



HEALTH AFFAIRS

THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D. C. 20301-1200

JUN 11 2004

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

SUBJECT: Implementation of Prospective Payment System

This memorandum establishes policy and provides program guidance for implementation of a Prospective Payment System (PPS) for Department of Defense (DoD) military treatment facilities (MTFs). The PPS is part of the ongoing process to transform the Military Health System. It also supports the President's Management Agenda to require performance based budgeting.

Under PPS, health care requirements will be programmed based on the value of clinical services planned for the direct care system. MTFs will be funded for the delivery of health care services to beneficiaries at rates comparable to those paid in the private sector. PPS will allow the Service Surgeons General to effectively manage their medical health care delivery assets and hold MTFs accountable for performance.

Readiness requirements will be resourced separately consistent with DoD doctrinal policy to assure medical components are capable of supporting Departmental operations. The PPS will be phased in over four years, from Fiscal Year (FY) 2005 through FY 2008, allowing the Department to move gradually from a cost-based system to a price-based system.

The Service Surgeons General will submit business plans annually for each MTF, projecting the number of TRICARE Prime enrollees they will manage and the amount of health care they expect to deliver. Defense Health Program direct care system budgets will be built based on these estimates.

This policy is effective immediately and will be implemented under the direction of the Deputy Assistant Secretary of Defense (Health Programs and Financial Policy) and the Office of the Chief Financial Officer, TRICARE Management Activity.

My point of contact for this effort is Dr. Bob Opsut, who may be reached at (703) 681-1724 x5232 and bob.opsut@ha.osd.mil

A handwritten signature in black ink that reads "William Winkenwerder, Jr.".

William Winkenwerder, Jr., MD

cc:
Service Surgeons General

HA POLICY: 04-014