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MEMORANDUM

September 19, 2002

To: Chief Financial Officers

From: Robert Murray, Executive Director

Re: CHAMPUS/TRICARE/SIERRA - Reimbursement

As you are aware, Sierra Military Health Services, Inc., a sub-contractor of TRICARE, the managed care program of the CHAMPUS program, ceased reimbursing Maryland hospitals for outpatient services on the basis of HSCRC approved rates effective January 1, 2002. Although they were not required to do so, Sierra had been voluntarily paying for hospital outpatient services based on HSCRC approved rates up to that time.

With the assistance of the Maryland Hospital Association, the HSCRC was able to get the Maryland Congressional Delegation to successfully petition TRICARE, to continue Sierra's waiver of TRICARE's reimbursement principles in favor of HSCRC rate setting. Therefore, effective October 1, 2002, Sierra will begin reimbursing for all non-inpatient hospital services based on HSCRC approved rates, less a 4% discount applicable to governmental sub-contractors. Such payments should include reimbursement based on HSCRC rates for ambulatory surgery and clinic charges which were not paid based on HSCRC rates prior to January 1, 2002.

For those outpatient hospital services provided to CHAMPUS patients for the period from January 1, 2002 through September 30, 2002, with the exception of those of outpatient surgery and clinic charges previously specifically recognized by the HSCRC as eligible to be written-off as uncompensated care, any shortfalls in payment should be treated as contractual allowances and not as uncompensated care.

