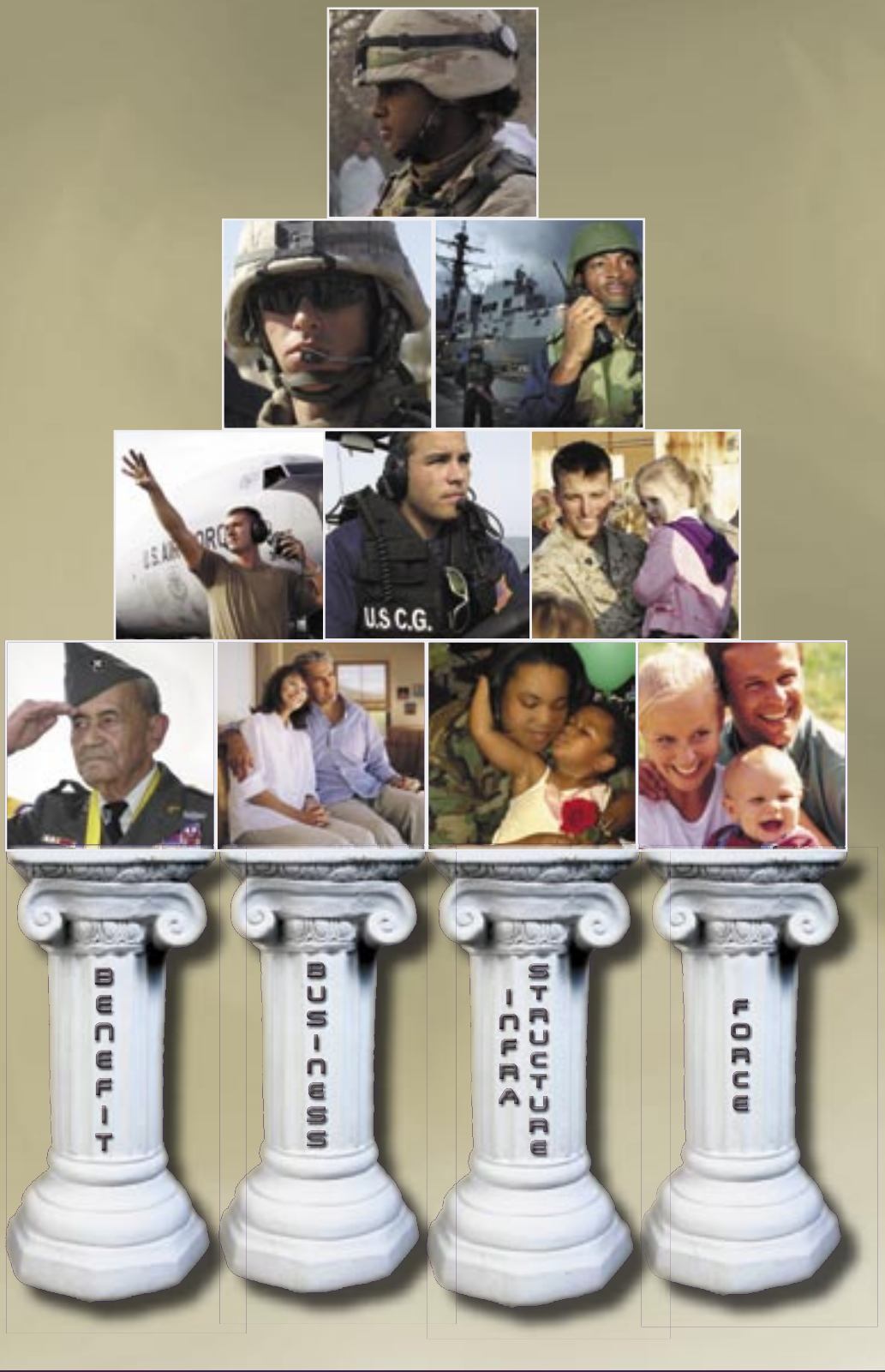
TRICARE STAKEHOLDERS REPORT 2006



MILITARY MEDICINE
TRANSFORMING THE FUTURE

TRICARE

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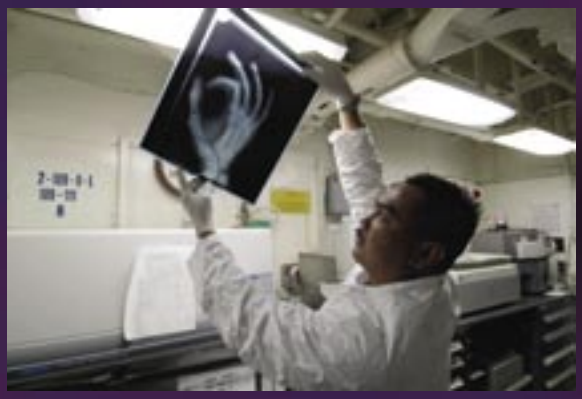

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The report is available online at
www.tricare.osd.mil/stakeholders

A LETTER TO OUR STAKEHOLDERS

We should all be proud of the tremendous accomplishments and progress the MHS has made in 2005. As we continued our efforts to fight terrorism, we also attended to the needs of our battle-injured service members with professional dedication, unprecedented new life-saving technologies and unwavering support from our leadership.

We must be able to excel at three key missions. First, to support a healthy, fit and high-performance military force; second, to deploy medically ready personnel anywhere anytime; and third, to deliver the highest quality health care in a cost-effective manner. In order to be successful we must achieve these missions simultaneously and be willing to reevaluate our programs and modify them as necessary.

New research and innovative procedures are being established for the severely wounded. Medical advances, like those employed in aeromedical services—where medical and flight crews are using groundbreaking technologies—are saving an unprecedented number of lives. In addition to treating soldiers' physical needs, we continue to strengthen the delivery of mental health services by recognizing and treating combat stress.

In the spring, we expanded and implemented a new health benefit plan for our Reserve Component members and their families—TRICARE Reserve Select. TRS provides comprehensive health coverage for this critical portion of the military forces.

We were called to aid in the relief efforts set in motion by the utter devastation of the tsunami and U.S. hurricanes. We put our skills to work in assisting those affected by the storms, and worked closely with the TRICARE contractors to ensure our beneficiaries knew their health benefits remained secure. We sent the USNS Mercy to Indonesia where it provided assistance to international relief organizations and host nation medical teams. In response to hurricane Katrina, we opened field hospitals and sent the USNS Comfort to aid in the relief operation.

We are finding better, smarter ways of doing business. AHLTA, the Military Health System's new electronic health record, will improve the effectiveness of health care delivery. AHLTA creates a single medical record, with all encounters documented in one database that can be accessed anywhere, at anytime.

The Healthy Lifestyles campaign launched last year is increasing awareness of the negative health and performance effects of smoking, obesity and alcohol abuse among active duty and military families.

In July, Dr. Charles Rice was sworn in as the president of the Uniformed Services University of the Health Sciences. Dr. Rice, the fifth president, brings outstanding leadership, scholarship and medical capabilities to the university. With his unique combination of military and civilian medical experience, he is ideally suited to the university's mission to provide high-quality medical education for the MHS and the challenges we face in the years ahead. Dr Rice will continue the legacy of USUHS as the nation's federal health sciences university which provides the nation with health professionals dedicated to career service in the Department of Defense. Of the 3,755 physician alumni, over 90% currently serve on active duty.

In October, the Department of Defense and Veterans Affairs came together to create a first-of-its kind federal health care facility in Chicago, Ill. The merger will integrate all clinical and administrative services of the Naval Hospital Great Lakes and the North Chicago Veterans Affairs Medical Center in a single medical operation, under one line of authority.

This is an exciting time for the MHS with a number of forces driving how the MHS will look, feel and perform over the next decade. Driven by our strategic plan, these improvements include results of the recent Base Realignment and Closure Commission, the Medical Readiness Review and the Local Authorities Working Group. We are molding the MHS into a health care system that excels in cost effectiveness and quality health care services.

TRANSFORMATION IN THE MHS

Transformation means "change." Although it may seem like just another initiative we have experienced over the past several years, we consider transformation to be an effort of "continuous improvement to exceptional quality" and one in which we have led the DoD.

Military medical transformation is shaped by the recommendations for the MHS contained in the Secretary's Quadrennial Defense Review. The QDR is conducted every four years to evaluate the strategies, business processes and initiatives in the DoD. For the MHS, it gave us the unique opportunity to review our medical mission and determine how we can better support the Department and our beneficiaries.

Based on the QDR recommendations, we have established the MHS Office of Transformation to guide us through this period of change, which will continue well into the future. It will provide leadership, advice and direction to those who will implement our objectives. The office will include representatives from each of the services and the TRICARE Management Activity who will oversee and guide MHS transformation efforts.

We have the unprecedented opportunity to shape our health care system to support 21st century military operational missions while adjusting the TRICARE benefit to sustain our future. I am asking each and every member of this health system and our stakeholders for your strong commitment to our plans. By working together through the actions of our people, we will ensure the success of the MHS for many years to come.

- William Winkenwerder, Jr., M.D.
Assistant Secretary of Defense (Health Affairs)
Director of the TRICARE Management Activity

TRANSFORMING THE FUTURE

MILITARY MEDICINE LOOKS TO THE FUTURE

As the Department of Defense transforms its missions, doctrines and capabilities to meet demands of the 21st century, the Military Health System is transforming facilities, programs and procedures to maintain patient-focused care and DoD mission support, while sustaining the TRICARE benefit.

Our recent health care contracts use best-practice principles to enhance quality of care, emphasize patient safety, improve beneficiary satisfaction and control private sector costs. The MHS is in the second year of a planned four-year transition to a Prospective Payment System that will provide incentives and financial rewards for efficient management of military treatment facilities. Supporting this transformation is the tri-service business planning process that enables the MHS to capitalize on the opportunities of the Prospective Payment System.

The recent Base Realignment and Closure recommendations will improve use and distribution of facilities nationwide and enhance health care delivery and medical training across the MHS. The consolidation of medical centers in the National Capital Area and in San Antonio will improve operations by reducing unnecessary infrastructure, optimizing staff utilization and providing more robust environments for medical training and in some cases, bringing services closer to beneficiaries. By contrast, in smaller markets, MHS facilities will cease to provide inpatient services and instead focus on the delivery of high quality ambulatory care. These measures have been thoroughly planned and will produce a stronger and more efficient MHS. The BRAC recommendations will bring most medical enlisted training programs to Fort Sam Houston. As a result, the MHS will reduce its overall technical training infrastructure while strengthening the consistency and quality of training.

Another proactive initiative, and part of TRICARE's ongoing effort to stabilize escalating pharmacy costs, is the implementation of the Uniform Formulary. For any medication designated non-formulary there are effective alternatives available for $3 or $9. Non-formulary drugs are still available through the retail and mail order pharmacy programs, if the beneficiary opts to pay the higher cost share for third-tier medications. Nexium, an acid-reflux drug, and two erectile dysfunction drugs, Viagra and Cialis, were approved for non-formulary status. An additional 16 medications were approved for non-formulary status in November 2005.

Perhaps most significant and forward-looking of the MHS's transformative initiatives is AHLTA, the military's electronic health record. In his 2004 State of the Union address, the President set the goal of ensuring most Americans had an electronic health record by 2014. The DoD is leading this effort by completing the implementation of AHLTA by 2011.

AHLTA (See the story, pages 8-9) creates a single, consolidated health record for every MHS beneficiary in one database that is accessible anywhere, any time. By the end of 2006 all military hospitals and clinics will be connected. On the individual level, AHLTA enables any encounter between doctor and patient to be documented and coded. AHLTA will allow a unique partnership between the Department of Veterans Affairs and the MHS. Many returning soldiers, sailors, airmen and marines will be able to electronically transfer their active duty medical records to the VA. The service member's continuously documented health care record will ensure comprehensive treatment and will allow for epidemiological studies and population health assessments.

Rising health care costs are a significant concern both nationally and within the DoD. As the DoD seeks ways to optimize the use of constrained resources, the MHS will continue to provide a robust benefit and deliver world-class health care. The MHS will transform infrastructure, leverage science and technology, optimize human capital, streamline business processes and sustain the health care benefit for the future.

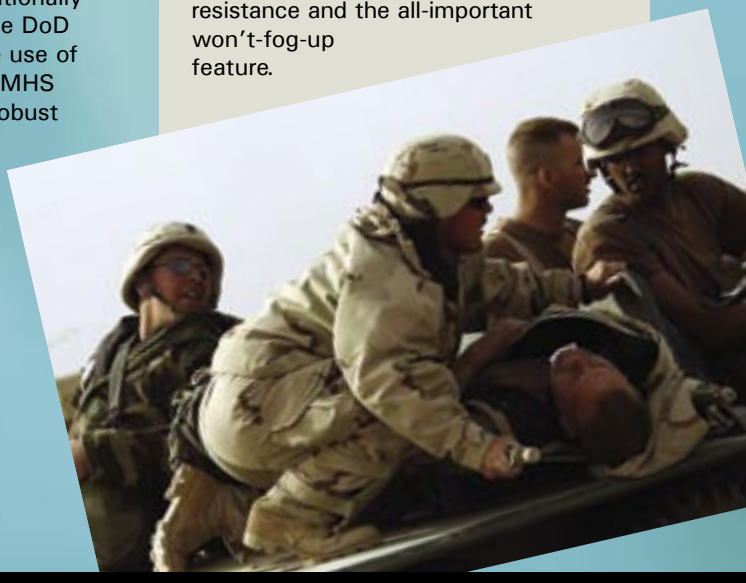
BATTLEFIELD INNOVATIONS

Improved body armor, new hemorrhage control powders and bandages and forward-leaning surgical teams have contributed to battlefield survivability in recent years. Innovations in military medicine include:

The **BLOOD BOX** is a small, simple thermal-insulated container that allows a nearly revolutionary change in combat-medicine doctrine—carrying blood supplies far forward onto the battlefield. Until now, the risk of blood-product spoilage in extreme temperatures has prevented blood from being immediately available to wounded soldiers.

BAR-CODED WRISTBANDS for wounded soldiers capitalize on technology long used by retailers for tracking inventory. The injured can be transported from battlefield to surgery along with such vital information as blood type, location of injury and destination, all of which is retrieved at the receiving hospital with the swipe of a handheld computer wand. A simple adaptation of existing technology, the Navy's TacMedCS tracking system is what one doctor describes as FedEx for patients.

COMBAT EYE PROTECTION GEAR, now standardized and issued to all units heading "downrange," will decrease the burgeoning number of eye injuries common among warfighters in Iraq and Afghanistan and contribute to vision readiness. Special sunglasses and land ops goggles have been approved for their high-impact shatter resistance and the all-important won't-fog-up feature.



RESPONDING TO COMBAT STRESS

Combat and operational stress reactions have long been recognized as a consequence of war. Called "soldier's heart" during the Civil War, "shell shock" during World War I and "battle fatigue" during World War II, these reactions are now seen as the normal response of warfighters to the horrific situation of war.

In theater these reactions are generally managed through resting and staying away from combat. Most stress reactions diminish and the warfighter effectively returns to battle.

Some distress associated with readjusting following deployment is also common. Warfighters may need time to put their combat experiences into perspective. Support from family, friends, military units and leaders, along with professional support, can help create a positive outcome.

Today, combat-related mental health disorders are often grouped as Post-traumatic Stress Disorder. However, PTSD is just one of a number of mental health concerns associated with combat and the readjustment period. In addition to PTSD, other common concerns include acute stress reaction, adjustment reaction, depression, anxiety and alcohol abuse.

For the first time, epidemiologic information has been collected during combat, rather than years after. The Walter Reed Army Institute of Research performed the benchmark 2003-2004 study that gathered data from 6,000 soldiers and marines in theater and months later. Approximately 16 percent reported psychological concerns. Troops in Iraq reported symptoms about twice as often as troops in Afghanistan. Reserve Component personnel were more likely than active duty to report symptoms. Troops exposed to combat were more likely to report symptoms than members serving in support roles. The study found that worries about stigma prevented approximately 40 percent of those who might need help from seeking it.

The Force Health Protection program provides a continuum of care before, during and after deployment. Education and training are provided to service members and their families to prepare them for the operational realities the member faces and the separations that military life requires. Pre-deployment health assessments help to identify mental health concerns that exist before a service member deploys. During deployment, preventive combat stress and mental health teams integrate their efforts with line forces and other medical personnel to provide the appropriate care. A post-deployment health assessment is performed to determine immediate health care needs and to document changes in health status as a result of deployment.

A post-deployment health reassessment is conducted three to six months after a service member returns home. Separation physicals, regular physicals and preventive health assessments complete the total health assessment process.

The Department of Defense/Veterans Affairs post-deployment health clinical practice guideline has been implemented across the Military Health System primary care system to provide continuous care for deployment-related health concerns after the warfighter returns from combat. Across the deployment health cycle, mental health assessment and treatment are fully integrated with physical health to ensure all issues receive attention.

Education and training are also provided during the reintegration period, to ensure that every service member knows how to recognize potential deployment-related health problems and where to get help. Military OneSource is an additional early intervention program providing a wealth of information on the Internet, by phone and by mail. Confidential counseling is also available for a variety of emotional health issues for service members and their families. If the counselor identifies a medical problem, a seamless transfer to military health care services is made.

As we reduce barriers to care and identify concerns early, service members and their families benefit and the nation gains a medically ready fighting force.

FLIGHT ANGELS SAVE THE WOUNDED

A flight medic escorts a stretcher bearing her "cargo," a wounded soldier, to a Black Hawk helicopter for evacuation. The scene is repeated many times a day in theater, as the soldiers of the 1159th Medical Company cut across the Iraqi sky scooping up the wounded and delivering them to a combat surgical hospital. The flight crews work feverishly in the minutes after a soldier's life-threatening injury. The medevac helo crews maximize the "golden hour," the first 60 minutes after injury, dealing with issues of airway blockage, breathing problems, bleeding control and circulation.

If the patient goes to the hospital at Balad Air Base, Iraq, his stay is usually short—just long enough to be stabilized. Then he's airborne again, aboard one of the Starlifter or Globemaster flying ERs—aircraft that have been retro-fitted as state-of-the-art critical-care units. Reservists from the Air Force Reserve Command's 445th Airlift Wing, with C-141s out of Wright-Patterson AFB and C-17s from Charleston AFB, fly and crew the aircraft. Onboard, medical services are provided by reservists, Air National Guardsmen and active duty service members. On a typical night, crews monitor 30-40 patients during the precarious flight to Ramstein, Germany or to U.S. bases. Nurses stand by their patients in the dark, noisy planes, constantly monitoring, because alarms cannot be heard over the aircraft rumble. It all happens with astonishing speed—sometimes as short as 36 hours from the battlefield to stateside care.

AHLTA and Beyond

AHLTA Bids Farewell to Paper

Like many early adopters of new technology, Army Maj. Thomas Hustead, MD, supports electronic medical records. "It's great," says the chief of the Family Medicine Clinic at Tripler Army Medical Center, Hawaii. "In a year, we'll say, 'I don't know how we did without it.'" Maj. Hustead reports widespread acceptance, even among doctors who were initially skeptical of the new system.

AHLTA is the innovative electronic records system now being implemented throughout the Military Health System. This information is housed in one central data repository that is accessible anytime, anywhere. By the end of this year, all military hospitals and clinics—including battalion aid stations, shipboard infirmaries and expeditionary surgical units—will be connected to the digital database.

Doctors can enter a patient's vital signs directly into the record. They can check the patient's history—diagnoses, lab results, allergies, medications—by clicking on a screen. A patient's history, for example, of glucose tests, can be quickly scanned, because the computer displays the information in an easy-to-read graphic chart. New lab work can be ordered and notes and instructions for follow-up care can be entered. In short, every part of the encounter between doctor and patient is permanently and clearly documented and coded.

Coding, explains Maj. Hustead, is a little-heralded but vitally important step in the record-keeping process. It allows the hospital to be reimbursed for the services it provides. What once was manual and time-consuming labor now is done automatically, as AHLTA breaks down the various services and procedures of any appointment into appropriate codes.

Invest in the Future

As AHLTA began its phased rollout last year, the initial learning curve meant that providers required extra time for each appointment as they were trained. However, they were often aided by computer help desk personnel stationed in clinic hallways. Now, veteran users can anticipate time and money savings in the future. Some providers tout the fact that a single, permanent record means no duplication of expensive or painful diagnostic tests. Others look forward to the pop-up reminder feature for such routine preventative care as flu shots. Maj. Hustead notes that the system will make it easier to document an appointment with a patient he has seen several times for the same condition, like diabetes or hypertension, by merely editing a previous note. AHLTA will be "quicker and more beneficial," he says. It will also be legible. Other providers, particularly nurses and corpsmen, confirm that the replacement of "doctor's handwriting" can make a real difference in patient safety.

Medics on the battlefield, using wireless tablets, will be able to document a soldier's wounds while also checking his prescription medications—eliminating the chance of an interaction error. Furthermore, AHLTA means the end of torn or smudged records, lost slips of paper, and boxes of medical records left behind when a unit redeploys.

Access is Everything

Maj. Hustead appreciates the simple access AHLTA gives. "What I like most is that when a patient comes in, I have his chart. I don't have to worry about patient charts being held in different clinics, or because my patient saw a different provider a week ago, his chart hasn't been turned back in yet. That's the biggest benefit for the patient—as well as for the provider."

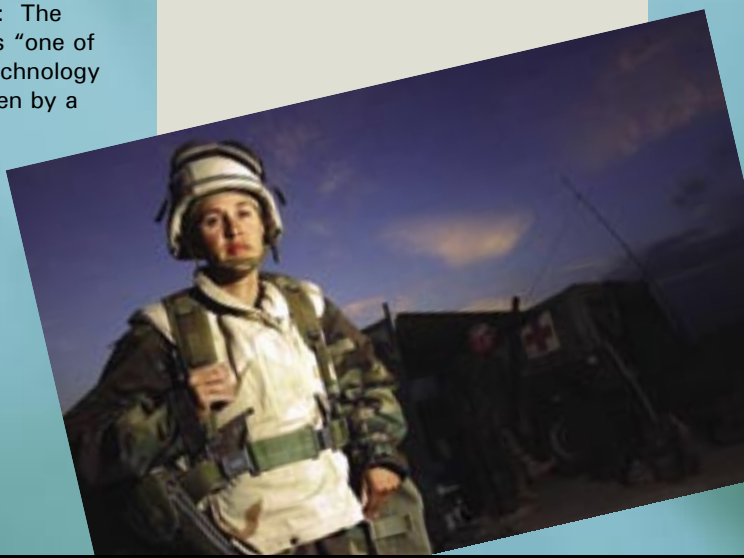
Dr. William Winkenwerder, assistant secretary of defense for health affairs, takes a longer view: The completion of AHLTA marks "one of the most comprehensive technology deployments ever undertaken by a health care system."

Finest Care for Severely Wounded

Advanced battlefield medical care has meant survival for soldiers who otherwise might have died from their injuries. The resulting blast injuries—often from rocket-propelled grenade attacks or roadside bombs—can be severe. Now under construction is the Center for the Intrepid, a state-of-the-art rehabilitation center for severely injured soldiers. The center, funded through a public-private partnership, is being built near the Brooke Army Medical Center in San Antonio. The center will offer advanced treatment and therapy primarily for soldiers who have lost limbs. The facility will include a pool, an indoor running track and a two-story climbing wall.

This $40 million center will have the capacity to treat as many as 500 patients and offer innovative prosthetic technology, including first-of-their-kind microprocessor prosthetic knee units and a research lab to improve prosthetic design. The Department of Defense is also committing $35 million over four years for technological innovation in upper-body prosthetics.

The center will also include two 21-room houses funded by the Fisher House Foundation for families to use during extended visits with recovering service members. The Intrepid Fallen Heroes Fund raised the initial $16 million through private donations. However, when the center is built, it will become publicly funded and run like any other military hospital.



2005 Summary of Benefit Changes

TRICARE Reserve Select

The TRICARE Reserve Select program for Reserve Component members and their families offers coverage similar to TRICARE Standard and Extra and includes the following services:

- Routine, urgent and emergency care
- Family health care
- Maternity services
- Clinical preventive services, including screenings and immunizations
- Behavioral health care, including partial hospitalization and residential treatment
- Annual eye exams
- Ancillary services such as laboratory and radiology
- Durable medical equipment and supplies
- Prescription drug coverage

Hearing Aid Coverage for Active Duty Family Members

Recent federal legislation provided coverage of hearing aids, including services and supplies, as a TRICARE benefit to ADFMs diagnosed with a profound hearing loss.

Extended Health Care Option

TRICARE's Extended Care Health Option replaced the Program for Persons with Disabilities on September 1, 2005. This program will continue to deliver financial assistance to active duty family members who have a qualifying condition and offer an integrated set of services and supplies that supplement the basic TRICARE programs.

ECHO benefits may include:

- Medical and rehabilitative services
- Training to use assistive technology devices
- Special education
- Institutional care when a residential environment is required
- Transportation under certain circumstances
- Assistive services
- Durable medical equipment (including adaptation and maintenance)
- ECHO in-home respite care—16 hours per month when receiving other authorized ECHO benefits
- In-home medical services through ECHO Extended Home Health Care including EHHC respite care—up to 40 hours per week (eight hours per day, five days per week) if homebound

Dental Benefit Change for Retiring National Guard and Reserve Members

National Guard and Reserve members can now skip the 12-month waiting period for routine family dental benefits when they retire, as long as they enroll in the TRICARE Retiree Dental Plan within 120 days of their retirement date. TRDP benefits available for both adults and children during the 12-month period covered by the waiver include cast crowns, cast restorations, bridges, dentures and orthodontics.

Medicare Part B Special Enrollment Period Extended

The Medicare Modernization Act of 2003 provided a Special Enrollment Period for Medicare-eligible TRICARE beneficiaries to purchase Medicare Part B in order to retain eligibility for TRICARE benefits. Initially scheduled to end on December 31, 2004, the Social Security Administration extended the period into 2005.

TRICARE Overseas Prime Benefit Enhanced

TRICARE recently revised its policy for transitional survivors residing overseas. The policy applies to active duty family members enrolled in TRICARE Prime Overseas, residing outside the continental United States, and on accompanied orders at the time of their sponsor's death. Those survivors can now remain eligible for TRICARE Prime benefits overseas during the three-year transitional survivor period.

TRICARE ACCOMPLISHMENTS IN 2005

Partners in Prime: USFHP Providing "Robo-Surgery"

New technological advances, such as the integration of robotics, telemedicine and the implementation of bar code scanning have produced dramatically improved patient outcomes and, in turn, led to the highest customer satisfaction numbers the US Family Health Plan has seen in its nearly 25-year history. For example, USFHP patients who undergo surgery at Johns Hopkins in Baltimore benefit from the use of the "robo doc" which extends the reach of their doctors who may be miles or even continents away. It's not just a tool for remote assessment, but also a way for the doctor to be face-to-face with the patient at a vulnerable time—immediately after surgery.

For more information, visit the USFHP Web site: www.usfamilyhealthplan.org.

DOD-VA Standardize Surgical Instruments

The Departments of Defense and Veterans Affairs recently implemented a joint initiative to standardize the purchase of nearly 200 general surgical instruments for the military and VA health care systems. The instrument selection was based first on benefits to clinicians and then on the business and cost savings benefits. Recent instrument purchase estimates of approximately $6 million indicate the measure should save the DoD approximately $180,000 annually.

TRICARE Expands Its Support to Beneficiaries Affected By Hurricanes Rita and Katrina

TRICARE worked diligently to ensure that access to care was available to beneficiaries displaced by the 2005 Gulf Coast hurricanes. To help beneficiaries access their benefits, TRICARE implemented the following policies: a blanket referral waiver allowing them to seek care from any TRICARE-authorized provider and the suspension of pharmacy copayments for those who were unable to pay. TRICARE also engaged in a massive educational outreach to inform service members and their families about their health care options. TRICARE delivered wallet cards, fact sheets and benefit overview brochures that listed customer service contacts and vital information to evacuee sites, TRICARE Service Centers and military treatment facilities. The TRICARE Web site was updated daily throughout the evacuation and recovery process.

Permanent Identification Cards for Family Members and Survivors Over Age 75

As of September 1, 2005, a permanent identification card is available for all eligible Uniformed Services family members and survivors, age 75 and over.

TRICARE Introduces New Web-Based Pharmacy Search Tool

The new pharmacy formulary search tool, available on the TRICARE Web site, allows beneficiaries to find medication-specific information using either a drug name or a medical condition.

The formulary search tool can be used to:

- Check availability of specific medications
- Discover which medications are on the basic core formulary
- Find copayment information for medications, including injectable medications
- Find generic equivalents for brand-name medications
- Review quantity limits or prior authorization requirements
- View and print prior authorization criteria and forms
- Learn about Food and Drug Administration approved drug uses
- Research side effects and potential interactions with other medications

For more information, visit the TRICARE Pharmacy Web site: www.tricare.osd.mil/pharmacy/.

MEETING THE CHALLENGES

HURRICANE VICTIMS FIND COMFORT IN MILITARY MEDICINE

When Hurricane Katrina ravaged the Gulf Coast in late August, she left in her wake an uninhabitable New Orleans and many other devastated U.S. coastal communities in Mississippi and Alabama, including Keesler Air Force Base in Biloxi, Miss. Along with the visible destruction, there was fear of a public health disaster with survivors exposed to mosquito-borne disease, germ-replicating shelters and New Orleans' toxic stew of sewage water.

Military Medicine Responds

The Department of Defense's immediate response was massive and included ongoing deployments of equipment and personnel for search and rescue, as well as relief efforts. Military medical assistance was vital, pooling the resources of the Army, Navy, Air Force and Coast Guard. Within days of the flooding, the DoD flew in more than 100 tons of medical supplies. New Orleans' airport became not only the relief effort's tactical operations headquarters, but also the triage medical facility for hurricane victims as expeditionary medical support squadron members from the Illinois, Maryland and Florida National Guard and Reserves deployed to the airport. In the evacuee-filled city of Baton Rouge, a new 800-bed hospital sprang up overnight in the Louisiana State University basketball arena and field house, where military medical personnel assisted civilian emergency response teams.

Triage and Medevacs

During three intense days and nights following the flooding, crowds of evacuated patients at the airport swelled to a peak of approximately 25,000. On the Saturday after Hurricane Katrina, the Air Force flew more than 1,000 patients to hospitals in San Antonio, Houston and Atlanta. Of immediate concern were infants, the elderly and people already in poor health. There were victims who were dangerously dehydrated, and others with the perilous combination of open wounds and exposure to polluted water. Largely, the thousands of new patients evacuated to the airport were people with no homes, medications or medical records. Overnight, New Orleans and the Gulf Coast area had lost 6,000 hospital beds.

EMEDS Comes to the Rescue

A soft-sided hospital, known as EMEDS, for expeditionary medical support unit, blossomed in the debris-strewn parking lot of what had been southwestern Mississippi's regional hospital. The modular, self-contained unit, providing its own power and cooling and capable of expanding, reducing, or moving as the situation dictated, was delivered on two C-17 Globemasters. Before EMEDS, a hospital with this capability would have required a 50-bed air transportable hospital, 129 personnel and 55 pallets. Today, this same capability can be achieved by an EMEDS 10-bed facility, using 56 personnel, 21 pallets and requiring only 48-hrs from transport to full operational capability. Composed of Air National Guard members from Mississippi, Alabama, Kansas and Delaware, the medical team opened a complete medical center offering everything from an intensive-care unit to a dental clinic and provided the only medical support west of Gulfport in Mississippi's hard-hit Hancock County.

National Guard Members Provide Personalized Care

The Alabama Army National Guard fielded a six-person medical assessment team from the 161st

Continued page 14

MESSAGE FROM ARMY SURGEON GENERAL

The Army Medical Department is not pursuing business as usual. We are an AMEDD at war, deployed around the world in a time of unprecedented operational tempo.

We continue to ensure good medicine happens in even the most austere and challenging environments. In Iraq and Afghanistan we are saving lives with new battlefield medical techniques, state-of-the-art equipment and the most skilled medical personnel in the world. We have deployed medical assets far forward, so that no soldier takes the high ground without a combat medic nearby.

At the same time, we continue to provide world-class health care to soldiers, retirees and families in garrison. While we face the complexities of restructuring to meet new requirements based on the Army Modular Force and Re-Stationing initiative, we also have addressed the many medical issues related to the Base Realignment and Closure recommendations. This is one of the most turbulent times in our Army's history. Yet, as we transform military medical care in the 21st century, our commitment to soldiers, their families and our beneficiaries has never been stronger.

LTG (Dr.) Kevin C. Kiley
Surgeon General of the Army

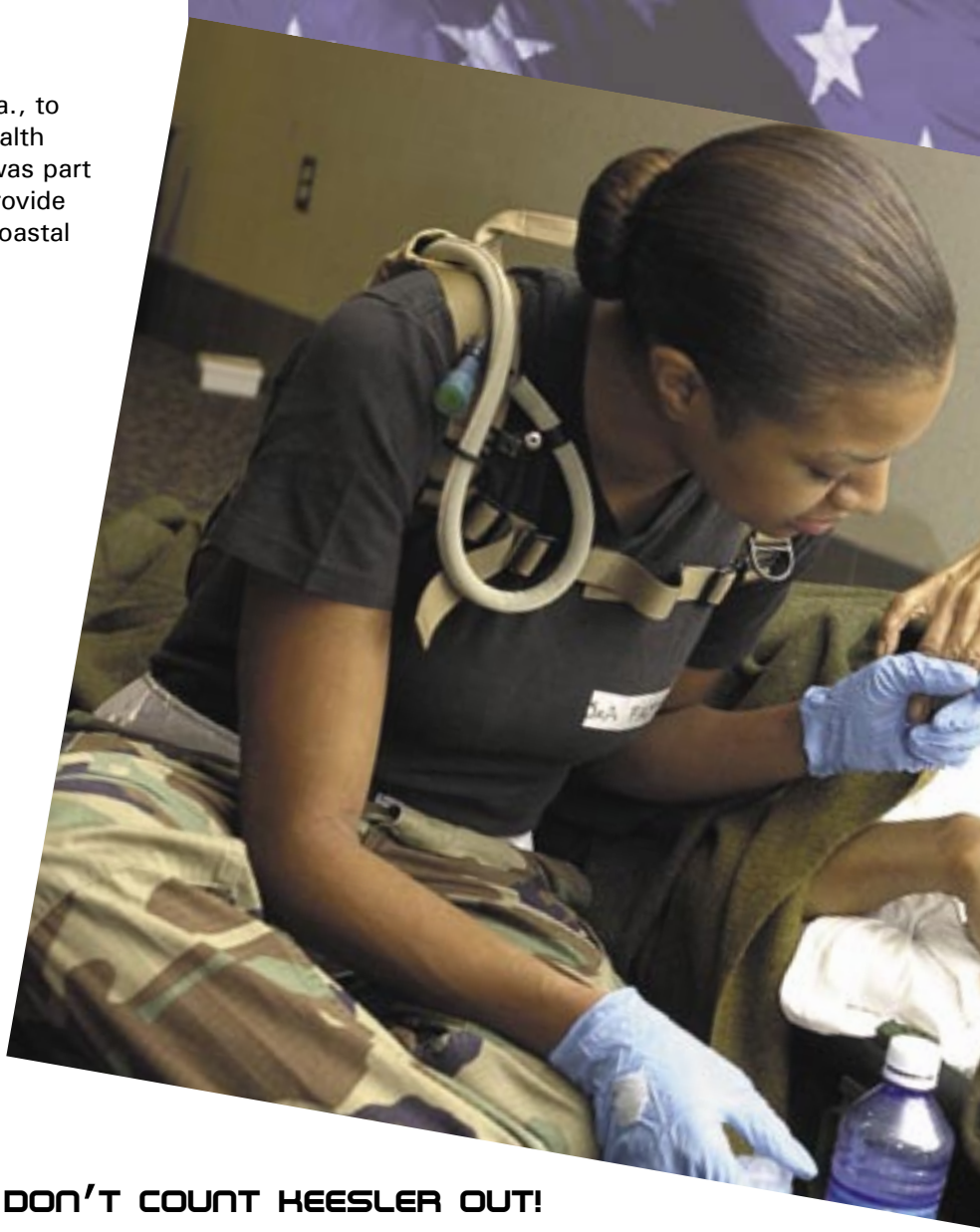
Area Support Medical Battalion in Mobile, Ala., to coastal Mississippi to serve as a one-stop health care information clearing house. The team was part of a larger medical contingent deployed to provide medical services to guardsmen serving the coastal areas during the relief effort, but no civilian patient was turned away.

Comfort Arrives

The 1,000-bed hospital ship USNS Comfort was activated to bring medical assistance to the Gulf region, arriving in the second week following Hurricane Katrina, with approximately 400 medical personnel from the National Naval Medical Center, Bethesda and Naval Medical Center, Portsmouth. Already on station were the amphibious assault ships Bataan and Iwo Jima. The Iwo Jima's detachment of 80 medical personnel treated civilian evacuees, local sheriff's deputies and service members. In later weeks, the Comfort would serve as welcome respite lodging for weary first-responders and volunteers.

The Scope of the Disaster

In the first week following Hurricane Katrina, USAF medical evacuation teams transported almost 3,000 patients. As the evacuation effort continued, thousands more were rescued by Coast Guard helicopters and other military aircraft. By mid-September, military medical personnel deployed to the region numbered 2,000; they had treated more than 5,000 patients and moved more than 10,000 patients. In one 24-hour period, Northern Command delivered seven million liters of water, five million pounds of ice and two million meals-ready-to-eat to the Gulf Coast region. In the following weeks, the same responders would be called on again to aid the victims of Hurricane Rita, and yet again, to help in the aftermath of Hurricane Wilma.



DON'T COUNT KEESLER OUT!

Two weeks after Katrina caused $500 million in damages to Keesler Air Force Base, the installation became a vital staging area for all Gulf Coast relief efforts. Keesler's 81st Medical Group worked with federal, state and local authorities to organize medical care for the entire area and help reestablish the region's medical infrastructure. Keesler's doctors, nurses and technicians joined federal emergency medical assistance teams, providing care where needed; delivering prescription refills and tetanus immunizations, cleaning wounds, and providing intravenous hydration. At one local elementary school shelter, an AF team treated approximately 400 people in the first days following Katrina. Paramedics in mental health strike teams performed sorely needed assessments and interventions in the region's shelters.

TRICARE TAKES ACTION

In the days following Hurricane Katrina, TRICARE led the regional contractors, Humana Military Healthcare Services, TriWest Healthcare Alliance and Health Net Federal Services, in removing barriers to care for approximately 360,000 beneficiaries displaced by Katrina.

TRICARE eased access to care for thousands of homeless and frequently document-less beneficiaries, as well as wholly new beneficiaries created by the federal activation of Reserve Component members. In the South region the requirement for referrals and authorizations for non-emergency, non-mental health care was waived. In addition, TRICARE waived copayments for prescription medications and authorized beneficiaries to get their mail order prescriptions filled at retail pharmacies.

TRICARE representatives traveled throughout the affected areas, setting up information booths in the Astrodome, Red Cross shelters and hotel conference rooms and provided wallet cards, fact sheets and brochures with phone numbers, Web sites and special benefit information for hurricane victims. The materials were also sent nationwide to Beneficiary Counseling and Assistance Coordinators, TRICARE Service Centers, family support personnel and other customer service representatives who helped displaced beneficiaries.

MESSAGE FROM NAVY SURGEON GENERAL

Navy Medicine is focused on our mission to provide force health protection while delivering cost-effective health care to eligible beneficiaries. We provide the finest health care to America's heroes, past and present, and the family members who support them.

Navy Medicine is deployed afloat and ashore to provide combat medical support. This mission and emerging missions such as humanitarian operations, detainee care and homeland defense compel us to plan for the future while we continue to provide top-notch health care.

In 2005, Navy Medicine established three regional commands focused on health care and readiness and one central support command focused on infrastructure and logistics. It was a major realignment of our command and control structure. Navy Medicine anticipates joint medical opportunities created through the DoD-chartered Military Health System Office of Transformation and the 2005 Base Realignment and Closure Commission. As we steam ahead, Navy Medicine will incorporate new technologies and advances in medical practices, embrace effective business models and aggressively pursue joint medical efficiencies.

VADM (Dr.) Donald C. Arthur, Jr.
Surgeon General of the Navy

LOOKING TO THE FUTURE

SUSTAINING THE BENEFIT

At a time when skyrocketing health care costs are forcing difficult choices in the public and private sectors, the TRICARE benefit continues to be a richer and far more comprehensive benefit than is available to the vast majority of Americans, even those with excellent coverage. Comparable civilian health plans respond to the challenge by raising premium costs and trimming covered benefits. However, the cost of TRICARE for beneficiaries has not changed in a decade, and the benefit grows more robust all the time. Future cost growth of the Military Health System will be a significant challenge in the years ahead.

The richer TRICARE benefit drives increased demand and use of services, and TRICARE costs have jumped from $18 billion in Fiscal Year 2001 to $36.7 billion in FY 2006. Most of the growth can be attributed to benefit expansions and new programs, including TRICARE for Life and TRICARE Reserve Select, both new legislated benefit increases. In addition, pharmacy costs are climbing as a result of benefit demand. The FY 2006 pharmacy budget has increased to $6 billion—a 400 percent jump from 2001.

The Department of Defense's under-65 retirees are dropping employer health care, relying instead on TRICARE. As a result, the DoD is increasingly subsidizing the private sector and state and local governments. Care for retirees and their families will soon dominate the Defense health budget. In FY 2001, 45 percent of health care funding went to retirees and their families; in FY 2011, it will be 65 percent.

Fixed premium levels for TRICARE are driving these changes. Costs to beneficiaries have not changed since the inauguration of the program in 1995. Beneficiary cost shares have declined substantially, with 25 percent of the total benefit cost in 1995 versus only eight percent in 2005. These growing costs to the MHS are crowding out funding for other DoD responsibilities.

With the total budget expected to rise from $36.7 billion today to a projected $64 billion by 2015, the MHS will be challenged to find more efficiencies and more cost saving opportunities while maintaining the same level of world-class health care and high quality service for our beneficiaries.

The MHS has worked hard to improve the TRICARE benefit while becoming more efficient. Consolidating seven regions into three and implementing separate, stand-alone pharmacy contracts are examples of ways the MHS has pared costs and improved the quality and delivery of the benefit. New health care contracts have improved management and reduced costs. The MHS is refining its current contracts and aligning the next generation to meet the needs of the system. We have also installed performance-based budgeting that will be fully implemented by 2008. Performance measures for better management operations are also under development.

In order to keep a rich and affordable benefit, the MHS must work not just "leaner and meaner," but also smarter. These changes have one purpose—to sustain the benefit. This means keeping TRICARE robust, accessible and affordable for our most deserving beneficiary population. The MHS will continue to explore additional

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MESSAGE FROM AIR FORCE SURGEON GENERAL

The Air Force Medical Service provides world-class health care and health service support around the world. Caring for active duty and Reserve Component personnel means ensuring they are healthy and fit before they deploy, while they are deployed and when they return home.

We are continually refining the Air Expeditionary Force deployment system and working to maintain the technological edge over our enemies through the development of advanced clinical and force protection capabilities. Our men and women have done an exceptional job throughout Operations Noble Eagle, Enduring Freedom and Iraqi Freedom in providing state-of-the-art health care. This capability was crucial to the medical treatment and aeromedical evacuation of thousands of hurricane victims.

Equally important is providing quality health care for our TRICARE beneficiaries. TRICARE is one of the greatest tools we have as we transform our medical infrastructure to meet the demands the 21st century. Through the Base Realignment and Closure recommendations, we are working to improve health care quality, to modernize medical facilities and to deliver health care more efficiently.

We're striving every day to make the Military Health System the best health care system for the dedicated men and women in uniform who sacrifice so much.

Lt. Gen. (Dr.) George Peach Taylor Jr.
Surgeon General of the Air Force

cost-saving options in the coming years, including:

- Health Savings Accounts
- Prime benefit realignment
- Annual enrollment for TRICARE Standard
- Pharmacy benefit structure and cost share reassessment

Even in the face of mounting cost pressures, the MHS remains dedicated to delivering the world-class benefits that our beneficiaries expect and deserve. The DoD must readjust the TRICARE benefit for retirees younger than 65 (who are typically employed). We plan to make these adjustments, phasing them in over two years to restore the cost sharing relationship for beneficiaries under 65 that existed in 1995, and by rationalizing pharmacy changes. It is important to the future of the Department, and our ability to execute the nation's defense.

PROMOTING HEALTHY LIVING

Last year, Dr. William Winkenwerder, Jr., assistant secretary of defense for health affairs, launched a campaign to promote the health and wellness of all beneficiaries, with a focus on smoking cessation, stopping alcohol abuse and weight management.

This year, the Department of Defense continues its work with a number of healthy lifestyle initiatives, including year long pilot programs which began in September 2005.

The tobacco cessation program targets TRICARE Prime beneficiaries in non-catchment areas in Colorado, Kansas, Missouri and Wisconsin. The program includes a toll-free quit line, a Web-based educational tool and a pharmacotherapy benefit that will include nicotine replacement products.

The alcohol abuse prevention program targets young active duty service members. The project includes Web-based alcohol prevention education focused on responsible alcohol consumption, pre- and post-intervention assessments, access to interactive telephone counseling and follow-ups to evaluate intervention effectiveness.

The weight management pilot program targets overweight and obese 18-64 year old TRICARE Prime, non-active duty beneficiaries, in Indiana, Ohio, Michigan and Illinois. The program includes behavioral modification and educational support, and patients may receive prescription pharmacotherapy.

With the correlation between poor health and higher health care costs, promoting wellness is especially important. However, the most important goal of the healthy lifestyle initiatives is improving the health of our beneficiaries.

The chart below shows the impact that risk factors, such as smoking, alcohol, obesity, poor diet, risky behavior and sedentary lifestyle have on health care resource consumption as we age.

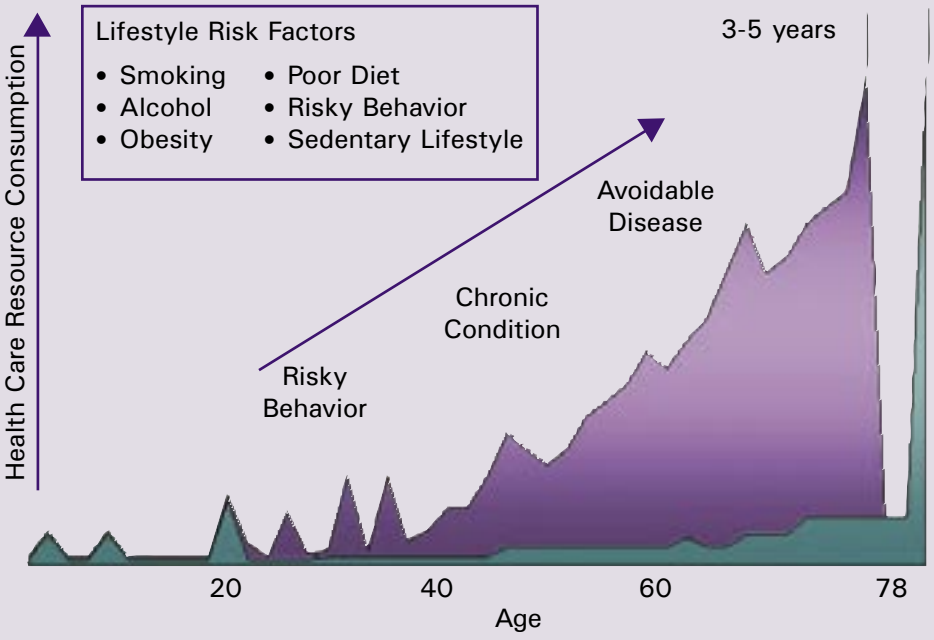
The green area illustrates health care consumption by a person who does not engage in any of the risk factors previously mentioned.

As expected, there are small spikes early in life due to immunizations and other routine exams. As women enter childbearing age a predictable spike also occurs. And, as we get older, we gradually begin to use more health care resources.

The purple area illustrates health care consumption by someone who engages in these risk factors. Health care resource consumption is significantly higher for these individuals.

Note that the life expectancy for these individuals is adversely affected by risk factors contributing to unhealthy lifestyles - shortened by three to five years.

GOOD HEALTH REDUCES HEALTH CARE CONSUMPTION



MESSAGE FROM COAST GUARD HEALTH AND SAFETY DIRECTOR

The Coast Guard continues to face a dynamic and challenging environment. At no time have these challenges been more dramatic than during the recent hurricane responses. Coast Guard personnel contributed to saving more than 33,000 lives, including 9,400 patients. The range and risk of these operations highlight the importance of readiness for all Coast Guard missions.

The Coast Guard's small size and diverse core missions require each member to be physically and mentally ready to respond. The advances in Coast Guard health-oriented information systems, integrated with our personnel information systems have ensured a ready and deployable force for disaster response. This revolutionary medical readiness tracking capability allows health care managers to drive their systems in real time, while they push medical and dental readiness information to commanders.

Rear Adm. Paul Higgins
Coast Guard Health and Safety Director

BASIC FACTS OF TRICARE

MISSION

To enhance the Department of Defense 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

VISION

A world-class health care system that supports the military mission by fostering, protecting, sustaining, and restoring health

WHAT IS TRICARE

A health care plan using military health care as the main delivery system

- Augmented by a civilian network of providers and facilities
- Serving our uniformed services, their families, retired military, and their families worldwide

9.2 MILLION
TRICARE Eligible Beneficiaries

- 5.0 million TRICARE Prime Enrollees
- 1.62 million TRICARE for Life
- 170,000 TRICARE Plus
- 93,000 US Family Health Plan
- 24,000 TRICARE Reserve Select
- 2.29 million Non-enrolled Users

DENTAL
TRICARE Dental Coverage

- 1.8 million Active Duty Family Members
- 900,000 Retirees

FACILITIES
MHS Direct Care Facilities

- 70 Military Hospitals
- 411 Medical Clinics
- 417 Dental Clinics

132,500
MHS Personnel

- 88,400 Military
- 44,100 Civilian

37.1 BILLION
FY06 DoD Health Care Expenditures

- $26.4 billion Unified Medical Program
- $10.7 billion Medicare Eligible Retiree Accrual Fund

18,300
Inpatient Admissions

- 5,300 Direct Care
- 13,000 Purchased Care

1.8 MILLION
Outpatient Visits

- 640,000 Direct Care
- 1.17 million Purchased Care

2200
Births

- 1,000 Direct Care
- 1,200 Purchased Care

2.1 MILLION
Prescriptions

- 1.0 million Direct Care
- 944,000 Retail Pharmacies
- 129,000 Mail Order

104,000
Dental Visits (Direct care only)

3.12 MILLION
Claims Processed

- 690,000 Regional Contracts
- 820,000 TRICARE for Life
- 1.5 million Pharmacy
- 100,000 Dental

$ 711 MILLION Weekly Bill