

[\[Categorical Listing\]](#) [\[Numerical Listing\]](#)

This policy supersedes HA Policy [95-006](#)



THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, DC 20301-1200

07 APRIL 97

MEMORANDUM FOR: ASSISTANT SECRETARY OF THE ARMY (M&RA)
ASSISTANT SECRETARY OF THE NAVY (M&RA)
ASSISTANT SECRETARY OF THE AIR FORCE (MRAI&E)

SUBJECT: Policy on Medical Treatment Facility (MTF) Enrollment-Based Capitation Resource Allocation for the Military Health Services System (MHSS)

Starting in FY98, the Military Health Services System will be moving forward with the next generation of capitation-based resource allocation consistent with the evolutionary development of our TRICARE program. Since capitated resource allocation was first introduced in FY94, the three Surgeons General and this office have worked closely to ensure the most effective use of our Defense Health Program (DHP) resources. In January 1997, our staffs began development of the MTF Enrollment-Based Capitation (EBC) methodology for FY98. The main reason for this change is to ensure that the capitation method we use to allocate resources to our MTFs provides the proper incentives to encourage every commander, provider, and decision maker to be fully accountable for delivering high-quality, cost-effective health care services to our beneficiaries. Our financing system must strive to keep pace with our health care delivery system's progress. Enrollment-Based Capitation will incorporate the following guiding principles:

- Empower MTF commanders with full accountability for all resources needed to support their enrolled beneficiary population and provide incentives to produce or procure high-quality, cost-effective, and clinically appropriate health care services at every organizational level throughout the MHSS.
- Initial financing of MTF budgets by the three Military Departments will be based primarily on enrolled beneficiaries adjusted by appropriate demographic variables (e.g., age/sex) with special considerations for medical readiness and training, Graduate Medical Education (GME), and space-available care for Medicare eligible and non-enrolled beneficiaries.
- Throughout the year, DHP funding will be subject to periodic review and adjustments for health care provided by and for other MTFs and or the Managed Care Support contractor.
- Each Military Department will continue to receive their annual Defense Health Plan (DHP) appropriation

allocation to finance its medical activities in support of its specific mission requirements and consistent with Enrollment-Based Capitation.

We have come a long way since we first introduced capitation in 1993, and now we must complete the journey. Please accept my gratitude for all the tremendous effort put forth thus far. I will continue to report on our implementation progress through the Defense Medical Advisory Committee.

This supersedes the Transfer Payment Policy [\(95-006\)](#) dated May 22, 1995. My project officer for this effort is Colonel Paul Nice, Director of Capitation Financing, (703) 681-8876, extension 217. Detailed implementation guidance with specific procedures and methodology will be issued separately.



Edward D. Martin, M.D.
Acting Assistant Secretary of Defense

cc:

Surgeon General of the Army

Surgeon General of the Navy

Surgeon General of the Air Force

HA POLICY 97-043

[\[Top\]](#)

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