

**Defense Health Program
Fiscal Year (FY) 2007 Budget Estimates
Appropriation Highlights**

(\$ in Millions)

	FY 2005 ^{1/} <u>Actual</u>	Price Growth	Program Growth	FY 2006 ^{2/} <u>Estimate</u>	Price Growth	Program Growth	FY 2007 ^{3/} <u>Estimate</u>
<u>Appropriation Summary:</u>							
Budget Activity 4: Administration and Service-wide Activities							
Operation & Maintenance	17,497.1	988.3	901.5	19,386.9	1,150.9	-288.7	20,249.1
Procurement	368.3	10.5	25.1	403.9	12.3	-19.8	396.4
RDT&E	<u>523.1</u>	<u>12.1</u>	<u>1.7</u>	<u>536.9</u>	<u>11.8</u>	<u>-418.1</u>	<u>130.6</u>
Total, DHP	18,388.5	1,010.9	928.3	20,327.7	1,175.0	-726.6	20,776.1
DoD Projection of receipts							
From the Accrual Fund	<u>6,075.2</u> ^{4/}			<u>6,666.3</u> ^{4/}			<u>7,206.8</u> ^{4/}
Total Health Care Costs	24,463.7			26,994.0			27,982.9

^{1/}FY 2005 actuals include \$214.15 million from the Emergency Supplemental Appropriations Act for Defense for the Global War on Terror & Tsunami Relief, 2005 (P.L. 109-13); \$12.0 million from the Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005(P.L. 108-324); and \$19.257 million from the Second Emergency Supplemental Appropriations Act to meet Immediate Needs arising from the Consequences of Hurricane Katrina, 2005 (P.L. 109-62). It does not include \$683.0 million of Title IX funding for Additional War-Related Appropriations, Department of Defense Appropriations Act, 2005 (P.L. 108-287) and it does not include \$298.296 million in FY04/05 DHP Carryover funding from FY04 DHP O&M funds.

^{2/}FY 2006 estimate includes \$172.958 million in O&M and \$28.592 million in Procurement funding to address hurricanes in the Gulf of Mexico; and \$120.0 million O&M funding to address Pandemic Influenza (P.L. 109-148, Division B-Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico and Pandemic Influenza, 2006). Reflects a transfer of \$15 million to the Department of Veterans Affairs for VA/DoD sharing initiatives as outlined in the Bob Stump National Defense Authorization Act for Fiscal Year 2003, Section 721 (P.L. 107-314).

^{3/}FY 2007 funding assumes enactment of the \$249 million legislative proposal and an additional \$486 million of regulatory modification in the Sustain the Benefit Initiative for a total of \$735million.

^{4/}Reflects Departmental projections of FY 2005, FY 2006 and FY 2007 In-House Care and Private Sector Care receipts from the DoD Medicare-Eligible Retiree Health Care Fund to pay for health care costs.

**Defense Health Program
Fiscal Year (FY) 2007 Budget Estimates
Appropriation Highlights**

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 the TRICARE Standard and the TRICARE Managed Care Support (MCS) contracts which provide 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. In FY 2007 this budget assumes enactment of the \$249 million legislative proposal and an additional \$486 million of regulatory modification in the Sustain the Benefit Initiative for a total of \$735 million. The DHP Operations 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 is an accrual fund to pay for DoD's share of health care costs for Medicare-eligible retirees, retiree family members and survivors. Receipts from the fund into the Defense Health Program and the Military Personnel accounts pay for the current year cost of care provided to Medicare-eligible retirees, retiree family members and survivors.

The DHP appropriation also funds procurement of capital equipment in support of the DoD health care program in military medical treatment facilities and other health activities worldwide. Procurement funding includes equipment for initial outfitting of newly constructed, expanded, or altered health care facilities; equipment for modernization and replacement of worn-out, obsolete, or uneconomically repairable items; equipment in support of the entire TRICARE Managed Health Care Program and medical treatment facilities information processing requirements; and equipment supporting programs such as pollution control, clinical investigation, and occupational/environmental health. In addition, the program is moving forward with the Department of Veterans Affairs to implement systematic joint procurement processes for high cost medical equipment.

The Research, Development, Test and Evaluation (RDT&E) program of the DHP appropriation funds health care programs related to Information Management/Information Technology (IM/IT), medical laboratory research and the Armed Forces Radiobiological Research Institute. RDT&E funding includes development of support capabilities for Prospective Payment and Medical Surveillance systems, as well as development associated with TRANSCOM Regulating and Command and Control Evacuation System (TRAC2ES) full operational capability, Patient Accounting System, Armed Forces Health Longitudinal Technology

**Defense Health Program
Fiscal Year (FY) 2007 Budget Estimates
Appropriation Highlights**

Application (AHLTA), Patient Safety Reporting, TRICARE ON Line product improvements and the Armed Forces Radiobiological Research Institute.

Narrative Explanation of O&M Changes: The Defense Health Program Operations and Maintenance program increases overall by \$862.2 million between FY 2006 and FY 2007, reflecting \$1,150.9 million in price growth and -\$288.7 million in net program change. Some of the program increases include \$274.5 million for increased health care and pharmaceutical demands by beneficiaries using the Military Healthcare System around the world in the private sector care program; \$134.1 million for Military to Civilian personnel conversions; \$47.7 million for civilian pay and non-pay increases; \$14.8 million for facility costs associated with the Armed Forces Institute of Pathology renewal project; \$103.7 million for Pharmacy growth above the inflation rate due to increased utilization and entry of new drugs into the market place; \$33.9 million for additional sustainment cost associated with the following information systems and/or offices: the Armed Forces Health Longitudinal Technology Application (AHLTA), Patient Accounting System, Patient Safety and Reporting, and the Clinical Analysis and Reporting Tool module of the Executive Information/Decision Support program, the Defense Occupational and Environmental Health Readiness System, the Defense Medical Logistics Standard Support, and the Tri-Service Infrastructure Management Program Office; \$10.1 million to meet Department-mandated facilities sustainment goals. Some of the program decreases include \$60.1 million in reversals of one-time Congressional adds; anticipated savings from Federal Pricing Controls implementation for the Retail Pharmacy of \$19.8 million; Medical Treatment Facilities efficiencies of \$167.3 million; \$249 million for legislative changes to enrollment fees and deductibles, \$329 million for regulatory changes to enrollment fees and deductibles, and \$157 million for changes in pharmacy co-payments.

Narrative Explanation of Procurement Changes:

The DHP Procurement Program has a net decrease of \$7.5 million between FY 2006 and 2007. This consists of \$12.3 million in price growth offset by negative program growth of \$19.8 million. Program increases include \$30.3 million for replacement cycles of end user devices and local area network upgrades providing infrastructure support to the centrally managed IM/IT systems; \$1.6 million for the Defense Occupational Health Readiness System for Hearing Conservation; and \$3.7 million for the reversal of the 1% Congressional reduction. Program decreases of \$55.5 million include a reversal of \$28.6 million for the Katrina Supplemental; \$5.3 million for common services for the Central IM/IT program: \$2.0 million decrease to the TRICARE Online Program; \$3.9 million for the reversal of Congressional adds; \$3.5 million decrease for reduced implementation of the Executive Information Decision Support System; \$2.2 million transfer to O&M for Distance Learning initiatives; \$2.8 million decrease to the Defense Occupational Health Readiness System-Industrial Hygiene; \$1.2 million decrease in Patient Safety Reporting; \$5.2 million decrease to the

**Defense Health Program
Fiscal Year (FY) 2007 Budget Estimates
Appropriation Highlights**

Defense Blood Standard System; and \$0.8 million decrease to Defense Medical Human Resource System-Internet (DMHRSi).

Narrative Explanation of Research Development Test & Evaluation (RDT&E) Changes:

The Defense Health Program RDT&E program reflects a net decrease of \$406.3 million between FY 2006 and FY 2007. This includes price growth of \$11.8 million and net program reduction of \$418.1 million. A program increase of \$1.7 million is included for the reversal of the 1% Congressional reduction. Program decreases include \$18.2 million for AHLTA development licenses; \$7.7 million decrease for the Enterprise Wide Scheduling and Registration system; \$3.7 million decrease in requirements for the Patient Accounting System; \$373.1 million decrease for Congressional adds; \$17.1 million in adjustments to the Theater Medical Information Program; TRICARE Online; the Executive Information and Decision Support System; and support for the Health Insurance and Portability and Accountability Act.

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.
- **Medical 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

**Defense Health Program
Fiscal Year (FY) 2007 Budget Estimates
Appropriation Highlights**

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 more young, 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 score stayed at 53% for FY 2005. The primary reason for the score remaining the same as FY 2004 was the conversion to new managed care contracts and delays in claims processing. Once the claims processing issue was resolved during the year, scores did improve. The score for the last quarter of FY 2005 was 56% which was one point higher than the prior year for the same quarter and one point below the goal. Continuous increases in enrollment and improvement in the score demonstrates real progress for the program.
- **Inpatient Production Target (Relative Weighted Products)** - Production for FY 2005 was 228K relative weighted products versus a goal of 242K relative weighted products. The goal for the Defense Health program was quite aggressive in FY 2005 and was not met. In addition to the aggressive goal, there were some unexpected impacts from hurricanes and hospital downsizing that resulted in decreased production. Planning for future years will take into account anticipated downsizing due to BRAC and should provide more reasonable goals. We will continue to monitor performance and take any necessary actions to improve performance.
- **Outpatient Production Target (Relative Value Units)** - Production for FY 2005 was 27 million relative value units versus a goal of 29 million relative value units. Two factors are having a significant impact on this metric. First, there has been a concerted effort to improve medical coding which resulted in a decrease in the average level of complexity being reported in the medical record. That, in turn, drives down the relative value units. Second, the downsizing of inpatient facilities resulted in decreases of specialty care at those locations that also reduces

**Defense Health Program
Fiscal Year (FY) 2007 Budget Estimates
Appropriation Highlights**

the average relative value units per patient visit. We will continue to monitor performance and take any necessary actions to improve performance.

- **Primary Care Productivity** - Improvements in productivity continued in FY 2005 reaching 14.6 relative value units per primary care provider per day versus a goal of 14.3 relative value units per primary care provider per day. All three Services showed significant improvement over the prior year performance with increases of .5 relative value units per primary care provider per day. The FY 2005 goal was more realistic with annual improvement targets than prior years, and performance improvements across the Services seem to have been achieved. The objective is to move the Defense Health Program forward in a manner that requires significant improvements to the system.

Medical Per Member Per Year - Annual Cost Growth - Due to the nature of the data supporting this measure, data is only reported through the 3rd quarter of FY 2005. In general the data maturity for the measure requires about a six month lag to handle claims submission and processing issues. For FY 2005, through the 3rd quarter, the annual cost growth reflects 11%, with the goal for the year being 11%. The 11% goal was established based on projected private sector health insurance cost growths. As long as the system continues to operate at its current performance level, the goal will likely be met for the year. Current performance in regards to annual cost growth is favorable.