The Military Health System (MHS)
&
The Defense Health Program (DHP)

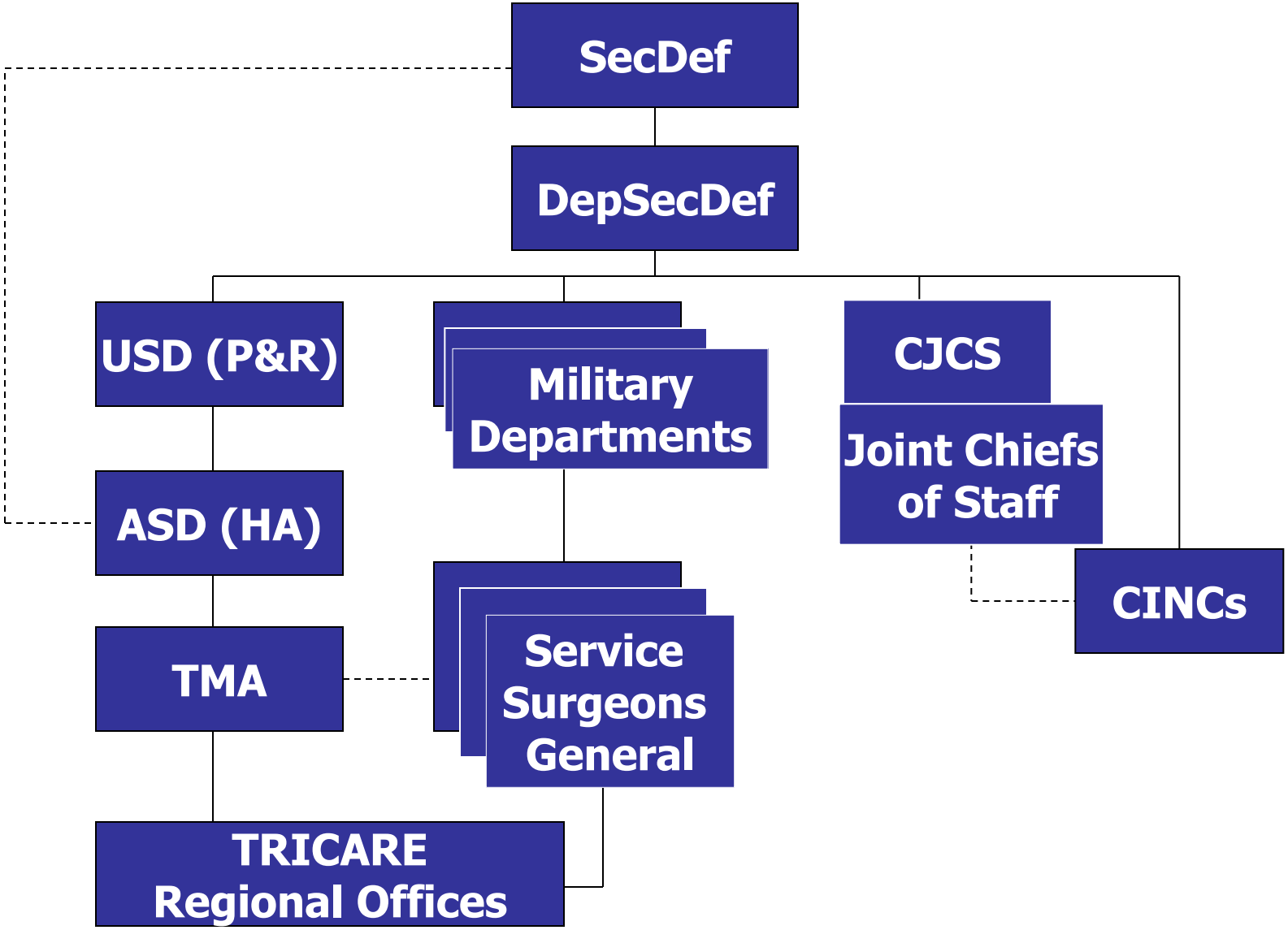
An Overview
for
The Defense Health Board

4 September 2008

Briefing Topics

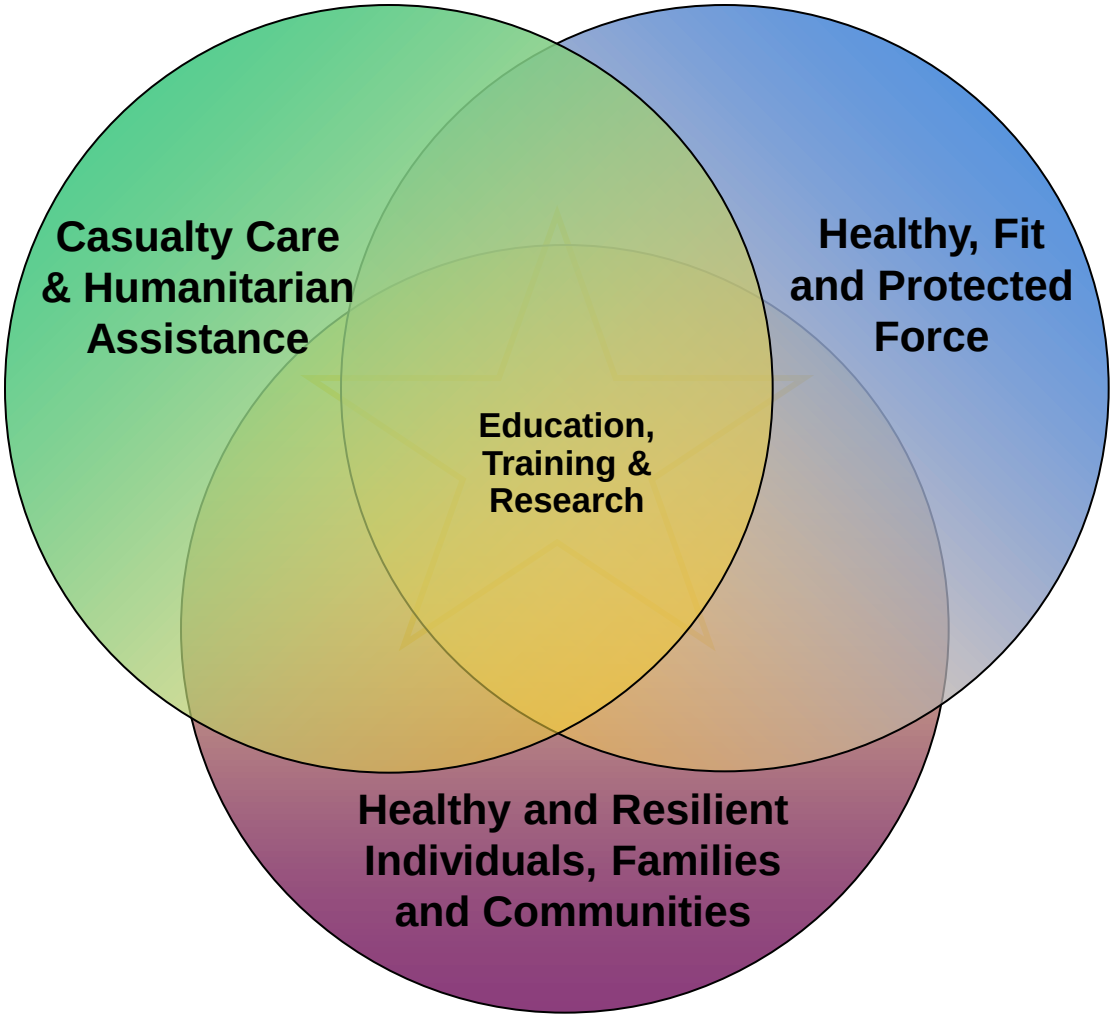
- MHS Mission
- Beneficiaries & Benefit
- Financial Resources
- Operation and Maintenance Structure
- Medical Military Construction
- Medicare Eligible Retiree Health Care Fund
- Current Issues

Organizational Relationships



Military Health System Mission

Our team provides optimal Health Services
in support of our nation's military mission—anytime, anywhere.

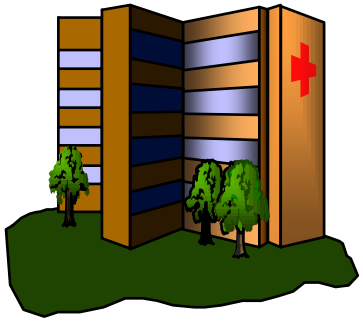


The Nation's Military Health System

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

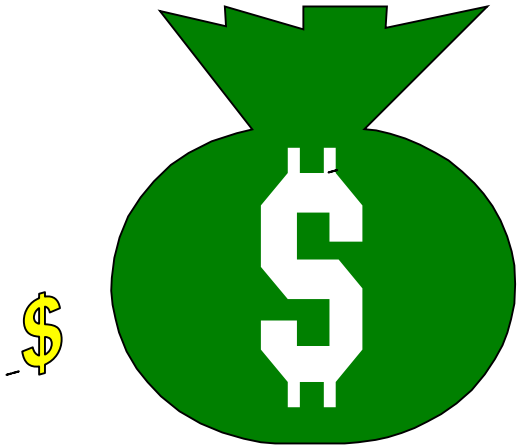
Mission: To enhance DoD and our Nation's security by providing health support for the full range of military operations and sustaining the health of all those entrusted to our care

Patient Care, Sustain Skills and Training **to** **Deploy to Support Combatant Commanders** **and** **Promote & Protect Health of Force and Communities**

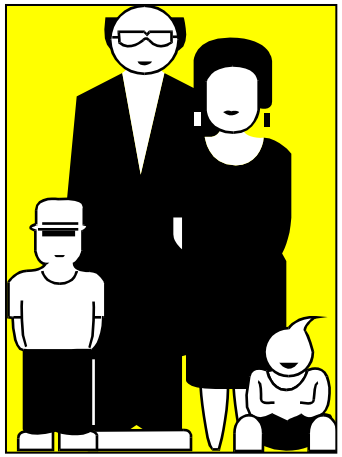


Manage and Deliver Beneficiary Care → **Deploy Medical Capability** → **Support Homeland Defense**; **Deploy Fit and Protected Force**

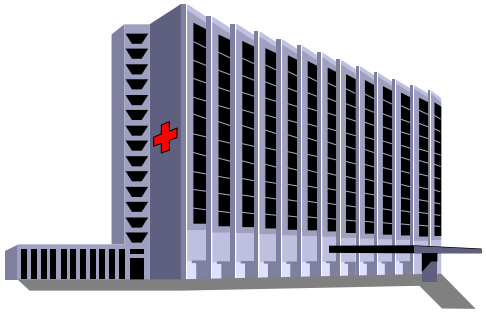
Fiscal Year 2008 Snapshot



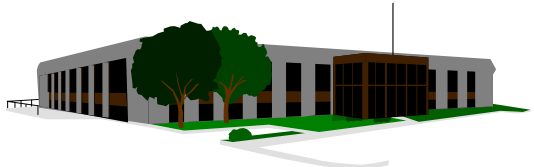
Over 132 thousand military and civilian medical personnel



9.2 million Beneficiaries



62 Inpatient Facilities



1,085 Medical, Dental and Veterinary Clinics

*** As of August 20, 2008**

Beneficiaries and Benefit

DoD TRICARE Eligible Beneficiary Population

Population	FY 2008
Active Duty	**1,671,665**
Active Duty Family Members	2,316,174
CHAMPUS Eligible Retirees	1,105,516
CHAMPUS Eligible Retiree Family Members	2,151,508
Subtotal CHAMPUS Eligible	**5,573,198**
Medicare Eligible	**1,974,742**
Total	**9,219,605**

Source: Managed Care Forecasting and Analysis System (MCFAS) FY2007.0

Evolution of the DoD Health Benefit

1940s-1950s

Title 10 Legislated Benefit

Space Required for Active Duty

Space Available for Families and Retirees

1966

CHAMPUS Legislated Benefit

Civilian Health Care where MTFs do not exist.

Families and Retirees <65

1993

TRICARE Managed Care Legislation

Automatic enrollment for Active Duty

Space Required for TRICARE Prime enrollees

Space Available for Non-enrollees

1995-1998

TRICARE Triple Option Benefits

Prime, Extra and Standard

TRICARE Senior Prime Demonstration

1999-2000

Further Expansion:

Prime Remote for Active Duty

TRICARE provider rates >=Medicare

Beneficiary Counseling & Assistance Coordinators

2001

Enhanced Benefit

Catastrophic Cap Reduced to $3,000

Enhanced TRICARE Retiree Dental Program

TRICARE Senior Pharmacy

Elimination of Prime Co-pays for AD Family Members

Extension of Medical and Dental Benefits to Survivors

School Physicals

Entitlement for Medal of Honor Recipients

TRICARE Prime Travel Entitlement

Chiropractic Care Program

2002

TRICARE Plus

TRICARE For Life

TRICARE Prime Remote for AD Family Members

2003

TRICARE Online

TRICARE implements HIPPA Patient Privacy Standard

Elimination of AD Family Member Co-Pays

2004

Transitional Assistance Management Program (TAMP) Expansion

Guard/Reserve TRICARE (Early Eligibility, Reserve Family Demo)

Elimination of Non-Availability Statements (NAS)

2005

TRICARE Reserve Select

Extended Health Care Option/Home Health Care (ECHO / EHHC)

TRICARE Maternity Care Options

2006

Extended TRICARE benefits for survivors of Active Duty

Limit pharmacy deductibles/co-pays for nursing home residents

Enhancement of TRICARE Reserve Select coverage

2007

Expansion of TRICARE Reserve Select coverage to All Reservists

Three year Extension of Joint DoD/VA Incentive Program

Planning/Management – Claims Processing Standardization

Expanded Disease Management Programs

Coverage of Forensic Exams for Sexual Assaults

Dental anesthesia for pediatric cases

2008

Wounded Warrior Benefits (Respite Care)

MHS Financial Resources

MHS Sources of Funding

1. Medical Military Personnel (MilPers) are funded by the Military Departments' MilPers appropriations.
2. The DHP Appropriation consists of Operation & Maintenance (O&M), Procurement and Research, Development, Test & Evaluation (RDT&E) funds.
3. Some (primarily deployable) health care activities and research functions are funded by the Military Departments through their O&M, Procurement, RDT&E and MilPers appropriations.
4. Medical Military Construction (Milcon) is included in the Department's Milcon, Defense-Wide appropriation.
5. The Medicare Eligible Retiree Health Care Fund (MERHCF) is an accrual-type fund that pays the Department's health care costs for Medicare eligible retirees, retiree family members and survivors.
6. Emergency Supplemental Appropriations are required for non-budgeted items such as the Global War on Terror (GWOT), Pandemic Influenza, Traumatic Brain Injury/Psychological Health, and Wounded, Ill and Injured initiatives.
7. Foreign Currency Fluctuation funds are provided by OUSD (Comptroller) to mitigate differences between budgeted and actual foreign currency expenditures.
8. Special Program funding resources initiatives like the VA-DoD Joint Incentive Fund, the Drug Interdiction/Counter Narcotics Program, and the President's Emergency Plan for AIDS Relief

Sources of Funding

- **DHP Appropriation: Annual operating appropriation (O&M, Procurement and RDT&E).**
  - ***Currently, not to exceed 2% of the annual O&M appropriation may be carried over into the following Fiscal Year - this is at risk in Congress.***
- **DHP Military Personnel (MilPers) funding is in the Service budgets and beginning with FY08-13 POM is also programmed by the Services.**
- **Medical Military Construction: in the Military Construction (MILCON) Appropriation.**
- **Medicare Eligible Retiree Health Care Fund (MERHCF): Amount based on actuarial calculations; transferred into DHP O&M and Service MilPers in the year of execution.**
- **Emergency Supplemental Appropriations: as required for non-budgeted items such as the Global War on Terror (GWOT), Hurricane relief and Pandemic Influenza.**
- **Foreign Currency Fluctuation: reprogramming of funds via OUSD (Comptroller) to mitigate differences between budgeted and actual foreign currency expenditures.**
- **Other special program funds (Counter Narcotics program, President's Emergency Plan for AIDS Relief, DoD/VA Incentive Fund, etc.)**
- **Grants (research efforts)**
- **Gifts (Fisher Houses, etc.)**
- **Service "Line" funding (primarily for certain readiness requirements and Service Surgeons General headquarters operations)**

The Defense Health Program Appropriation

Operation and Maintenance (O&M)

- Funds **day to day operations** including:
  - World-wide Medical, Dental and Veterinary Services (In-House Care and Private Sector Care)
  - Medical Readiness not funded by Service "Line" appropriations
  - Medical Education & Training
  - Management Activities (Medical Headquarters)
  - Occupational and Industrial Health Care
  - Medical, Dental and Veterinary Facilities and Medical Installations
  - Information Management/Information Technology (IM/IT) Infrastructure (i.e. electronic patient records)

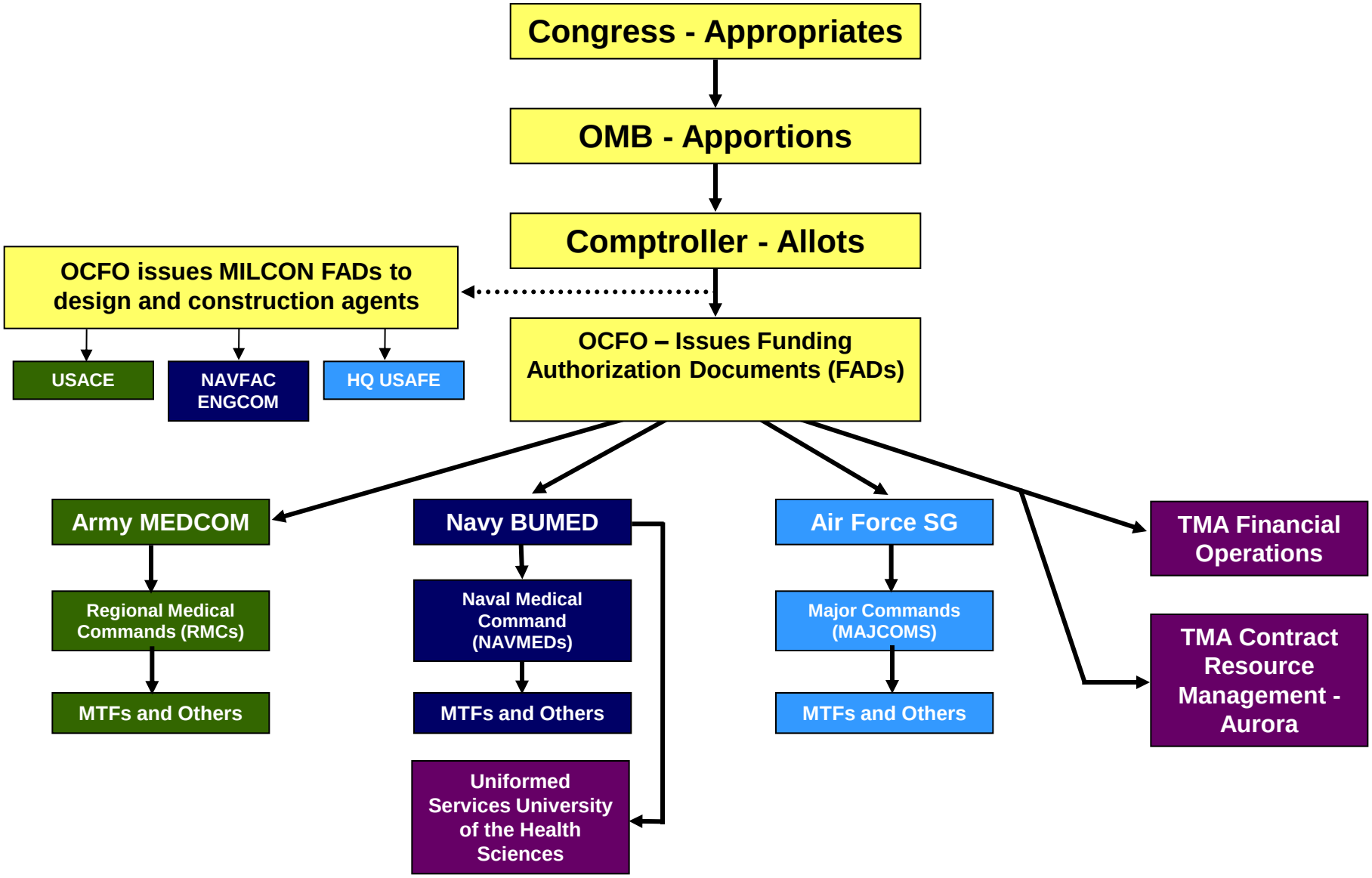
Research, Development, Test & Evaluation (RDT&E)

- Funds some **medical research**, Central IM/IT Projects, Navy Medical laboratories, and some Air Force initiatives (disease surveillance and pilot vision enhancements)

Procurement

- Funds initial outfitting and replenishment of **medical equipment** and **information processing system** purchases ≥ $250,000

DHP Funds Flow



NOTE: USUHS is being realigned under the TRICARE Management Activity

DHP Component Overview

FY 2008 Unified Medical Budget (millions)

As of August 20, 2008

DHP Appropriation:	Army	Navy	Air Force	TMA*	Total
O&M	$6,041	$3,211	$2,727	$13,342	$25,321
Procurement	$114	$69	$63	$213	$459
RDT&E	$647	$31	$49	$227	$954
Total DHP	$6,802	$3,311	$2,839	$13,782	$26,734
Other Sources:					
MILPERS	$2,013	$2,302	$2,625	$0	$6,939
MILCON	$994	$169	$77	$117	$1,357
BRAC				$661	$661
MERHCF O&M	$531	$309	$424	$6,679	$7,943
MERHCF MILPERS	$106	$122	$178	$0	$406
Total Budget Authority	$10,445	$6,212	$6,142	$21,239	$44,039

*includes TMA OPS, USUHS and Private Sector Care

Manpower

	Army	Navy	Air Force	TMA[1]	Total
Military End Strength	24,147	27,249	31,365	53	82,761
Civilian FTEs	27,645	13,219	7,333	1,331	49,528
Total	51,792	40,468	38,698	1,384	132,289
Percent Military	47%	67%	81%		

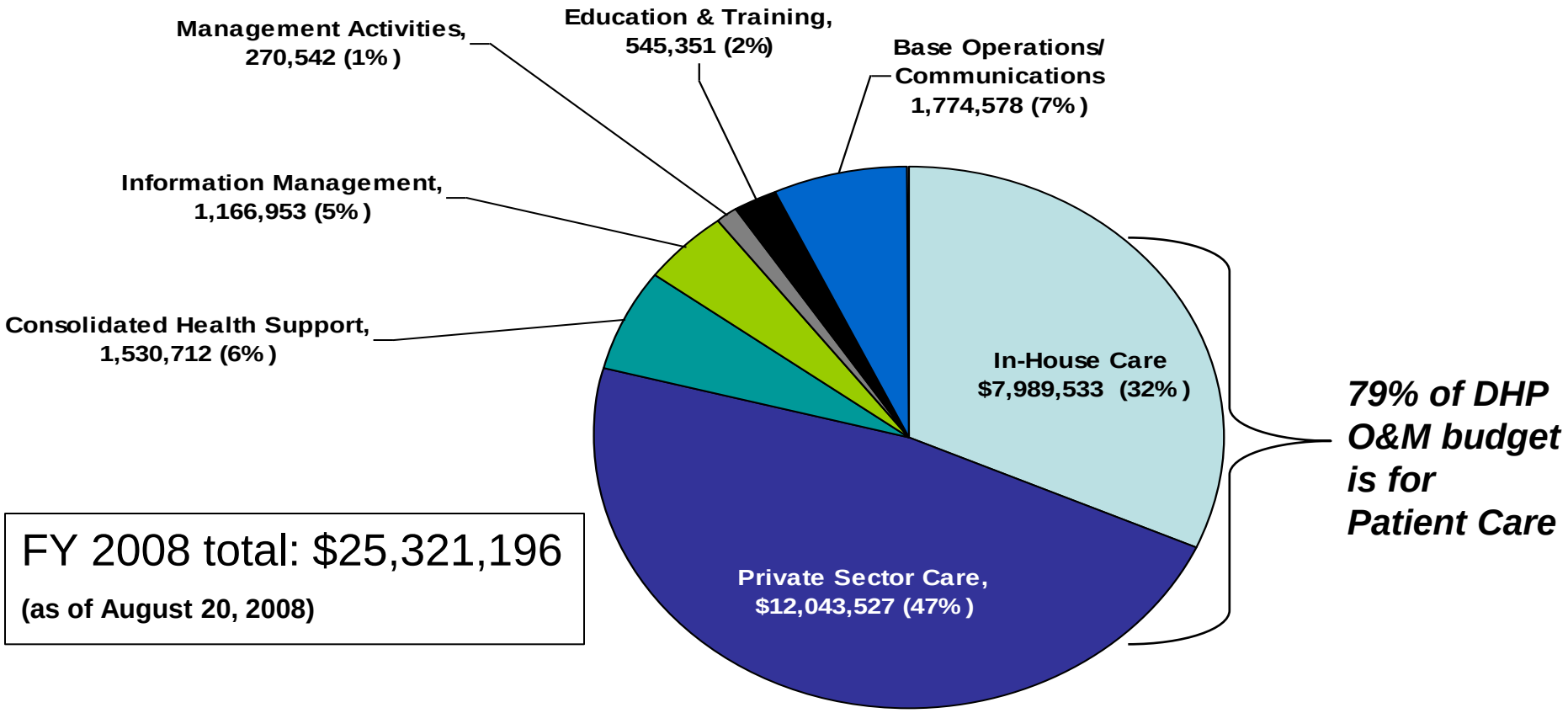
[1] TMA Military included in Service totals

Infrastructure

	Army	Navy	Air Force	Total
Inpatient Facilities	25	19	18	62
Medical Clinics	176	153	84	413
Dental Clinics	165	156	92	413
Veterinary Clinics	259	0	0	259

Operations and Maintenance Budget Structure

FY 2008 DHP O&M (President's Budget) by Budget Activity Group



FY 2008 total: $25,321,196

(as of August 20, 2008)

Budget Activity Group 1:

In-House Care

Funds patient care and pharmacy services in Medical and Dental Treatment Facilities

FY 2008: $7.990B (32% of DHP O&M total)

(as of August 20, 2008)

Program Includes:

- Medical Care in Defense Medical Centers, Hospitals and Clinics
- Dental Care Activities
- Pharmaceuticals in DoD Medical Centers, Hospitals and Clinics

Prospective Payment System (PPS)

- Premise: MHS Value is predicated on three elements
  - Outputs - the volume of work that we accomplish, measured currently by RVUs and RWPs
  - Outcomes – often measured via factors such as HEDIS/JCAHO
  - Customer Satisfaction

- Our focus to date has been centered on productivity (Outputs) as the MHS source of value for the Department.

- Goal: Create a financial mechanism for the direct care system that will emphasize value measures for outcomes and customer satisfaction in a balanced fashion with outputs

PPS Production

- Bases MTF budgets on outputs, not inputs
  - Provides incentives for efficient production
- Value MTF business plans/workload
  - Fee for Service rate for workload produced
- Rates based on market price at which care can be purchased
  - CHAMPUS Maximum Allowable Charge (CMAC) rates
- Computed at MTF level but allocated to services
  - Rolled up to Services
  - Adjust Service allocation based on changes in workload

Expansion of PPS Pay for Performance (P4P)

- Mid-Year 08
  - Quality adjustments based on HEDIS-like measures
- Currently
  - Adding 6 additional measures
    - Quality
      - HEDIS Preventive Services
      - ORYX
    - Satisfaction
      - Health Plan
      - Health Care
      - Doctor's Communication
    - Access
      - Getting Needed Care
      - PCM appointment when available

Budget Activity Group 2:

Private Sector Care

Funds patient care and pharmacy services purchased from private sector providers

FY 2008: $12.044B (47% of DHP O&M total)

(as of August 20, 2008)

Program Includes:

- TRICARE Health Care Contracts (CONUS and OCONUS)
- Pharmaceuticals (Retail and Mail Order)
- Supplemental Care Program (care for Active Duty Service members)
- Dental Services & Contracts (Active Duty, Active Duty Family Members)
- Uniformed Services Family Health Program (USFHP)
- Reserves & Family members – TRICARE Reserve Select, Transitional Assistance Management Program (TAMP)
- Support Activities (Marketing, Education, Quality Monitoring)

Private Sector Care Demand is Rapidly Increasing

Cost Drivers

1. New users – *beneficiaries are dropping costly private health insurance and returning to TRICARE*

2. Utilization – *existing users are consuming more health care per capita*

3. Inflation – *health care remains above other sectors*

4. New Benefits – *added by Congress*

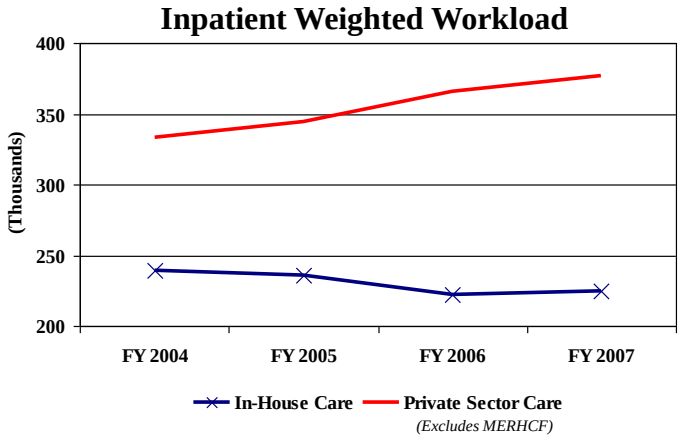
5. Migration – *In-House Care workload is declining, shifting cost to Private Sector Care*

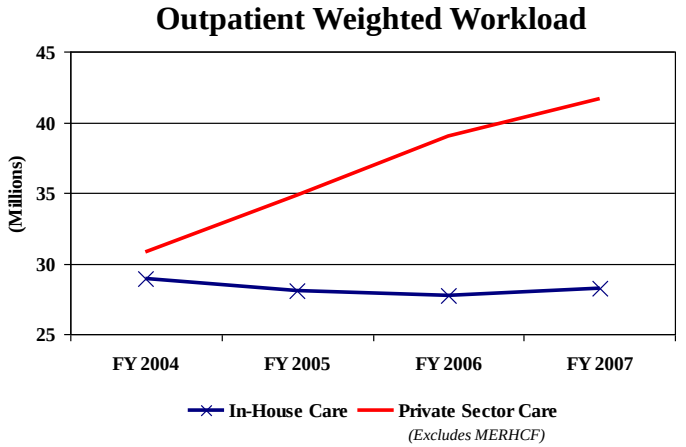
1. When MTF workload declines, Private Sector Care absorbs the workload and costs

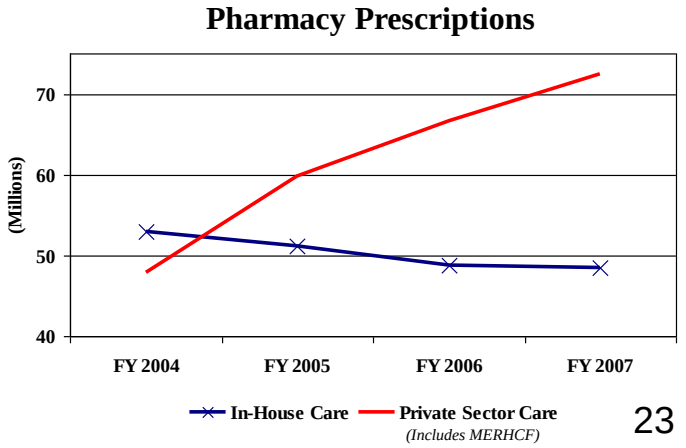
2. Recent history shows significant MTF workload shift to Private Sector Care

3. Funding challenges:

- Congressional restrictions preclude increased Private Sector Care funding without prior approval reprogramming (three to six months to accomplish)
- When MTF workload declines, much "sunk cost" remains
- TRICARE contracts incentivize workload referral to MTFs.
- "Efficiency Wedge" recognizes higher cost of MTF workload
- Prospective Payment incentivizes MTFs to increase workload
  - ➢ MTF workload increases can readily be funded from Private Sector Care







Market Share Analysis: Direct Care versus Private Sector Care

Over the last several years the Private Sector Care market share has increased

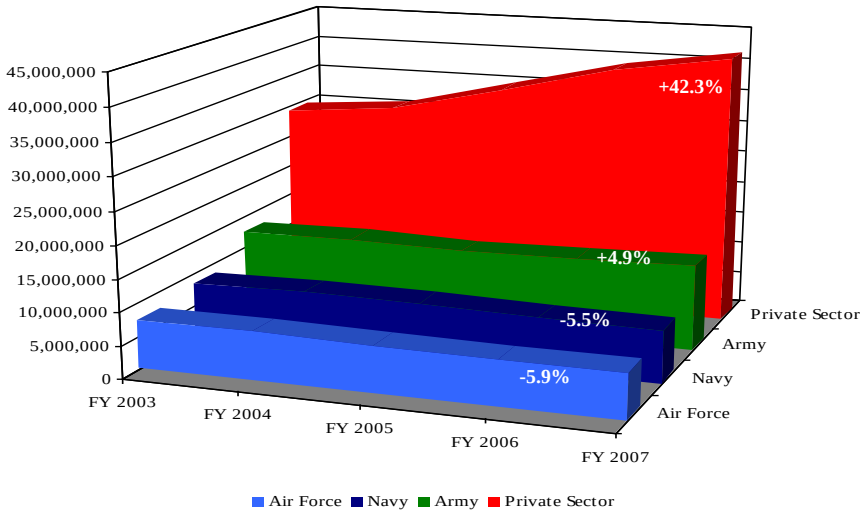
The direct care system may not be able to retain its current market share and subsequent increases in PSC workload and costs will continue through 2015

	ADDs/NADDs				AD			
Pharmacy	**FY05**	**FY06**	**FY07**	**FY08**	**FY05**	**FY06**	**FY07**	**FY08**
TMOP	6.8%	7.3%	8.4%	15.6%	1.0%	1.2%	1.5%	7.5%
Retail	33.9%	37.2%	39.0%	44.7%	11.0%	10.2%	**10.3%**	24.0%
MTF	59.3%	55.5%	52.5%	39.7%	88.0%	88.3%	88.2%	68.5%
	ADDs/NADDs				**AD**			
Inpatient	**FY05**	**FY06**	**FY07**	**FY08**	**FY05**	**FY06**	**FY07**	**FY08**
PSC	74.3%	76.2%	76.8%	79.8%	35.9%	39.0%	**40.1%**	48.0%
MTF	25.7%	23.8%	23.2%	20.2%	64.1%	61.0%	59.9%	52.0%
	ADDs/NADDs				**AD**			
Outpatient	**FY05**	**FY06**	**FY07**	**FY08**	**FY05**	**FY06**	**FY07**	**FY08**
PSC	68.7%	71.3%	72.7%	82.4%	18.8%	20.2%	**21.2%**	33.2%
MTF	31.3%	28.7%	27.3%	17.6%	81.2%	79.2%	78.8%	66.8%

In-House Care Workload is Decreasing Despite Increasing Resources

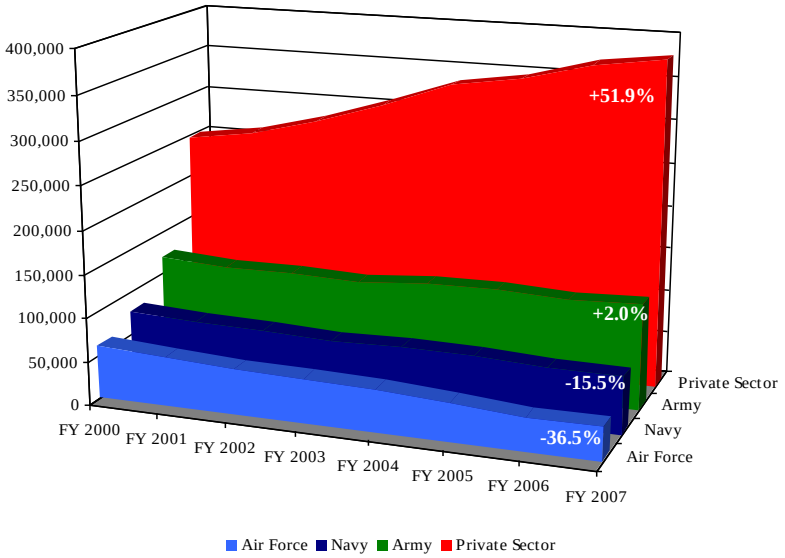
Outpatient Workload (Weighted)

Adjusted Relative Value Units (data not available prior to FY 2003) (Services include Medicare Eligible workload) (Source: Military Health System Data Marts (M-2))



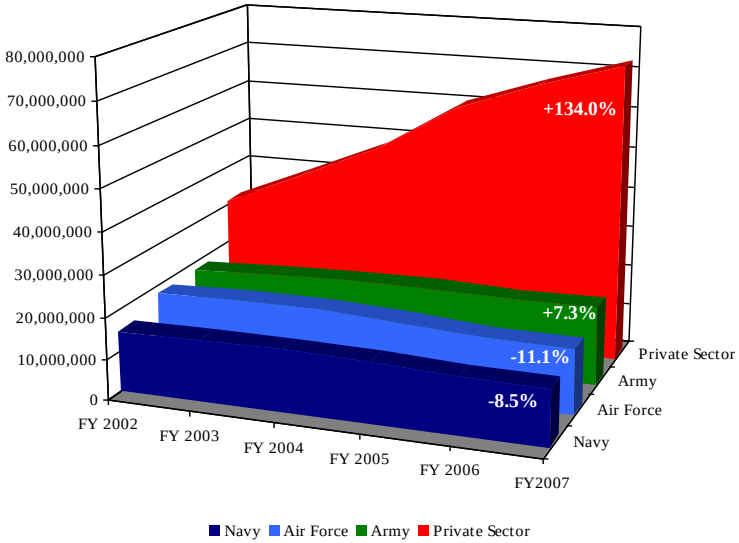
Inpatient Workload (Weighted)

Relative Weighted Products (Services include Medicare Eligible workload) Source: Military Health System Data Marts (M-2)



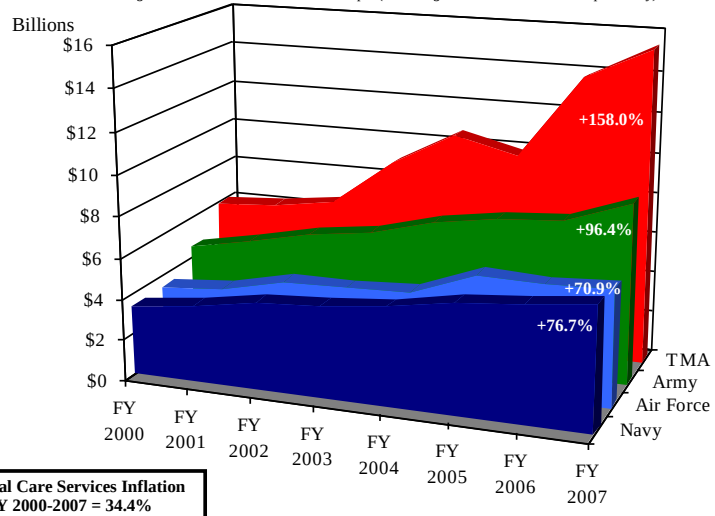
Outpatient Prescriptions Filled

(Includes Medicare Eligible workload) (Source: Pharmacy Data Transaction Service, data not available prior to FY 2002)



Total Defense Health Program and Military Personnel Funding

Includes the Defense Health Program appropriation, DHP-coded Milpers, and Medicare Eligible Retiree Health Care Fund receipts (excluding Private Sector Care non-pharmacy)



Medical Care Services Inflation
FY 2000-2007 = 34.4%
Consumer Price Index, Bureau of Labor Statistics

Budget Activity Group 3:

Consolidated Health Support

Funds entrance examining activities, occupational health, vet services, aeromedical evacuation, the Armed Forces Institute of Pathology and other military unique health activities

FY 2008 : $1.531B (6% of DHP O&M total)

(as of August 20, 2008)

Program Includes:

- Armed Forces Examination and Entrance Stations
- Military Public/Occupational Health
- Veterinary Services
- Military Unique Activities (i.e., Blood program, Optical fabrication, CONOPS)
- Aeromedical Evacuation
- The Armed Forces Institute of Pathology

Budget Activity Group 4:

Information Management

Funds Central IM/IT program management, system and infrastructure sustainment, software licensing and equipment lease costs, and Service Medical IM/IT support for Functional Area Applications

FY 2008 O&M: $1.167B (5% of DHP O&M total)

(as of August 20, 2008)

Program Includes:

- MHS Centrally managed IM/IT initiatives such as:
  - Medical Expense & Performance Reporting System (MEPRS)
  - Armed Forces Health Longitudinal Transaction Application (AHLTA)
  - Clinical Information Technology Program (CITP)
  - Executive Information/Decision Support Program (EI/DS)
  - Defense Medical Logistics Standard Support (DMLSS)
  - Resources Information Technology Program (RITP)
  - Theater Medical Information Program (TMIP)
- Service specific medical IM/IT programs
  - End user devices, local networks and office automation

Budget Activity Group 5:

Management Activities

Funds Military Department Medical Command and TRICARE Management Activity functions supporting Military Health System

FY 2008: $271M (1% of DHP O&M total)

(as of August 20, 2008)

Program Includes:

- Army Medical Command
- Navy Bureau of Medicine and Surgery
- Air Force Major Commands
- TRICARE Management Activity

Budget Activity Group 6:

Education and Training

Funds Health Professions Scholarship Program, Uniformed Services University of the Health Sciences (USUHS) and other education and training programs

FY 2008: $545M (2% of DHP O&M total)

(as of August 20, 2008)

Program Includes:

- Armed Forces Health Professions Scholarship Program (HPSP)
- Financial Assistance Program (FAP)
- Health Professions Loan Repayment Program (HPLRP)
- Uniformed Services University of the Health Sciences (USUHS)
- Service-specific training activities

Budget Activity Group 7:

Base Operations and Communications

Funds Operation and Maintenance of Defense Health Program Facilities

FY 2008: $1.775B (7% of DHP O&M total)

(as of August 20, 2008)

Program Includes:

- Facility Restoration and Modernization
- Facility Sustainment
- Facilities Operations
- Base Communications
- Base Operations Support
- Environmental Conservation & Compliance
- Pollution Prevention
- Visual Information Systems

The Military Health System (MHS)
Military Construction

FY 2008 Medical Military Construction Projects ($000)

Service	Location	Installation	Project Description	Cost
Army	GA	Fort Benning	Hospital Replacement (2008 Supplemental)	350,000
	KS	Fort Riley	Hospital Replacement (2008 Supplemental)	404,000
	MD	Fort Detrick	USAMRIID Stage 1, Inc 2	150,000
	NY	Fort Drum	Health Clinic Add/Alt	41,000
	TX	Camp Bullis	Health Clinic Replacement	7,400
	TX	Fort Sam Houston	Burn Rehabilitation Center (2008 Supplemental)	21,000
	WA	Fort Lewis	Medical/Dental Clinic	21,000
			Army Total	**994,400**
Navy	IL	NH Great Lakes	Federal Healthcare Facility	99,000
	NC	Camp Lejeune	Hospital Addition (2008 Supplemental)	64,300
	VA	NS Norfolk	Environmental Preventive Medicine Unit 2 Replacement	6,450
			Navy Total	**169,750**
Air Force	FL	MacDill AFB	Pharmacare Addition/Alteration	5,000
	FL	MacDill AFB	Clinic Replacement, Incr 2	41,400
	GE	Spangdahlem AFB	Medical Clinic Replacement	30,100
			Air Force Total	**76,500**
			Unspecified Minor Construction	3,499
			Design	69,130
			Design (2008 Supplemental)	45,000
				117,629
			Medical MILCON Total FY 2008	**1,358,279**

FY 2009 Medical Military Construction Projects
($000)

Service	Location	Installation	Project Description	Cost
Army	AK	Ft Richardson	Dental Clinic	6,300
	GA	Ft Benning	Consolidated Troop Medical Clinic	3,900
	KY	Fort Campbell	Medical and Dental Clinic	24,000
	MD	Fort Detrick	DETRICK, USAMRIID Replacement Stage 1, Incr 3	209,000
	MD	Aberdeen Proving Ground	USAMRICD Replacement, Incr 1	23,750
	MO	Fort Leonard Wood	Primary Care Clinic Alteration	22,000
	TX	Fort Sam Houston	Medical Instructional Facility	13,000
			Army Total	**301,950**
Navy	GU	Naval Hospital Guam	Central Utility Plant	30,000
			Navy Total	**30,000**
Air Force	OK	Tinker AFB	Medical/Dental Clinic Replacement	65,000
	CO	Buckley AFB	Satellite Pharmacy	3,000
			Air Force Total	**68,000**
			Unspecified Minor Construction	3,990
			Design	58,252
				62,242
			Total FY 2009	**462,192**

The Military Health System (MHS) Clinical BRAC Construction Program

Clinical BRAC Construction Summary

National Capitol Region – Total $1.953B

New Ft. Belvoir Community Hospital

- groundbreaking 8 November 2007

Walter Reed National Military Medical Center

- groundbreaking 3 July 2008

San Antonio – Total $0.9B

San Antonio Military Medical Center-North

- groundbreaking 8 December 2008

Fort Sam Houston Clinic

- contract awarded 31 July 2008

On track to build world-class healthcare facilities and meet the BRAC 2005 timeline

Medicare Eligible Retiree Health Care Fund

"The Accrual Fund"

DoD Medicare Eligible Retiree Health Care Fund

What is it?

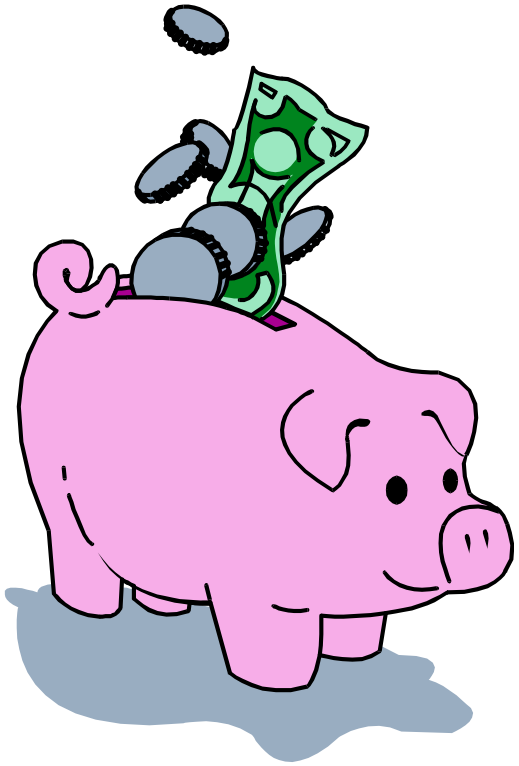
- **Established by Congress (2001 NDAA) to provide *mandatory* funding for a health care entitlement (*Title 10, Subtitle A, Part II, Chapter 56, United States Code*)**
- **Covers certain Medicare-eligible DoD beneficiaries *(military retirees, retiree family members and survivors - not simply "over-65s")***
- **Pays for MTF care, purchased care and pharmacy**
- **Recognizes DoD's accrued and future liability for cost of retiree/survivor health care for military service members and their family members**

Implemented 1 October 2002 (FY03)

Where does the money come from?

Dept of Treasury unfunded actuarial liability (UAL) - ***$538.0B amortized over 50 years (15.6B FY07)***

MERHCF investment earnings



Annual DoD actuarial "Normal Cost" contribution

($11.2B FY07)

FY07 Estimated Outlays $7.7B

($1.8B In-House Care; $5.9B Private Sector Care)

Current Financial Issues

OCFO Priorities and Influences

- **Budget - Year of execution** and future program
- Wounded Warrior Care and Transition Support
  - TBI/PH
  - Wounded, Ill and Injured
  - GWOT vs base
  - Medical RDT&E
- MHS Transformation
  - Electronic Health Record
  - VA/DoD sharing
  - TF Future Military Healthcare recommendations
  - Performance Based Culture
    - Pay for performance
    - Innovation Investment Process
  - JTF Capmed
- **BRAC Implementation**
  - NCR and San Antonio markets
  - Co-location of the medical HQs
- Facility Reconstitution rate - recapitalization
- Transform and **Sustain the Benefit**
  - Evolving and new benefits (TRS, Pharmacy, T3, TOverseas, autism demonstration)
  - **Healthcare growth, system value and topline pressure (Direct Care, Private sector)**
  - Reversal of Mil-Civ Conversions

Questions