.

Step 2. For each of the four categories from Step 1, for both OP2 and OP3, calculate the contractor network workload per Contractor Network Prime enrollee and the MTF workload per Contractor Network Prime enrollee. The Contractor Network Prime enrollee counts for the denominators in this step will be the average of 12 monthly "snapshot" counts tabulated from monthly DEERS data files (the DEERS Point In Time Extract, or PITE, files). Then, for each of the four categories, for both OP2 and OP3, calculate the percentage share for contractor network workload per Network enrollee relative to contractor network plus MTF workload per Network enrollee.

Step 3. For each of the four categories, using the contractor network shares calculated in Step 2, calculate the trend in contractor network share from OP2 to OP3. For example, for inpatient ADFMs, if the contractor network share per Contractor Network Prime enrollee was 88% in OP2 and 90% in OP3, then the OP3 trend in contractor network share for this category would be 1.023 (90/88). This would be interpreted as an increase of 2.3 percent in the contractor network underwritten cost trend per Contractor Network Prime enrollee for inpatient care for ADFMs due to the increase in the contractor network share in this category.

Step 4. For each of the four categories from Step 1, for OP2 and OP3, tabulate the contractor network underwritten cost per Contractor Network Prime enrollee. The numerator would be tabulated from the Government costs on TED records for underwritten care for Contractor Network Prime enrollees and the denominator would be the same average enrollment counts from Step 2. Assume, for example, that for inpatient care for ADFMs, that the OP2 underwritten cost is $500 and the OP3 underwritten cost is $550. Then calculate the trend in underwritten cost per enrollee. In this example, this OP3 trend, for inpatient care for ADFMs, would be 1.10 (550/500).

Step 5. For each of the four categories, divide the cost trend per enrollee from Step 4 by the trend in contractor network share per enrollee from Step 3. In this example, the 1.10 trend from Step 4 would be divided by the 1.023 trend from Step 3, yielding a trend, normalized for contractor network share changes, of 1.075 for inpatient care for ADFMs.

Step 6. For each of the four categories, multiply the contractor network share-normalized trend factors from Step 5 by the prior year underwritten cost for Contractor Network Prime enrollees to calculate the MTF-normalized cost for the year being measured. For example, assume the OP2 (prior year) underwritten cost for ADFM inpatient care for Contractor Network Prime enrollees was $300 million. Multiplying $300 million by the 1.075 trend factor from Step 5 yields a contractor network share-normalized cost for OP3 of $322.5 million. By applying the cost trend per enrollee to the prior year's aggregate costs for this category of care, this step also normalizes the contractor network underwritten cost trend for any changes in the number of ADFM or NADFM Contractor Network Prime enrollees. Sum the MTF-normalized costs for all four categories of underwritten care. For example, assume this sum amounts to $1.50 billion for OP3.

Step 7. Subtract the net increase in OP3 underwritten health care costs (if any), relative to OP2, associated with contract change orders that have been negotiated by the Government and the contractor (e.g., benefit changes that affect underwritten costs for Contractor Network Prime enrollees). For example, assume change orders increased the OP3 underwritten costs for network enrollees by an estimated $10 million, relative to the OP2 level of costs. In this example, the OP3 cost, after normalizing for change orders, would be $1.490 billion (the $1.50 billion from Step 6 minus $10 million).

Step 8. Calculate the overall trend from the OP2 underwritten cost for Contractor Network Prime enrollees (tabulated in Step 4) to the normalized OP3 cost from Step 8. Assume the actual OP2 underwritten cost for Contractor Network Prime enrollees was $1.37 billion. In this example, then, the normalized OP3 trend would be 1.0876 (1.490/1.37).

Step 9. Compare the overall normalized cost trend from Step 8 to the CMS NHE trend standard (i.e., the portion of the CMS National Health Expenditures per capita trend described in Section H.2.5.1). Assume for this example that the relevant NHE trend is 6.0%, or a trend factor of 1.060. Then the contractor's normalized cost trend for Contractor Network Prime enrollees of 1.0876 is 2.76 percentage points higher than the CMS NHE trend standard (1.0876 - 1.060).

Step 10. Calculate the contractor's incentive result in percentage terms. The contractor's incentive result would be 30% of the trend differential from Step 9. or -0.828% (0.0276 x 30%). The incentive result is negative because the contractor's normalized cost trend was higher than the external standard; if the contractor's normalized trend had been lower than the external standard, a positive incentive would have resulted.

Step 11. The percentage incentive result from Step 10 would be multiplied by the normalized cost for OP 3 from Step 7 to calculate the dollar value of the incentive result. In this example, with the OP3 normalized cost of $1.49 billion and an incentive result of negative 0.828%, the dollar value of the incentive result would be a negative incentive payment of $12.3 million ($1.49 billion multiplied by -0.828%).

Table 1. High-Level Example of the External Trend Incentive

Actual underwritten cost trend per Contractor Network Prime enrollee, before normalizing (overall trend shown here for simplicity, actual calculation starts with separate trends for each of the 4 categories)	1.112
Actual underwritten cost trend per Contractor Network Prime enrollee, after normalizing for MTF-contractor network share, ADD/NADD network enrollment levels, and change orders (would be re-aggregated from the four categories)	1.0876
External trend standard (from CMS National Health Expenditures data)	1.0600
Trend Standard minus normalized underwritten trend	-0.0276
Contractor's incentive share	30%
Incentive result, to be applied to the normalized underwritten cost for Contractor Network Prime enrollees	-0.828%
Normalized underwritten cost for Contractor Network Prime enrollees	$1.49 billion
Incentive result, in dollars	-$12.3 million