



OFFICE OF THE UNDER SECRETARY OF DEFENSE

4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

PERSONNEL AND
READINESS

The Honorable Mike D. Rogers
Chairman
Committee on Armed Services
U.S. House of Representatives
Washington, DC 20515

SEP 15 2025

Dear Mr. Chairman:

The Department's response to House Report 118-125, page 199, accompanying H.R. 2670, the National Defense Authorization Act for Fiscal Year 2024, "Impacts of the TRICARE Reimbursement Final Rule on Children's Hospitals," is enclosed.

This report assesses the impacts on access to care for TRICARE beneficiaries at children's hospitals based on the implementation of the TRICARE reimbursement final rule on children's hospitals, which modified children's hospitals' reimbursement for outpatient services. It also specifically addresses the impact at those children's hospitals that see the highest volumes of TRICARE beneficiaries. Based on a review of claims data, the Defense Health Agency (DHA) counted the number of unique TRICARE beneficiaries using children's hospitals during the first 5 months of the rule's implementation (October 1, 2023 through February 29, 2024) and compared this value with the number of unique TRICARE beneficiaries in the same 5 month period in the prior year (October 2022 through February 2023). The review also focused on the group of 20 children's hospitals that serve almost three-quarters of TRICARE users of children's hospital outpatient services. DHA confirmed there was little change in access as measured by the change in the number of TRICARE children using these hospitals in the first 5 months after the implementation of the rule.

Thank you for your continued strong support for the health and well-being of our Service members, veterans, and their families.

Sincerely,

 Merlynn Carson, MD
Performing the Duties of the Deputy Under
Secretary of Defense for Personnel and
Readiness

Enclosure:
As stated

cc:

The Honorable Adam Smith
Ranking Member

Report to the Committee on Armed Services of the House of Representatives



Impacts of TRICARE Reimbursement Final Rule on Children's Hospitals

September 2025

The estimated cost of this report or study for the Department of Defense (DoD) is approximately \$2,930 in Fiscal Year 2024.

This includes \$100 in expenses and \$2,830 in DoD labor.

Generated on 2024Jun05 RefID: C-E430EC0

INTRODUCTION

This report is in response to House Report 118–125, page 199, accompanying H.R. 2670, the National Defense Authorization Act for Fiscal Year (FY) 2024, “Impacts of TRICARE Reimbursement Final Rule on Children’s Hospitals.” It assesses the impacts of the implementation of the TRICARE Outpatient Prospective Payment System Reimbursement Final Rule¹ (the “Rule”) on access to care for TRICARE beneficiaries at children’s hospitals.

Overall, this analysis found small reductions in utilization of children’s hospitals by TRICARE users; however, the cause of this reduction is likely related to changes in seasonal trends across years (e.g., lower rates of respiratory syncytial virus (RSV) and coronavirus disease 2019 (COVID-19) in 2024 than in 2023), rather than due to the modified reimbursement system. This analysis concludes that the changes to TRICARE reimbursement did not reduce access to care rendered within children’s hospitals for TRICARE beneficiaries.

BACKGROUND

The committee requested that the Defense Health Agency (DHA) submit a report assessing access to care changes faced by TRICARE beneficiaries as a result of the implementation of the Rule that modified the methods of reimbursing children’s hospitals for outpatient services.² As a result of the Rule, children’s hospitals are reimbursed using the Outpatient Prospective Payment System (OPPS) for those services rendered in an outpatient setting effective October 1, 2023. The Rule holds children’s hospitals harmless relative to the greater of the amounts that they would be reimbursed under OPPS or their hospital-specific cost-to-charge ratio for TRICARE-covered services. The Rule also tailored existing regulatory payment adjustments criteria to cancer and children’s hospitals.

METHODOLOGY

To measure the level of access to children’s hospitals, DHA counted the number of unique TRICARE beneficiaries who used one or more of the 81 children’s hospitals that provided outpatient services to TRICARE beneficiaries in FY 2023. DHA believes that calculating changes in the number of unique TRICARE beneficiaries who use these hospitals is the best indicator of access. DHA recognizes that access is unlikely to change for some types of services, like emergency room (ER) visits. In contrast, services including those requiring advance scheduling or new-patient visits are more likely to have a change in access. Consequently, this report measures the change in the number of unique users for specific types of services provided by children’s hospitals. Because the Rule took effect on October 1, 2023, DHA counted the number of unique beneficiaries using children’s hospitals during the first 5 months of its implementation (October 1, 2023 through February 29, 2024) and compared this value with the number of unique beneficiaries in the same 5-month period in the prior year (October 2022 through February 2023). The 5-month period was used because data on hospital

¹ “TRICARE; Reimbursement of Ambulatory Surgery Centers and Outpatient Services Provided in Cancer and Children’s Hospitals”, published on April 4, 2023 at 88 FR 19844, and amended on April 27, 2023 at 88 FR 25492.

² The Rule also addressed cancer hospitals and reimbursement for Ambulatory Surgery Centers. These are not addressed as they are outside the scope of this report.

use is based on claims submitted by the hospitals and, at the time of writing this report, these data are not complete and accurate after February 2024. Using the same October–February period in the year before implementation and the year when the Rule was implemented reduces the impact of seasonal trends (e.g., influenza rates) in hospital use.

Due to the House Armed Services Committee's (HASC) concerns about the impact of the new reimbursement approach on hospitals that serve high volumes of TRICARE patients, this report provides information on the number of TRICARE users at all 81 children's hospitals that provided outpatient services to TRICARE patients in FY 2023. Due to the HASC's concerns about changes in access at children's hospitals that serve high volumes of TRICARE beneficiaries this report also focuses on the group of 20 children's hospitals that serve almost three-quarters of TRICARE users of children's hospital outpatient services.

RESULTS

Children's hospitals' outpatient departments provided outpatient services to over 80,000 unique TRICARE beneficiaries in the October 2022 through February 2023 period. Preliminary data extracted in May 2024 indicate that the number of users of hospital outpatient services at these hospitals decreased by about 2 percent in the first 5 months of implementation of the Rule. (see Table 1). Not all hospital claims have been submitted for FY 2024; when more claims data are submitted, the number of unique users is likely to increase slightly, which would result in the decrease being less than 2 percent.

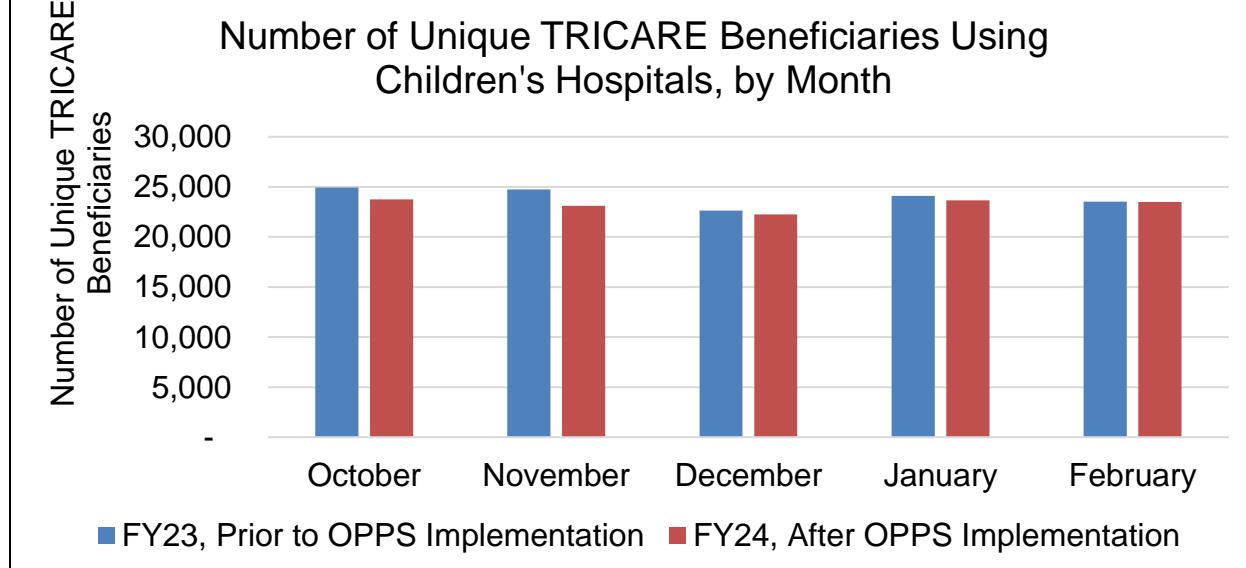
Table 1			
Number of Unique TRICARE Beneficiaries Using Children's Hospitals			
	October 2022 - February 2023	October 2023 - February 2024	Percent Change
Hospital Outpatient Services	81,134	79,252	-2%
Inpatient Stay	5,347	5,218	-2%

Note: Based on claims processed through May 2024.

Note: Inpatient care is not reimbursed through OPPS; however, inpatient data is provided as a point of comparison to demonstrate overall trends in utilization of Children's hospital services.

DHA calculated the change in unique TRICARE beneficiaries using outpatient services at children's hospitals during the first 5 months of implementation of the new reimbursement approach and found that the number of users decreased by about 6 percent in the first 2 months (October and November 2023 relative to these 2 months in 2022), but that by the third and fourth months, there was only a 2 percent decrease in users, and by the fifth month there was no change in outpatient users (see Figure 1). The decrease in the first few months (October and November 2023 relative to October and November 2022) may also reflect year-over-year differences in patterns of illness among children, particularly COVID-19 and RSV.

Figure 1



Children's hospitals provide a variety of distinct services to TRICARE beneficiaries, including both unscheduled emergency department services and scheduled services like surgeries or therapies. The number of TRICARE beneficiaries with an ER visit to a children's hospital was unchanged after implementation of the Rule. In comparison with unscheduled emergency services, there are many services at children's hospitals that are typically scheduled. A decrease in these services could reflect a decline in access for TRICARE beneficiaries. Three services which had high volumes of TRICARE users in FY 2023 were physical therapy (PT) visits, speech therapy visits (as measured by Current Procedural Terminology code 92507), and surgeries. After the implementation of the Rule at the start of FY 2024 there was no change in the number of PT users, a slight decrease in surgery patients (3 percent) and an increase in speech therapy patients (2 percent) (see Table 2). These findings indicate that access to outpatient services across children's hospitals in aggregate was relatively unchanged after the Rule was implemented.

Table 2

Number of Unique TRICARE Beneficiaries Using Different Types of Children's Hospitals Outpatient Services

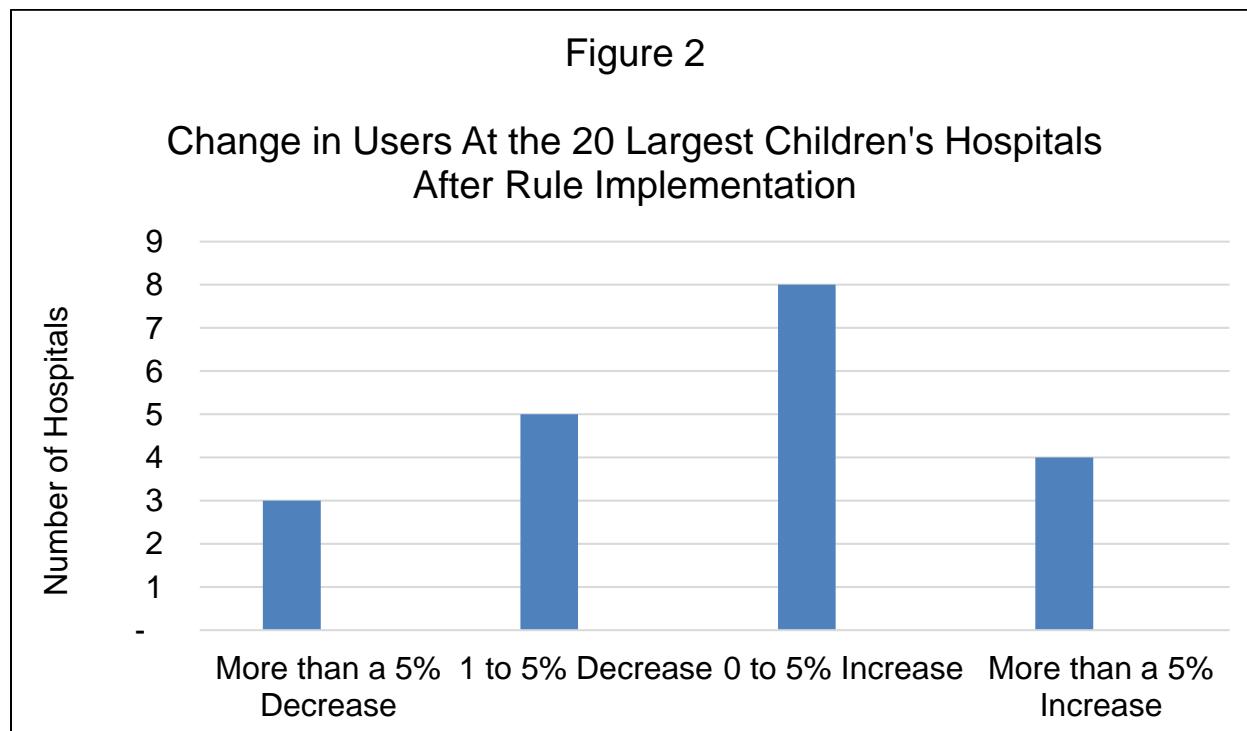
	October 2022 - February 2023	October 2023 - February 2024	Percent Change
Emergency Room Services	24,899	24,806	0%
Physical Therapy Visits	4,544	4,536	0%
Speech Therapy Visits	1,352	1,381	2%
Surgeries	12,867	12,481	-3%

Note: Based on claims processed through May 2024.

The HASC requested that DHA examine any changes in access at the children's hospitals that see high volumes of TRICARE patients. DHA identified 20 children's hospitals that served over 70 percent of all the TRICARE beneficiaries using children's hospitals in the first 5 months of FY 2023; many of these hospitals are in areas around military bases. After implementation of the Rule at the beginning of FY 2024, the number of users at these 20 hospitals decreased slightly less (1 percent compared with 2 percent) than at the other roughly 60 children's hospitals. As shown in Figure 2, even though there was a 1 percent decrease in TRICARE users of hospital outpatient services at the 20 largest children's hospitals in total, there was a great deal of variation among the 20, with 20 percent having increases of more than 5 percent, 15 percent having decreases of more than 5 percent, and the remaining 65 percent having a change within 5 percent (either positive or negative).

Table 3			
Number of Unique TRICARE Beneficiaries Using Children's Hospitals Outpatient Services			
	October 2022 - February 2023	October 2023 - February 2024	Percent Change
20 Largest Children's Hospitals	59,284	58,527	-1%
All Children's Hospitals	81,134	79,252	-2%

Note: Based on claims processed through May 2024.



Note: Reflects changes from October 2022 through February 2023 to October 2023 through February 2024 (post-implementation).

DHA specifically looked at the three high-volume children's hospitals that had a decrease in users of more than 5 percent from FY 2023 to FY 2024 (see Table 4). DHA evaluated whether there was an actual change in the number of patients using these specific hospitals, or whether such trends were also present in other nearby acute care hospitals or nearby military medical treatment facilities (MTFs). Looking at other nearby hospitals is appropriate because a change in use/access at a children's hospital might shift those beneficiaries to other nearby hospitals. Additionally, a nearby MTF increasing its visits for children might decrease the number of beneficiaries seeking similar services at a private sector children's hospital. In the case of Rady Children's Hospital in San Diego, there was an 8 percent decrease in the number of children using Rady; a decrease of 10 percent at other private sector hospitals within 100 miles of Rady; and a 9 percent decrease at the MTF in San Diego. In fact, the entire 100-mile area had a 9 percent decrease in the number of TRICARE-covered children using hospital outpatient departments. Thus, it appears that the decrease in users at the Rady Children's Hospital reflected an overall decrease in hospital outpatient visits for children in the San Diego area during the first 5 months of FY 2024, rather than reduced access to care at Rady. Similarly, at Children's Mercy Hospital in Kansas City and Texas Children's Hospital in Houston, it appears that the decreases in users at these two hospitals were somewhat higher but similar to the declines in overall demand for hospital outpatient department services for children in the area, rather than a specific decrease in access to care at children's hospitals.

Table 4 Change in Unique TRICARE Users at 3 Children's Hospitals with Decreases in Users After Rule Implementation					
Hospital	At that Specific Children's Hospital	At Nearby Private Sector Hospitals	At Nearby MTFs	Total	All Hospitals
Rady / San Diego	-8%	-10%	-9%	-9%	-9%
Mercy / Kansas City	-25%	-21%	-1%	-13%	-13%
Texas Childrens / Houston	-21%	-13%	N/A	-16%	-16%

Note: Nearby hospitals are those within 100 miles of the children's hospital. The Total All Hospitals column includes the children's hospital, nearby private sector hospitals, and nearby MTFs. The percentage change was calculated from the first 5 months of FY 2023 to the first 5 months of FY 2024.

Some of the decreases in overall demand by children for hospital outpatient department services at these three children's hospitals may reflect that this report looks at only a limited, 5-month period. Over a longer period, the results may differ. The overall decrease in hospital outpatient department use may also reflect that in the 5 months of FY 2023 examined in this report, COVID-19 and RSV were much more prevalent than in the first five months of FY 2024. Nationally, the number of hospital outpatient department users for COVID-19 and RSV diagnoses by TRICARE children decreased by 5 percent from the first 5 months of FY 2023 to

the first 5 months of FY 2024, but the number decreased by more than 20 percent in California and by almost 15 percent in the Kansas/Missouri area.

CONCLUSION

In conclusion, across all 81 children's hospitals that provided hospital outpatient department services to TRICARE patients in FY 2023, there was little change in access as measured by the change in the number of TRICARE-covered children using these hospitals in the first 5 months after the implementation of the Rule. Among the 20 highest-volume children's hospitals serving TRICARE, there was a small number that did have decreases in use, but this appears to be due to an overall decrease in demand in these markets more than reduced access to care at the specific children's hospitals.