DEFENSE HEALTH PROGRAMS

Changes in Administration of Mental Health Benefits
June 12, 1986

The Honorable Daniel K. Inouye
United States Senate

Dear Senator Inouye:

In response to your October 11, 1985, letter and later discussions with your office, we obtained information on the mental health care program under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). CHAMPUS is under the jurisdiction of the Assistant Secretary of Defense (Health Affairs).

The Department of Defense Appropriations Act of 1983 (Public Law 97-377) stipulated that CHAMPUS may not pay for inpatient psychiatric services in excess of 60 days in any year. The limit became effective on January 1, 1983, for treatment that began on or after that date.

As you requested, we concentrated our efforts on the 60-day limitation. Because CHAMPUS has recently revised the administrative controls on some of its mental health benefits, we also obtained information on these revisions.

We obtained information and interviewed officials at the following CHAMPUS headquarters offices near Denver: the Office of Quality Assurance, the Policy Division, the Contract Management Division, the Resource Management Division, the Office of Program Integrity, the Information Systems Division, and the Appeals and Hearings Section of the Office of the General Counsel. In summary, we found that:

--For 1983, the first year the limitation was in effect, CHAMPUS estimated savings of $34.2 million. CHAMPUS has the authority to grant waivers to the 60-day limit and, between January 1983 and December 1985, approved about 24 percent of the waiver requests it received. According to CHAMPUS officials, the 60-day limit has caused a shift from inpatient hospital care to alternative mental health treatment options to which the limit does not apply, such as residential treatment centers. CHAMPUS has encountered some problems in identifying claims that exceed the limit.
--The categories of mental health care providers authorized to bill CHAMPUS independent of physician referral have increased as a result of legislation. CHAMPUS officials said that they have traditionally experienced problems with fraud and abuse in mental health billings because of the wide variety of mental health services covered under CHAMPUS, but that the increased categories of providers have not exacerbated these problems.

--CHAMPUS has developed a new policy to limit its payments for residential treatment center care which, it believes, will provide long-term control over cost escalation.

--Under a demonstration project, CHAMPUS has recently awarded a competitively bid contract for providing mental health services in a high utilization area--the Portsmouth-Norfolk-Newport News, Virginia, area. CHAMPUS expects this demonstration project, which will begin in September 1986, to produce savings in its mental health costs.

We obtained and considered CHAMPUS officials' comments in preparing this fact sheet.

As arranged with your office, we plan to send copies of this fact sheet to the Department of Defense. Also, copies will be available to others on request.

Should you need additional information on the contents of this document, please call me on 275-6207.

Sincerely yours,

[Signature]

David P. Baine
Associate Director
CHANGES IN ADMINISTRATION OF MENTAL HEALTH BENEFITS UNDER CHAMPUS

The Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) provides financial assistance for medical care from civilian sources to dependents, retirees, and dependents of retirees and deceased members of the military services. Generally CHAMPUS is used when required care is not available from military medical facilities. CHAMPUS is under the jurisdiction of the Office of the Assistant Secretary of Defense (Health Affairs). For claims processing purposes, CHAMPUS has divided the United States into seven regions and has contracted with fiscal intermediaries to process claims from beneficiaries in these regions. In fiscal year 1985, CHAMPUS made estimated benefit payments of about $1.3 billion.

Mental health care is a significant benefit under CHAMPUS because military medical facilities have only a limited capacity to provide such services. In fiscal year 1985, an estimated 18.5 percent of total CHAMPUS expenditures were for mental health care. As Table 1 shows, mental health costs as a percentage of CHAMPUS costs have increased over the past 4 years.

Table 1: Mental Health Costs as a Percentage of Total CHAMPUS Costs

<table>
<thead>
<tr>
<th></th>
<th>FY 1982</th>
<th>FY 1983</th>
<th>FY 1984</th>
<th>FY 1985a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total CHAMPUS costs</td>
<td>$1,036.5</td>
<td>$1,133.1</td>
<td>$1,204.7</td>
<td>$1,340.2</td>
</tr>
<tr>
<td>Mental health costsb</td>
<td>$178.3</td>
<td>$203.9</td>
<td>$219.7</td>
<td>$247.3</td>
</tr>
<tr>
<td>Mental health costs as a percentage of total costs</td>
<td>17.2</td>
<td>17.9</td>
<td>18.2</td>
<td>18.5</td>
</tr>
</tbody>
</table>

aEstimated.
bIncludes residential treatment center costs.

CHAMPUS mental health care benefits contain fewer limitations than most third-party benefit programs and health insurance programs. Most mental health care benefit programs limit the number of inpatient days or outpatient visits covered or establish maximum dollar limits on lifetime coverage. For example, of the 20 plans we identified in the Federal Employees Health Benefits Program (FEHBP), 17 had lifetime limitations on psychiatric inpatient care. Several FEHBP plans had limitations on the number of psychiatric inpatient days and outpatient...
visits. Under CHAMPUS, payments for inpatient psychiatric care are limited to those necessary to cover 60 days per year; however, waivers are authorized to cover extraordinary circumstances. There are no limits on outpatient visits or for mental health care provided to children and adolescents in residential treatment centers. In addition, CHAMPUS is required by law to authorize payment to a relatively broad range of mental health providers (e.g., clinical social workers and psychiatric nurses).

In response to a request from Senator Daniel K. Inouye, we collected information on (1) the 60-day per year limit on inpatient psychiatric care, waivers to this limit, and the shift in mental health treatment to treatment options to which the limit does not apply, (2) expanded categories of mental health providers, (3) recently developed controls for payments to residential treatment centers, and (4) CHAMPUS' recent award of a competitively bid contract to provide mental health services in a high utilization area.

We obtained documents and data from CHAMPUS regarding these activities to determine their status, anticipated benefits, and potential problems. We did not independently verify this information. We also interviewed officials at the following CHAMPUS headquarters offices near Denver: the Office of Quality Assurance, the Policy Division, the Contract Management Division, the Resource Management Division, the Office of Program Integrity, the Information Systems Division, and the Appeals and Hearings Section of the Office of the General Counsel.

60-DAY LIMIT ON INPATIENT PSYCHIATRIC CARE

The Department of Defense Appropriations Act of 1983 (Public Law 97-377) stipulated that CHAMPUS may not pay for inpatient psychiatric services in excess of 60 days in any year. The limit became effective on January 1, 1983, for treatment that began on or after that date, and was amended into the basic statute governing CHAMPUS benefits (10 U.S.C. 55) by the Defense Authorization Act for fiscal year 1984 (Public Law 98-94). In comparison to the costs that would have been incurred if there were no 60-day limit, CHAMPUS estimated that the limit resulted in $34.2 million savings in 1983—the first year the limit was in effect. CHAMPUS has not estimated savings for 1984 and 1985.

Waivers to the 60-Day Limit

CHAMPUS has the authority to waive the 60-day limit and pay for additional care. CHAMPUS' Office of Quality Assurance administers the waiver program. Generally, waivers are granted when inpatient care is required to protect the patient and
community from the behavioral consequences of a mental disorder. According to CHAMPUS records, from January 1, 1983, to December 31, 1985, of 3,796 waiver requests, 923 (about 24 percent) were approved.

Table 2: 60-Day Limit Waiver Requests and Action Taken

<table>
<thead>
<tr>
<th>Requests submitted</th>
<th>Basis for denial</th>
<th>Requests approved</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Administrativea</td>
<td>Clinicalb</td>
</tr>
<tr>
<td>1983</td>
<td>1,505</td>
<td>833</td>
</tr>
<tr>
<td>1984</td>
<td>1,306</td>
<td>629</td>
</tr>
<tr>
<td>1985</td>
<td>985</td>
<td>581</td>
</tr>
<tr>
<td>Total</td>
<td>3,796</td>
<td>2,043</td>
</tr>
</tbody>
</table>

aAdministrative denials generally resulted from a failure to submit required paperwork.

bClinical denials were made on the basis that waivers were not medically justified.

Denied waivers may be appealed to CHAMPUS' Appeals and Hearings Section of the Office of the General Counsel. According to CHAMPUS records, less than 10 percent of the waivers appealed between January 1, 1983, and December 31, 1985, were reversed. CHAMPUS officials said that they are unaware of any severe effects (e.g., homicides or suicides) that have resulted from not granting a waiver to the 60-day limit.

Shift to Alternate Mental Health Services

According to CHAMPUS officials, the 60-day limit has caused a shift from inpatient care (in hospitals) to other CHAMPUS mental health care options to which the limit does not apply. For example, since the limit was imposed, CHAMPUS officials estimate that admissions to residential treatment centers (live-in treatment facilities for children and adolescents) will have increased from about 425 in 1983 to about 850 in 1986. Similarly, CHAMPUS estimated that of the increase of about 169,000 in outpatient visits from 1982 to 1983, about 80,000 were attributable directly to the 60-day limit. CHAMPUS has no limit on residential treatment center care or outpatient visits.

CHAMPUS officials also told us that since the limit was imposed, there has been an increase in the number of hospital-based residential treatment centers that have applied and been approved under the program. These are facilities attached to hospitals that traditionally provided inpatient psychiatric
care. In December 1982, there were 13 hospital-based facilities, but in December 1985 there were 30. Hospital-based facilities have also constituted 17 of the last 29 residential treatment centers approved for payment under CHAMPUS. According to CHAMPUS officials, the hospital-based residential treatment centers tend to be more expensive than free-standing (not attached to hospitals) residential treatment facilities.

Problems in Identifying Claims
Exceeding the 60-Day Limit

CHAMPUS does not have an effective means of assessing whether claims for inpatient care exceeding the 60-day limit were being properly denied by their fiscal intermediaries. Attempts by CHAMPUS to isolate beneficiary claims that exceed the limit without a waiver have been hampered by weaknesses in the CHAMPUS claims data base caused by erroneous coding of residential treatment facilities' claims and the absence of coding to identify claims of beneficiaries with approved waivers. CHAMPUS has recognized these data base weaknesses for some time but has not fully corrected them. In studying the effect of the 60-day limit, CHAMPUS, in August 1984, manually segregated calendar year 1983 data and determined that about 2,800 inpatient days of psychiatric care were erroneously paid in excess of the 60-day limit. Fiscal intermediaries were notified of these errors, and about $407,000 has been recouped from providers. CHAMPUS does not know whether fiscal intermediaries have improved their identification system for 1984 and later claims.

INCREASED CATEGORIES OF MENTAL HEALTH CARE PROVIDERS

The categories of mental health providers authorized to bill CHAMPUS independent of physician referral have increased as a result of legislation. After a 2-year test authorized by the Defense Appropriations Acts of fiscal years 1981 and 1982, certified clinical social workers were authorized to bill CHAMPUS for their services without a physician referral as of December 21, 1982. Certified psychiatric nurse specialists were authorized to bill CHAMPUS directly as of October 1, 1981. Before these changes, only psychiatrists, other physicians, and clinical psychologists could bill CHAMPUS directly. Marriage, family, and pastoral counselors, however, must still have a physician's referral to bill CHAMPUS.

Officials told us that CHAMPUS has traditionally experienced problems with fraud and abuse in mental health billings, primarily because of the wide variety of mental health services covered under CHAMPUS. These officials did not believe, however, that the increased categories of independent providers has exacerbated these problems. They also said that there has been
no recent assessment to determine whether savings have resulted from the expanded billing authorizations.

NEW POLICY WOULD LIMIT
CHAMPUS PAYMENTS FOR CARE IN
RESIDENTIAL TREATMENT CENTERS

CHAMPUS has recently developed a payment policy for residential treatment centers that would limit what CHAMPUS pays for this care and would replace the current policy of paying whatever charges are billed by the centers. CHAMPUS officials anticipate that the new policy will become effective on July 1, 1986.

The need for improving CHAMPUS' control over residential treatment center payments has long been recognized. According to a 1976 report we issued, CHAMPUS did not have adequate procedures to assess whether charges for services rendered by these facilities were reasonable and proper. We recommended that negotiated rates be established, but this recommendation was never implemented. As a result of CHAMPUS audits covering the period from 1978 to 1984, about $1.2 million in questionable costs billed to CHAMPUS have been recouped. According to CHAMPUS officials, an additional $2.6 million in questionable billings are being appealed by facilities.

CHAMPUS told us that the new residential treatment center payment policy was based on CHAMPUS audit findings that

--improvements were needed in managing psychiatric care funding,
--rates charged by residential treatment centers were not reasonable,
--residential treatment centers failed to collect beneficiary cost shares resulting in higher charges to CHAMPUS, and
--no controls over residential treatment center rates existed.

Under the proposed new payment policy, the per diem rate for each center will be set at the payment rate the center accepts for one-third of its patient days--the 33rd percentile. Further, a maximum per diem payment limit of $248 is planned; this limit represents the 80th percentile of average charges.

\[\text{Greater Assurances Are Needed That Emotionally Disturbed and Handicapped Children Are Properly Cared for in Department of Defense Approved Facilities (GAO/HRD-76-175, Oct. 21, 1976).}\]
currently paid by CHAMPUS. Finally, CHAMPUS plans to set payments for absences from the center (while under treatment) of more than 3 days at 75 percent of the center's per diem rate (not to exceed $248).

Although CHAMPUS officials anticipate modest savings (about $1-2 million) from the new policy in the first year, they believe the major impact will be in long-term control over costs. They further believe that establishing an all-inclusive per diem rate for each center will provide greater control over costs than currently exists; charges now range from $40 to $450 per day and do not always include the costs of professional care provided at the center. Because CHAMPUS anticipates that some facilities with charges higher than the limit will drop out of the program, there may be a need to relocate about 80 to 100 patients. However, CHAMPUS has determined that enough facilities will continue in the program to assure adequate availability and quality of residential psychiatric care.

CHAMPUS CONTRACT TO PROVIDE MENTAL HEALTH SERVICES IN A HIGH UTILIZATION AREA

In April 1986 CHAMPUS awarded a competitively bid contract for providing mental health services to beneficiaries in the Portsmouth-Norfolk-Newport News, Virginia, area. This geographic area was selected because of the high utilization of mental health services by CHAMPUS beneficiaries. In 1983, mental health costs in the area reportedly averaged twice the CHAMPUS national average. This arrangement is a demonstration project that CHAMPUS expects to result in savings because the contractor will provide the services at a lower cost than CHAMPUS now pays to individual providers.

The contract is for services that include inpatient care, partial hospitalization, residential treatments and outpatient care and is to last 1 year. The contract may be extended an additional 2 years. Work is to begin under the contract in September 1986. To protect beneficiary interests, CHAMPUS plans to award a second contract for quality assurance monitoring of the performance of the contractor providing the care.
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