



Highlights of [GAO-07-947](#), a report to congressional committees

Why GAO Did This Study

Under the Department of Defense's (DOD) TRICARE health program, hospitals that treat primarily children—designated by DOD as children's hospitals—are paid differently from other types of civilian hospitals through a children's hospital differential payment. Representatives of children's hospitals state that payments for children's hospital services do not fully recognize the higher complexity of children's hospital patients. Acknowledging concerns over payments for children's hospital services, the National Defense Authorization Act for Fiscal Year 2006 directed GAO to study DOD's current system of payments to children's hospitals. This report examines (1) the effect of the differential on TRICARE's base payments to children's hospitals, (2) differences in diagnosis and complexity between TRICARE pediatric patients at children's hospitals and those at other hospitals, (3) the extent to which TRICARE payment differences across hospitals reflect differences in patient complexity, and (4) recent trends in TRICARE pediatric patients' use of children's hospital services. To do this, GAO analyzed pertinent TRICARE claims data for fiscal years 2003 through 2006 and interviewed relevant DOD officials and representatives of children's hospitals.

www.gao.gov/cgi-bin/getrpt?GAO-07-947.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Laurie Ekstrand at (202) 512-7114 or ekstrandl@gao.gov.

DEFENSE HEALTH CARE

Under TRICARE, Children's Hospitals Paid More Than Other Hospitals After Accounting for Patient Complexity

What GAO Found

In fiscal year 2007, TRICARE's base payments, a key component of the program's hospital payment formula, were 61 percent higher for facilities that TRICARE defines as children's hospitals than for other hospital types. Base payments to children's hospitals have been substantially higher than base payments to other hospitals since 1989. However, the relative difference in base payments has decreased over time, and will continue to decrease, as the children's hospital differential is not adjusted for inflation.

From fiscal year 2003 through fiscal year 2006, excluding newborns, the types of diagnoses for TRICARE pediatric patients at children's hospitals were similar to those treated at medical centers, hospitals that also provide specialized pediatric services. TRICARE pediatric patients at children's hospitals had a similar level of complexity to those at medical centers and were substantially more complex than those at community hospitals, facilities that focus on more routine children's care. GAO measured the complexity of patients using a tool that classifies hospital stays into a more refined set of groups than TRICARE's system. Indirect measures of complexity, such as the length of a hospital stay, also showed similarities between TRICARE pediatric patients at children's hospitals and those at medical centers.

GAO found that after adjusting for differences in patient complexity, TRICARE payments to children's hospitals were substantially greater per admission than TRICARE payments to medical centers and community hospitals. Specifically, holding patient complexity constant, children's hospitals were paid 22 percent more than medical centers and 53 percent more than community hospitals.

The number of TRICARE pediatric admissions at children's hospitals increased from 5,027 in fiscal year 2003 to 7,083 in fiscal year 2006. The percentage of TRICARE pediatric admissions in civilian hospitals that occurred at children's hospitals also increased during this time period. The increase in the use of children's hospital services is consistent with statements from representatives of children's hospitals, who said that their hospitals are committed to accepting and caring for TRICARE patients.

GAO's findings show TRICARE's hospital payment system functioning largely as DOD expected, as the difference in base payments to children's hospitals and other hospitals was designed to endure but diminish over time. GAO has no data on other factors that might support payment differences, however, GAO's findings suggest that further increasing payments to children's hospitals is not supported on the basis of patient complexity. In commenting on a draft of this report, DOD agreed with GAO's findings and concluding observations.