

**Defense Health Program
Fiscal Year (FY) 2013 Budget Estimates
Operation and Maintenance
Private Sector Care**

I. Description of Operations Financed: This Budget Activity Group provides for all medical and dental care plus pharmaceuticals received by DoD-eligible beneficiaries in the private sector. This includes the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) Program, the TRICARE Managed Care Support Contracts (MCSC), the Uniformed Services Family Health Program (USFHP), the TRICARE Overseas Program, the Supplemental Care Program, TRICARE Mail Order Pharmacy, the National Retail Pharmacy, TRICARE Reserve Select (TRS) which is a premium based program for Reserves and their family members, and various support activities:

Pharmaceuticals - Purchased Health Care: Includes pharmaceutical costs associated with contractual pharmacy services providing authorized benefits to eligible beneficiaries via the TRICARE Mail Order Pharmacy Program (TMOP).

National Retail Pharmacy - Includes Pharmaceutical costs associated with contractual pharmacy services providing authorized benefits to eligible beneficiaries via the TRICARE Retail Pharmacy program (TTRx). TTRx provides network pharmaceutical prescription benefits for medications from local economy establishments.

TRICARE Managed Care Support Contracts (MCSC) - The TRICARE Managed Care Support Contracts provide a managed care program which integrates a standardized health benefits package with military medical treatment facilities and civilian network providers on a regional basis. With the full deployment of TRICARE, all but a small portion of the standard Civilian Health and Medical Program of the Uniformed Services benefits have been absorbed into the MCSC. Includes health care costs provided in civilian facilities and by private practitioners to retired military personnel and authorized family members of Active Duty, retired, or deceased military service members.

Military Treatment Facility (MTF) Enrollees Purchased Care - Includes underwritten costs for providing health care benefits to the Military Treatment Facility Prime enrollees in the private sector as authorized under the Civilian Health and Medical Program of the Uniformed Services.

Dental Purchased Care - Includes the government paid portion of insurance premiums which provides dental benefits in civilian facilities and by private practitioners for the beneficiaries who are enrolled in the Dental Program. Beneficiaries eligible for enrollment are: (a) Active Duty family members and (b) select reservists or individual ready reservist (IRR) and family members.

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Uniformed Services Family Health Program (USFHP) - Provides TRICARE-like benefits authorized through contracts with designated civilian hospitals in selected geographic markets to beneficiaries that reside in one of these markets and who are enrolled in the program.

Supplemental Care - Health Care - This program provides the TRICARE Prime benefit to Active Duty Service Members and other designated eligible patients who receive health care services in the civilian sector and non-DoD facilities either referred or non-referred from the MTF including emergency care. This program also covers health care sought in the civilian sector or non-DoD facilities due to Active Duty assignments in remote locations under TRICARE Prime Remote. Care to Active Duty members stationed overseas who receive health care in the private sector paid under this program will appear in the Overseas program element.

Supplemental Care - Dental - Provides for uniform dental care and administrative cost for Active Duty members receiving dental care services in the civilian sector to include Veteran Administration facilities. All dental claims are managed, paid and reported by the Military Medical Support Office (MMSO) or through contractual services.

Continuing Health Education/Capitalization of Assets (CHE/CAP) - Provides for support of graduate medical education and capital investment within civilian facilities that provides services to the Military Health Care System and Medicare.

Overseas Purchased Health Care - Includes coverage for delivery of TRICARE Prime benefits in civilian facilities by private practitioners to eligible Active Duty and Active Duty Family Members through the TRICARE Overseas and Global Remote Overseas Programs. The program also includes health care provided to retiree and retiree family members residing overseas who are eligible under the TRICARE Standard option and Medicare programs. The Supplemental Care program which funds health care provided in the private sector to Active Duty members and other designated eligible patients records costs for the overseas beneficiaries in this program element.

Miscellaneous Purchased Health Care - Provides for payments of health care services in civilian facilities by private practitioners not captured in other specifically defined elements. Includes administrative, management, and health care costs for Alaska claims, Custodial Care, Continuing Health Care Benefits Program, Dual-Eligible Beneficiaries Program, TMA managed demonstrations and congressionally directed health care programs, and the TRICARE Reserve Select program which is a premium based option available to Selected Reservists and their family members. The qualifying Dual-Eligible Beneficiaries claims are paid by the Medicare Eligible Retiree Health Care Fund (MERHCF).

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Miscellaneous Support Activities - Provides for payments of costs for functions or services in support of health care delivery not actual health care. Contracts for marketing and education functions, claims auditing, e-Commerce and the National Quality Monitoring Service are reflected in this program element.

II. Force Structure Summary: Approximately 9.6 million DoD beneficiaries are eligible to receive care under private sector care programs, including approximately 2.2 million Medicare eligible beneficiaries. Excluded from the budget figures presented are health care costs for Military Retirees, Retiree Family Members and Survivors who qualify and receive benefits through the Medicare program. These costs are paid from the Medicare Eligible Retiree Health Care Fund (MERHCF). The MCSCs provide a uniform, triple-option health care plan to eligible beneficiaries, allowing them to enroll in the health maintenance organization (HMO) type plan known as TRICARE Prime, or utilize a civilian preferred provider network (TRICARE Extra), or remain with the Standard Civilian Health and Medical Program of the Uniformed Services benefit (TRICARE Standard).

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III. Financial Summary (\$ in Thousands):

	FY 2012							FY 2013 Estimate
	FY 2011 Actuals	Budget Request	Congressional Action		Current Appropriation	Current Estimate	FY 2013 Estimate	
			Amount	Percent				
A. Subactivities								
1. Pharmaceuticals Purchased Health Care	366,686	391,514	0	0%	391,514	391,514	492,783	
2. National Retail Pharmacy	1,449,165	1,984,627	0	0%	1,984,627	1,984,627	1,599,512	
3. Managed Care Support Contracts	6,932,629	7,203,021	-330,000	-5%	6,873,021	6,873,021	6,893,201	
4. MTF Enrollee Purchased Care	2,425,014	2,947,481	0	0%	2,947,481	2,947,481	2,978,107	
5. Dental Purchased Care	364,795	403,540	0	0%	403,540	403,540	337,368	
6. Uniformed Services Family Health Program	387,256	455,714	0	0%	455,714	455,714	459,518	
7. Supplemental Care - Health Care	1,498,510	1,642,260	0	0%	1,642,260	1,642,260	1,686,782	
8. Supplemental Care - Dental	209,408	207,082	0	0%	207,082	207,082	260,605	
9. Continuing Health Education/Capitalization	330,385	341,764	0	0%	341,764	341,764	395,002	
10 Overseas Purchased Healthcare	308,586	313,650	0	0%	313,650	313,650	320,404	
11 Miscellaneous Purchased Health Care	447,314	404,609	0	0%	404,609	404,609	568,350	
12 Miscellaneous Support Activities	<u>82,673</u>	<u>82,010</u>	<u>0</u>	<u>0%</u>	<u>82,010</u>	<u>82,010</u>	<u>156,631</u>	
Total	14,802,421	16,377,272	-330,000	-2%	16,047,272	16,047,272	16,148,263	

Notes:

1. FY 2011 actuals includes \$538.376M for Overseas Contingency Operations (OCO) under the Department of Defense Appropriation Act, FY 2011, Public Law 112-10.
2. FY 2012 current estimate excludes \$451.847M for OCO under the Consolidated Appropriations Act, 2012 (Division A), Public Law 112-74.
3. FY 2013 estimate excludes \$468.791M for OCO.
4. Does not reflect Department of Defense Medicare-Eligible Retiree Health Care Fund (MERHCF) for FY 2011 of \$6,740.4M, FY 2012 of \$7,661.3M and FY 2013 of \$7,850.8M.

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	<u>Change</u> <u>FY 2012/2012</u>	<u>Change</u> <u>FY 2012/2013</u>
B. Reconciliation Summary:		
Baseline Funding	16,377,272	16,047,272
Congressional Adjustments (Distributed)	-330,000	n/a
Congressional Adjustments (Undistributed)	0	n/a
Adjustments to Meet Congressional Intent	0	n/a
Congressional Adjustments (General Provisions)	0	n/a
Subtotal Appropriated Amount	16,047,272	n/a
OCO and Other Supplemental Appropriations	451,846	n/a
Fact-of-Life Changes	0	n/a
Subtotal Baseline Funding	16,499,118	n/a
Anticipated Supplemental	0	n/a
Reprogrammings	0	n/a
Less: OCO and Other Supplemental Appropriations	-451,846	n/a
Revised Current Estimate	16,047,272	16,047,272
Price Change	n/a	576,876
Functional Transfers	n/a	0
Program Changes	<u>n/a</u>	<u>-475,885</u>
Current Estimate	16,047,272	16,148,263

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	(\$ in Thousands)	
C. Reconciliation of Increases and Decreases:	Amount	Totals
FY 2012 President's Budget Request		16,377,272
1. Congressional Adjustments		-330,000
a. Distributed Adjustments	-330,000	
1) Reduction due to under-execution in prior years.	-330,000	
b. Undistributed Adjustments	0	
c. Adjustment to Meet Congressional Intent	0	
d. General Provisions	0	
FY 2012 Appropriated Amount		16,047,272
2. OCO and Other Supplemental Appropriations		451,846
3. Fact-of-Life Changes		0
a. Functional Transfers	0	
b. Technical Adjustments	0	
c. Emergent Requirements	0	
FY 2012 Baseline Funding		16,499,118
4. Reprogrammings (requiring 1415 Actions)		0
a. Increases	0	
b. Decreases	0	
5. Less: OCO and Other Supplemental Appropriation		-451,846
Current Estimate for FY 2012		16,047,272
6. Price Change		576,876
7. Transfers		0
a. Transfers In	0	
b. Transfers Out	0	
8. Program Increases		828,277
a. Annualization of New FY 2012 Program	0	
b. One-Time FY 2013 Costs	0	
1) One Time funding for cost increases associated with utilization of the healthcare benefits by Temporary End Strength Army Medical (TEAM) active duty and other qualified beneficiaries under the various TRICARE Programs.	47,841	

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		(\$ in Thousands)	
C. Reconciliation of Increases and Decreases:		Amount	Totals
c. Program Growth in FY 2013		780,436	
1) Utilization of Managed Care Support Contracts:		591,034	
Cost increases are the result of 0.74% growth in new users and assumed increases in health care utilization by 4.2% over FY 2012. FY 2012 Managed Care Support Contracts Baseline: \$9,820.5M			
2) Pharmacy:		77,337	
Cost increase is the result of 1.63% growth in new users (retirees) and assumed continued growth in both retail and mail order utilization by 3.75% over FY 2012. FY 2012 PSC Pharmacy Funding Baseline: \$2,376.1M			
3) Supplemental Health Care:		56,080	
Cost increases are the result of 7.3% increased utilization of the medical benefits by active duty and other qualified beneficiaries under the Supplemental Care Program. FY 2012 Supplemental Care Funding Baseline: \$1,642.3M			
4) Nurse Advice Line (NAL):		25,500	
Increase in program costs due to implementation of Nurse Advice Line for beneficiaries to improve access to care, scheduling and reduce emergency room use in the Private Sector. FY 2012 NAL Funding Baseline: \$00.0M			
5) Disability Evaluation System (DES):		20,720	
Funding realignment from Consolidated Health Support for increase in government program costs associated with disability evaluations performed by the Veterans Administration (VA) on behalf of the DoD. Costs represent claims submitted by the VA through the Managed Care Support Contracts. FY 2012 DES Funding Baseline: \$0M			
6) TRICARE Reserve Select (TRS):		9,765	
Increase in government share of costs due to rise in enrollment above previous projections. FY 2012 TRS Funding Baseline: \$345.4M			
9. Program Decreases			-1,304,162
a. One-time FY 2012 Costs			0
b. Annualization of FY 2012 Program Decreases			0

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		(\$ in Thousands)	
		<u>Amount</u>	<u>Totals</u>
C. <u>Reconciliation of Increases and Decreases:</u>			
c. Program Decreases in FY 2013		-1,304,162	
1)	Repricing Adjustment to Purchased Care Programs: Revised healthcare cost estimates for programmatic reductions based on decreasing execution reflective of slower overall growth trends and savings in administrative costs under transition of the regional Managed Care Support Contracts.	-403,755	
2)	Secretary of Defense Benefit Reform Proposal for FY 2013, Enrollment Fees: Assumed new savings above FY 2012 amounts resulting from proposed changes to enrollment fees by implementing a tiering fee for Prime beneficiaries; establishing fees for Standard/Extra beneficiaries and indexing future fee adjustments by the National Health Expenditures (NHE) annual inflation adjustment. These changes will be applied to working age retirees and their family members.	-273,000	
3)	Federal Ceiling Pricing: Revised estimates for cost savings projections under initiative enacted for refunds paid to the government from prescriptions filled by civilian pharmacies at the maximum charge rates set per Federal Ceiling Pricing (FCP) standards. FY 2012 FCP Refund baseline: \$492.0M	-226,653	
4)	Secretary of Defense Benefit Reform Proposal FY 2013, Pharmacy Co-Pay Adjustment: Assumed new savings above FY 2012 amounts resulting from new proposal to further incentivize use of Military Treatment Facilities and the Mail Order Program by adjusting Pharmacy Co-Pays for working age retirees and active duty family members purchasing prescriptions at retail pharmacies. FY 2012 PSC Pharmacy Funding Baseline: \$2,376.1M.	-202,599	
5)	Reducing End Strength Active duty Personnel and Dependent Family Members: Reduction to PSC requirements for assumed decreases in workload as a result of force structure reductions and reduced beneficiary population.	-90,450	
6)	Secretary of Defense Efficiency, Front End Assessment (FEA)-Personnel, Medicare Rates at Sole Community Hospitals: Additional projected savings above FY 2012 resulting from proposal to adhere to Medicare reimbursement rates for inpatient and outpatient services rendered at Sole Community Hospitals.	-38,915	

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		(\$ in Thousands)	
C. <u>Reconciliation of Increases and Decreases:</u>		<u>Amount</u>	<u>Totals</u>
7) Secretary of Defense Efficiency, Front End Assessment (FEA)-Personnel, Pharmacy Co-Pay Adjustment: Additional savings above FY 2012 resulting from the initial FY 2012 implementation of adjusting Pharmacy Co-Pays for working age retirees and active duty family members at retail pharmacies to incentivize use of Military Treatment Facilities and the Mail Order Program. FY 2012 PSC Pharmacy Funding Baseline: \$2,376.1M.	-25,710		
8) Patient Centered Medical Home (PCMH): Reduction to PSC requirements for assumed increases in workload within the In-House Care BAG under the Patient Center Medical Home concept.	-24,194		
9) Secretary of Defense Efficiency, Front End Assessment (FEA)-Personnel, Enrollment Fees: Additional assumed savings above FY 2012 resulting from the initial FY 2012 implementation of increases to current enrollment fees (\$-22.3M) and indexing fee adjustments by the Cost of Living Allowance (COLA) annual inflation adjustment (\$+3.5M) applying to working age retirees and their family members.	-18,886		
FY 2013 Budget Request			16,148,263

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IV. Performance Criteria and Evaluation Summary:

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>Change</u> <u>FY 2011/2012</u>	<u>Change</u> <u>FY 2012/2013</u>
Uniformed Service Family Health Services:	107,903	113,189	118,765	5,286	5,576
DoD Enrollees (Non-MERHCF)	69,087	73,049	77,255	3,962	4,206
DoD Enrollees (MERHCF)	38,816	40,140	41,510	1,324	1,370
Workload for Medical Care and Pharmacy:					
Admissions	427,280	429,567	423,604	2,287	-5,963
Weighted Workload - Inpatient RWP's	402,528	404,890	399,376	2,362	-5,514
Visits	54,865,725	57,809,431	60,452,885	2,943,706	2,643,454
Weighted Workload - Outpatient RVU's	63,083,374	66,472,821	69,516,228	3,389,447	3,043,407
Retail Pharmacy Prescriptions	37,130,854	38,098,224	36,736,383	967,370	-1,361,841
Mail Order Prescriptions	2,711,255	3,316,226	4,383,471	604,971	1,067,245

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V. Personnel Summary:

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>Change</u> <u>FY 2011/2012</u>	<u>Change</u> <u>FY 2012/2013</u>
<u>Active Military End Strength (E/S)</u>					
Officer	0	0	0	0	0
Enlisted	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Military	0	0	0	0	0
<u>Active Military Average Strength (A/S)</u>					
Officer	0	0	0	0	0
Enlisted	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Military	0	0	0	0	0
<u>Civilian FTEs</u>					
US Direct Hire	0	0	0	0	0
Foreign National Direct Hire	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Direct Hire	0	0	0	0	0
Foreign National Indirect Hire	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Civilians	0	0	0	0	0
(Reimbursable Included Above - memo)	0	0	0	0	0
Average Civilian Salary (\$000's)	0	0	0	0	0
<u>Contractor FTEs (Total)</u>	0	0	0	0	0

VI. Outyear Summary: N/A

VII. OP 32 Line Items as Applicable (Dollars in Thousands - see next page):