Defense Health Program
Fiscal Year (FY) 2009 Budget Estimates
Defense Health Program
Appropriation Highlights

($ in Millions)

	FY 2007[1] Actuals	Price Growth	Program Growth	FY 2008[2] Estimate	Price Growth	Program Growth	FY 2009 Estimate
Appropriation Summary:							
Operation & Maintenance	22,826.0	1,299.7	-1,556.2	22,569.5	1,353.8	-806.0	23,117.4
RDT&E	772.3	14.7	-250.7	536.3	10.7	-353.1	193.9
Procurement	497.3	12.8	-147.2	362.9	9.8	-68.7	303.9
Total, DHP	24,095.6	1,327.2	-1,954.1	23,468.7	1,374.3	-1,227.8	23,615.2
MERHCF receipts[3]	7,287.6			7,942.8			8,596.2
Total Health Care Costs	31,383.2			31,411.5			32,211.4

[1/]FY 2007 actuals include $1,925.3 million in O&M funding from Public Law 110-28 - U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007, to address the Global War on Terror and other related expenses as follows:
-P.L. 110-28 Title I, Supplemental Appropriations for Defense, International Affairs, and Other Security-Related Needs - Provides $1,096.3 million in DHP O&M for the Global War on Terror.
-P.L. 110-28 Title III, Additional Defense, International Affairs, and Homeland Security - Provides $829 million in DHP O&M for other related expenses.

[2/]FY 2008 Current Estimate does not include funding from P.L. 110-161 Consolidated Appropriations Act, 2008, Division L, Supplemental Appropriations, Defense, Title V, Other Department of Defense Programs ($575.7 million).

[3/]Reflects Departmental DoD Medicare-Eligible Retiree Health Care Fund (MERHCF) for FY 2007, FY 2008 and FY 2009 O&M only.

Description of Operations Financed:

The medical mission of the Department of Defense (DoD) is to enhance DoD and our Nation's security by providing health support for the full range of military operations and sustaining the health of all those entrusted to our care. The Defense Health Program (DHP) appropriation funding provides for worldwide medical and dental services to active forces and other eligible beneficiaries, veterinary services, medical command headquarters, specialized services for the training of medical personnel, and

occupational and industrial health care. Included are costs associated with provisions of the TRICARE benefit which provides for the health care of eligible active duty family members, retired members and their family members, and the eligible surviving family members of deceased active duty and retired members. The FY 2009 Defense Health Program budget request of $23,615.2 million includes realistic cost growth for pharmacy, managed care support contracts, and other health care services either provided in the Military Treatment Facility or purchased from the private sector. This budget includes funding to support Military Health System costs associated with the Army and Marine Corps permanent strength increases announced by the President to strengthen our military for the long war against terrorism. This budget includes $1.2 billion in proposed savings resulting from benefit reform legislative proposals accompanying the FY 2009 President's Budget submission, based on final recommendations provided by the DoD Task Force on the Future of Military Health Care (Public Law 109-364). Operation and Maintenance (O&M) funding is divided into seven major areas: In-House Care, Private Sector Care, Information Management, Education and Training, Management Activities, Consolidated Health Support, and Base Operations. The DoD Medicare Eligible Retiree Health Care Fund (MERHCF) is an accrual fund to pay for DoD's share of health care costs for Medicare-eligible retirees, retiree family members and survivors. MERHCF receipts fund applicable In-House and Private Sector Care operation and maintenance health care costs.

The DHP appropriation also funds the Research, Development, Test and Evaluation (RDT&E) program for medical Information Management/Information Technology (IM/IT), medical laboratory research and the Armed Forces Radiobiological Research Institute. The DHP appropriation Procurement program funds procurement of capital equipment in Military Treatment facilities and other selected health care activities which include equipment for initial outfitting of newly constructed, expanded, or altered health care facilities; equipment for modernization and replacement of worn-out, obsolete, or uneconomically reparable items; equipment supporting programs such as pollution control, clinical investigation, and occupational/environmental health; and Military Treatment Facilities information processing requirements and equipment.

Narrative Explanation of FY 2008 and FY 2009 O&M Changes:

The Defense Health Program, Operation and Maintenance funding increases $547.9 million overall between FY 2008 and FY 2009, reflecting $1,353.8 million in price growth and net program decrease of $806 million. Program increases include: $1,507.1 million for higher demands for health care by eligible beneficiaries due to increased users and increased utilization of benefits; $786 million to reverse savings associated with TRICARE benefit reform; $514 million to reverse the Military Treatment Facility (MTF) efficiencies; $400 million for Army and Marine Corps permanent end-strength increases; $113.3 million for Military to Civilian personnel conversions; $54.3 million for information management and technology requirements to include increased sustainment and circuit costs as more systems are deployed; $54 million for facilities sustainment to meet DoD sustainment goal; $12.7 million for foreign currency adjustment; $12.2 million realigned from the DHP RDT&E and Procurement appropriations to central IM/IT programs for normal life cycle shift to sustainment after deployment; and $11 million for initial outfitting and transition costs for medical and dental military construction projects. Program decreases include: $2,553.5 million for reversal of FY 2008 one year funding; $1,184 million for estimated savings resulting from benefit reform recommendations from the DoD Task Force on the Future of Military Health Care; $265.8 million for decreased demand for Military Treatment Facilities pharmaceuticals; $155.9 million realignment to DHP BRAC account supporting Base Realignment and Closure action plans; $30.4 million for reduction in centrally managed programs; $23.4 million for reduced requirements for contracts supporting military unique functions; $22 million realignment from O&M to RDT&E for Medical Operations Data System, Theater Enterprise-Wide Logistics System ,and Armed Forces Longitudinal Technology Applications (MODS/TEWLS/AHLTA); $12.3 million reduced requirement for Building 54 at the Armed Forces Institute of Pathology; $8.2 million realignment from O&M to RDT&E for the Electronic Commerce program; $5.6 million reduction in costs due to increased Military Treatment Facilities efficiencies; $4.7 million in functional transfers from DHP to other DoD appropriations; $3 million for reduced support to information architecture; $1 million O&M realignment to RDT&E for faculty research grants and Bio Identification and Wound Healing Research capabilities; and $0.8 million for contract management efficiencies.

Sustaining the Military Health Care Benefit:

TRICARE has continually improved its service over the past several years, and independent surveys show that as a health plan, it ranks as one of the nation's best. Individual cost shares for TRICARE (annual fees and deductibles) have remained essentially the same since 1995. As a result, the Department pays a continually increasing percentage of its beneficiaries' health costs. In 1995, beneficiaries paid approximately 27 percent of their healthcare costs. Today they pay only 12 percent. Military retirees are increasingly electing to use the attractive TRICARE health benefit instead of the health insurance options provided by their employers.

With the many benefit enhancements, increased beneficiary use, stable cost shares, and high healthcare inflation, the DoD's total health costs have more than doubled in five years, from $19 billion in 2001 to $38 billion in 2006, and now represent 8 percent of the DoD budget. Trend analysis projects that these costs will reach $64 billion, or 11.3 percent of the DoD budget by FY 2015. To help sustain a superior military health benefit and to ensure necessary support for future national security missions, the Department endorses the recommendations of the Congressionally mandated Task Force on the Future of Military Health Care to adjust TRICARE cost shares, to realign the government and individual cost shares to begin to approach the 1995 cost share levels. Even with adjustments, the TRICARE benefit will remain a comprehensive health plan with smaller cost shares than those for the Federal Employees Health Benefit Program and nearly all other health benefit plans in the U.S. Notably, only the retail pharmacy adjustments would have a minimal effect on Active Duty family members. There would be no change for Active Duty members themselves.

The FY 2009 budget request assumes savings of $1.2 billion for the implementation of increased TRICARE premiums and co-pays (see table below) for working-age military retirees and their families.

Proposed Changes in TRICARE Cost Share for Retirees and Family

Fiscal Year	Prime ("HMO")	Extra ("PPO") and Standard ("Fee-for-Service")		Pharmacy Co-Payment	
	Enrollment Fee	Enrollment Fee	Deductible	Retail	Mail Order
				30 Day Supply	90 Day Supply
	Retired Pay $0 to $19,999				
FY 07 - Current Out-of-Pocket Expenses	$230 Individual/ $460 Family	$0	$150 Individual/ $300 Family	$3 Generic/ $9 Brand/ $22 Non-Formulary	$3 Generic/ $9 Brand/ $22 Non-Formulary
Proposed Rates for FY 09[1]	$364/$728	$32/$64	$209/$417	$15/$25/$45	$0/$15/$45
	Retired Pay $20,000 to $39,000				
FY 07 - Current Out-of-Pocket Expenses	$230 Individual/ $460 Family	$0	$150 Individual/ $300 Family	$3 Generic/ $9 Brand/ $22 Non-Formulary	$3 Generic/ $9 Brand/ $22 Non-Formulary
Proposed Rates for FY 09[1]	$444/$888	$32/$64	$252/$503	$15/$25/$45	$0/$15/$45
	Retired Pay $40,000 and above				
FY 07 - Current Out-of-Pocket Expenses	$230 Individual/ $460 Family	$0	$150 Individual/ $300 Family	$3 Generic/ $9 Brand/ $22 Non-Formulary	$3 Generic/ $9 Brand/ $22 Non-Formulary
Proposed Rates for FY 09[1]	$594/$1,188	$32/$64	$337/$675	$15/$25/$45	$0/$15/$45

[1/]Original Task Force Recommendation are in static FY 2008 dollars. Numbers above reflect a 7% index for FY09.

Prime Visit Copays	Outpatient Visits non-Mental Health	ER Visits	Mental Health Visits
Current thru FY 2009[2]	$12	$30	$25 private /$17 group

[2/]Task Force recommended delay for 2 years then cumulative updates after 5 years with no annual indexing

Narrative Explanation of FY 2008 and FY 2009 Research Development Test & Evaluation (RDT&E) Changes:

The Defense Health Program RDT&E program reflects a net decrease of $342.4 million between FY 2008 and FY 2009. This includes price growth of $10.7 million and a net program decrease of $353.1 million. Program increases include: $24 million for Theater Medical Information Program (TMIP) and theater electronic health record; $14.5 million for realignment from O&M for Medical Operational Data System/Theater Enterprise Wide

Logistics System/Armed Forces Health Longitudinal Technology Application (AHLTA) programs; $10.5 million for development and testing of Defense Medical Logistics Standard System; $10 million for Patient Accounting System (PAS) development of an enterprise-wide billing system; $8.9 million for Defense Medical Human Resources System internet; $7.2 million realignment from O&M for Electronic Commerce program; $6 million for Defense Occupational and Environmental Health Readiness System-Industrial Hygiene increased requirements; $4.2 million for Expense Assignment System(EAS)IV increased requirements; $1 million realigned from O&M for Uniformed Services University of Health Sciences research grants and Bio Identification and Wound Healing Research capabilities; and $0.2 million for miscellaneous Central IM/IT requirements. Program decreases include: $401.8 million for one-time FY 2008 Congressional Special Interests projects; $19.4 million for relook of AHLTA blocks 3 and 4 requirements; $7 million realignment to O&M for Central IM/IT requirements; $5.2 million for completion of development for Prospective Payment and Purchased Care Operations support capabilities of Executive Information and Decision Support (EI/DS); $2.7 million for reduced Defense Blood Standard System (DBSS)requirements; and $3.5 million for miscellaneous program requirements.

Narrative Explanation of FY 2008 and FY 2009 Procurement Changes:

The DHP Procurement Program has a net decrease of $59 million between FY 2008 and FY 2009. This consists of $9.8 million in price growth offset by negative program growth of $68.7 million. Program increases include: $11.7 million for procurement of AHLTA Block 3 COTS licenses; $5.2 million for Defense Occupational and Environmental Health Readiness System (DOEHRS)-Hearing Conservation audiometer refresh; $3 million for Veterinary COTS licenses; $1.7 million for increased initial outfitting requirements; $1 million realignment from O&M to Procurement for the Electronic Commerce (E-Commerce) program; and $2.9 million for other Central IM/IT requirements, including DOEHRS-Industrial Hygiene. Program decreases include: $25.9 million for Blade Servers funded in FY 2008; $19.2 million for reduced end user devices (EUDs)and local area network (LAN) upgrade requirements; $13 million for reduced radiographic modernization requirements; $9.8 million realigned to O&M for completion of Adenovirus testing; $8.2 million for the completion of Defense Medical Human Resources System (internet) Increment 1; $7.9 million for Patient Accounting System requirements funded in FY2008; $5.2 million realignment

from Procurement to O&M for central IM/IT requirements; $2.1 million for TRICARE On-Line deployment costs; $2.7 million for Executive Information and Decision Support (EI/DS); and $0.2 million for other replacement equipment.

President's Management Plan – Performance Metrics Requirements:

The Defense Health Program (DHP) continues to refine existing performance measures and develop specific criterion to determine and measure outputs/outcomes as compared with initial goals. Currently, the DHP is using five performance measures to monitor overall program performance. These measures will be added to over time as new measures are developed. The current five measures are:

- **Beneficiary Satisfaction with Health Plan** – An increase in the satisfaction with the Health Plan indicates that actions being taken are improving the overall functioning of the plan from the beneficiary perspective. The goal is to improve overall satisfaction level to that of civilian plans using a standard survey instrument.
- **Inpatient Production Target** (Relative Weighted Products) – Achieving the production targets ensures that the initial plan for allocation of personnel and resources are used appropriately in the production of inpatient workload.
- **Outpatient Production Target** (Relative Value Units) – Achieving the production targets ensures that the initial plans for allocation of personnel and resources are used appropriately in the production of outpatient workload.
- **Primary Care Productivity** – In order to run a premier Health Maintenance Organization, the critical focus area is primary care. The primary care provider frequently represents the first medical interaction between the beneficiary and the HMO. In this role, the primary care provider is responsible for the majority of the preventive care to keep beneficiaries healthy and away from more costly specialty care. The measure that will be tracked is RVUs per Primary Care Provider per Day, with a long term goal of meeting the civilian sector benchmark.
- **Medical Cost Per Member Per Year** – Annual Cost Growth – The medical cost per member per year looks at the overall cost of the Prime enrollees for the DHP. This tracks all costs related to care delivered to enrollees. The objective is to keep the rate of cost growth for the treatment of TRICARE enrollees to a level at or below the

civilian health care plans rate increases at the national level. Currently the measure provides insight to issues regarding unit cost, utilization management, and purchased care management. The metric has been enhanced to properly account for differences in population demographics and health care requirements of the enrolled population. Since enrollment demographics can vary significantly by Service, and across time, it is important to adjust the measure. For example, as increasing numbers of older individuals enroll, the overall average medical expense per enrollee would likely increase. Conversely, as younger, healthy active duty enroll, the overall average would likely decrease. Through the use of adjustment factors, a comparison across Services and across time is made more meaningful.

Initial goals have been developed for each of these performance measures. The overall success of each area measured is discussed below:

- **Beneficiary Satisfaction with Health Plan** – Satisfaction with Health Care Plan scores for FY 2007 surpassed the goal for the year. Performance for each quarter was above the same quarter for FY 2006. The system's performance was 59 percent versus the goal of 58 percent. Continuous increases in enrollment and improvement in the score demonstrates real progress for the program.
- **Inpatient Production Target** (Relative Weighted Products) – While the data is not complete for FY 2007, the system will likely be a little bit below the goal. With at least an initial reporting for each month of FY 2007, the production was 224 thousand relative weighted products versus a goal of 231 thousand relative weighted products. Since records are not submitted until after discharge of the patient, there will likely be some growth in the final count, but this will still be below the goal. We will continue to monitor performance this coming year and take any necessary actions to improve performance.
- **Outpatient Production Target** (Relative Value Units) – With an increase emphasis on paying for performance, the system has seen a renewed focus on production of outpatient care, and the goal has been achieved for FY 2007. The system produced 27.7 million relative value units versus a goal of 27.1 million relative value units. The system has achieved the goal.

- **Primary Care Productivity** – Improvements in productivity have slowed for FY 2007 based on year-to-date data. While the data is only reported through the eleventh month of FY 2007, the current achievement level is 15.6 relative value units per primary care provider per day versus a goal of 15.7 relative value units per primary care provider per day. While this performance level is not expected to reach the goal achievement, it is an improvement over last year's performance of 15.5 relative value units per primary care provider per day. The objective is to continue to improve the performance of the Military Health System by establishing challenging performance goals.
- **Medical Per Member Per Year** – Annual Cost Growth – Due to the nature of the data supporting this measure, data is only reported through the third quarter of FY 2007, and is projected to completion at that point. In general the data maturity for the measure requires about a six month lag to handle claims submission and processing issues for improved accuracy. For the first three quarters of FY 2007, the annual cost growth was 6.9 percent, compared with the goal for the year of 7 percent. The goal was established based on projected private sector health insurance cost growths. This measure will continue to be monitored and updated once data is more complete.