



Highlights of [GAO-08-104](#), a report to congressional committees

Why GAO Did This Study

The Department of Defense's (DOD) TRICARE Reserve Select (TRS) program allows most reservists to purchase coverage under TRICARE, the military health insurance program, when not on active duty. DOD intends to set premiums at a level equal to the expected costs of providing TRS benefits. The National Defense Authorization Act for 2007 required GAO to review TRS costs. As discussed with the committees of jurisdiction, GAO compared (1) the TRS premiums established by DOD to the reported costs of providing benefits under TRS in 2006 and (2) DOD's projected costs for TRS before implementation to DOD's reported costs for the program in 2005 and 2006. To do this work, GAO examined DOD analyses and interviewed DOD officials and external experts.

What GAO Recommends

GAO recommends that DOD stop basing TRS premiums only on Blue Cross and Blue Shield (BCBS) premium adjustments and use the reported costs of providing benefits through the TRS program when adjusting TRS premiums in future years as limitations associated with the reported cost data decrease. GAO also recommends that DOD explore options for addressing instances in which premiums have been either significantly higher or lower than program costs in prior years, including seeking legislative authority as necessary. In its comments, DOD concurred with these recommendations and with GAO's conclusions.

To view the full product, including the scope and methodology, click on [GAO-08-104](#). For more information, contact Laurie Ekstrand at (202) 512-7114 or ekstrandl@gao.gov.

MILITARY HEALTH CARE

Cost Data Indicate That TRICARE Reserve Select Premiums Exceeded the Costs of Providing Program Benefits

What GAO Found

In 2006, the premium for both individual and family coverage under TRS—which DOD based on BCBS premiums—exceeded the reported average cost per plan of providing TRICARE benefits through the program. TRS currently serves less than 1 percent of the overall TRICARE population, and unlike most other TRICARE beneficiaries, TRS enrollees pay a premium to receive health care coverage. At the time of GAO's analysis, TRS consisted of three tiers, established by law, with reservists in each tier paying different portions of the total premium, based on the tier for which they qualified. Over 90 percent of reservists who purchased TRS coverage enrolled in tier 1. The premium for individual coverage under tier 1 was 72 percent higher than the average cost per plan of providing benefits through the program. Similarly, the premium for family coverage under tier 1 was 45 percent higher than the average cost per plan of providing benefits. DOD based TRS premiums on BCBS premiums because, at the time DOD was developing TRS, actual data on the costs of TRS did not exist; however, these data are now available. Had DOD been successful in establishing premiums that were equal to the cost of providing benefits in 2006, the portion of the premium paid by enrollees in tier 1—which is set by law to cover 28 percent of the full premium—would have been lower that year. Reasons that TRS premiums did not align with benefit costs included differences between the TRS and BCBS populations and differences in the way the two programs are designed, which DOD did not consider in its methodology. According to experts, the most successful methods for aligning premiums with actual program costs involve using program cost data when setting premiums. The regulation governing TRS premium adjustments allows DOD to use either BCBS premiums or other means as the basis for TRS premiums. However, DOD officials told GAO that they plan to continue, at least for the near future, to base TRS premiums on BCBS premiums because of limitations associated with using currently available data to predict future TRS costs. However, these limitations should decrease over time as DOD gains more experience with the program and enrollment increases. Nonetheless, due to the uncertainty associated with predicting future health care costs, premiums are unlikely to exactly match program costs, even when they are based on cost data from prior years. Other insurance programs have methods to address differences between premiums and program costs, which are not provided to DOD in the law governing TRS.

DOD overestimated the total cost of providing benefits through TRS. While the department projected that its total costs would amount to about \$70 million in fiscal year 2005 and about \$442 million in fiscal year 2006, DOD's reported costs in those years were about \$5 million and about \$40 million, respectively. DOD's cost projections were too high largely because it overestimated the number of reservists who would purchase TRS and the associated cost per plan of providing TRS benefits. DOD officials told GAO that they chose not to use TRS cost and enrollment data when projecting future year program costs and enrollment levels because of uncertainty about whether they would provide an accurate indication of future experience.