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

An Overview for The Task Force on the Future of Military Healthcare

16 January 2007
Briefing Topics

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

In Peace & War

Patient Care, Sustain Skills and Training

Promote & Protect Health of the Force

Deploy to Support the Combatant Commanders

Manage Beneficiary Care

Deploy A Healthy Force

Deploy Medical Force

Manage Beneficiary Care
FY 2007 Snapshot

- **$36 billion** Total Budget Authority
- Over 133 thousand military and civilian medical personnel
- 9.1 million Beneficiaries
- 70 Inpatient Facilities
- 1,085 Medical, Dental & Veterinary Clinics
Beneficiaries and Benefit
## DoD TRICARE Eligible Beneficiary Population

<table>
<thead>
<tr>
<th>Population</th>
<th>FY 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Duty</td>
<td>1,656,593</td>
</tr>
<tr>
<td>Active Duty Family Members</td>
<td>2,288,268</td>
</tr>
<tr>
<td>CHAMPUS Eligible Retirees</td>
<td>1,102,493</td>
</tr>
<tr>
<td>CHAMPUS Eligible Retiree Family Members</td>
<td>2,181,327</td>
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<tr>
<td><strong>Subtotal CHAMPUS Eligible</strong></td>
<td><strong>5,572,088</strong></td>
</tr>
<tr>
<td>Medicare Eligible</td>
<td>1,903,387</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,132,068</strong></td>
</tr>
</tbody>
</table>

Source: Managed Care Forecasting and Analysis System (MCFAS) 6.0.0.1
Beneficiary Population Forecasting Model – Data Version FY2004.0.4
## Evolution of the DoD Health Benefit

<table>
<thead>
<tr>
<th>Year</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940s-1950s</td>
<td>Title 10 Legislated Benefit&lt;br&gt;Space Required for Active Duty&lt;br&gt;Space Available for Families and Retirees</td>
</tr>
<tr>
<td>1966</td>
<td>CHAMPUS Legislated Benefit&lt;br&gt;Civilian Health Care where MTFs do not exist.&lt;br&gt;Families and Retirees &lt;65</td>
</tr>
<tr>
<td>1993</td>
<td>TRICARE Managed Care Legislation&lt;br&gt;Automatic enrollment for Active Duty&lt;br&gt;Space Required for TRICARE Prime enrollees&lt;br&gt;Space Available for Non-enrollees</td>
</tr>
<tr>
<td>1995-1998</td>
<td>TRICARE Triple Option Benefits&lt;br&gt;Prime, Extra and Standard&lt;br&gt;TRICARE Senior Prime Demonstration</td>
</tr>
<tr>
<td>1999-2000</td>
<td>Further Expansion:&lt;br&gt;Prime Remote for Active Duty&lt;br&gt;TRICARE provider rates &gt;=Medicare&lt;br&gt;Beneficiary Counseling &amp; Assistance Coordinators</td>
</tr>
<tr>
<td>2001</td>
<td>Catastrophic Cap Reduced to $3,000&lt;br&gt;Enhanced TRICARE Retiree Dental Program&lt;br&gt;TRICARE Senior Pharmacy&lt;br&gt;Elimination of Prime Co-pays for AD Family Members&lt;br&gt;Extension of Medical and Dental Benefits to Survivors&lt;br&gt;School Physicals&lt;br&gt;Entitlement for Medal of Honor Recipients&lt;br&gt;TRICARE Prime Travel Entitlement&lt;br&gt;Chiropractic Care Program</td>
</tr>
<tr>
<td>2002</td>
<td>TRICARE Plus&lt;br&gt;TRICARE For Life&lt;br&gt;TRICARE Prime Remote for AD Family Members</td>
</tr>
<tr>
<td>2003</td>
<td>TRICARE Online&lt;br&gt;TRICARE implements HIPPA Patient Privacy Standard&lt;br&gt;Elimination of AD Family Member Co-Pays</td>
</tr>
<tr>
<td>2004</td>
<td>Transitional Assistance Management Program (TAMP) Expansion&lt;br&gt;Guard/Reserve TRICARE (Early Eligibility, Reserve Family Demo)&lt;br&gt;Elimination of Non-Availability Statements (NAS)</td>
</tr>
<tr>
<td>2005</td>
<td>TRICARE Reserve Select&lt;br&gt;Extended Health Care Option/Home Health Care (ECHO / EHHC)&lt;br&gt;TRICARE Maternity Care Options</td>
</tr>
<tr>
<td>2006</td>
<td>Extended TRICARE benefits for dependents whose sponsor dies on Active Duty&lt;br&gt;Limit deductibles/co-pays for nursing home residents under the Pharmacy Program&lt;br&gt;Enhancement of TRICARE Reserve Select coverage</td>
</tr>
<tr>
<td>2007</td>
<td>Expansion of TRICARE Reserve Select coverage to All Reservists&lt;br&gt;Three year Extension of Joint DoD/VA Incentive Program&lt;br&gt;Planning/Management – Claims Processing Standardization&lt;br&gt;Expanded Disease Management Programs&lt;br&gt;Coverage of Forensic Exams for Sexual Assaults&lt;br&gt;Dental anesthesia for pediatric cases</td>
</tr>
</tbody>
</table>
MHS Financial Resources
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:** 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:** provided by 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)
DHP 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 and Dental Facilities and Installations
    - Information Management/Information Technology (IM/IT) Infrastructure (i.e. electronic patient records)

- **Research, Development, Test & Evaluation (RDT&E)**
  - Funds Central IM/IT Projects, Navy Medical laboratories, and some Air Force initiatives (disease surveillance and pilot vision enhancements)

- **Procurement**
  - Funds equipment and system purchases ≥ $250,000
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Operation &amp; Maintenance</td>
<td>20,249,163</td>
</tr>
<tr>
<td>Research, Development, Test &amp; Evaluation</td>
<td>130,603</td>
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<tr>
<td>Procurement</td>
<td>396,355</td>
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<td>Defense Health Program</td>
<td>20,776,121</td>
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<td>Medical Military Personnel</td>
<td>7,019,094</td>
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<tr>
<td>Medical Military Construction</td>
<td>367,771</td>
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<tr>
<td>Unified Medical Program</td>
<td>28,162,986</td>
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</tbody>
</table>

**Medicare Eligible Retiree Health Care Fund:**

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Military Personnel Appropriation Receipts</td>
<td>444,434</td>
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<tr>
<td>DHP O&amp;M Appropriation Receipts</td>
<td>7,206,806</td>
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<tr>
<td>Total Budget Authority</td>
<td>35,814,226</td>
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</table>

$11,158,053 MERHCF “Normal Cost” contribution not included
## Component Overview

### Funding (thousands)¹

<table>
<thead>
<tr>
<th></th>
<th>Army</th>
<th>Navy</th>
<th>Air Force</th>
<th>TMA</th>
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<tr>
<td>O&amp;M</td>
<td>$4,079,608</td>
<td>$2,545,461</td>
<td>$2,015,181</td>
<td>$11,608,913</td>
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<tr>
<td>Procurement</td>
<td>$73,846</td>
<td>$53,226</td>
<td>$66,165</td>
<td>$203,118</td>
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<tr>
<td>RDT&amp;E²</td>
<td>$5,000</td>
<td>$29,768</td>
<td>$19,000</td>
<td>$76,835</td>
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<tr>
<td>DHP Appropriation</td>
<td>$4,158,454</td>
<td>$2,628,455</td>
<td>$2,100,346</td>
<td>$11,888,866</td>
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<tr>
<td>MILPERS</td>
<td>$2,019,250</td>
<td>$2,381,136</td>
<td>$2,618,708</td>
<td>$0</td>
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<tr>
<td>MILCON³</td>
<td>$151,950</td>
<td>$43,700</td>
<td>$87,000</td>
<td>$85,121</td>
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<tr>
<td>Unified Medical Program</td>
<td>$6,329,654</td>
<td>$5,053,291</td>
<td>$4,806,054</td>
<td>$11,973,987</td>
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</tbody>
</table>

¹ FY 2007 President's Budget
² Congressional adds are ~$400M per year
³ TMA MILCON is for Planning and Design and Unspecified Minor Construction funds which are not initially distributed to the Service Medical Departments

### Infrastructure

<table>
<thead>
<tr>
<th></th>
<th>Army</th>
<th>Navy</th>
<th>Air Force</th>
<th>Total</th>
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<tbody>
<tr>
<td>Inpatient Facilities</td>
<td>27</td>
<td>22</td>
<td>21</td>
<td>70</td>
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<tr>
<td>Medical Clinics</td>
<td>177</td>
<td>153</td>
<td>79</td>
<td>409</td>
</tr>
<tr>
<td>Dental Clinics</td>
<td>165</td>
<td>159</td>
<td>93</td>
<td>417</td>
</tr>
<tr>
<td>Veterinary Clinics</td>
<td>259</td>
<td>0</td>
<td>0</td>
<td>259</td>
</tr>
</tbody>
</table>

### Staffing

<table>
<thead>
<tr>
<th></th>
<th>Army</th>
<th>Navy</th>
<th>Air Force</th>
<th>TMA</th>
<th>Total DHP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military End Strength</td>
<td>24,646</td>
<td>28,746</td>
<td>32,906</td>
<td>66</td>
<td>86,298</td>
</tr>
<tr>
<td>Civilian FTEs</td>
<td>26,710</td>
<td>13,359</td>
<td>6,622</td>
<td>498</td>
<td>47,189</td>
</tr>
<tr>
<td>Total</td>
<td>51,356</td>
<td>42,105</td>
<td>39,528</td>
<td>564</td>
<td>133,487</td>
</tr>
</tbody>
</table>

¹TMA Military included in Service totals - 22 each Mil-Civ Conversion began in FY05
DHP Funds Flow

Congress - Appropriates

OMB - Apportions

Comptroller - Allots

OCFO - Issues Funding Authorization Documents (FADs)

OCFO issues MILCON FADs to design and construction agents

USACE
NAVFA ENGCOM
HQ USAFE

Army MEDCOM

Regional Medical Commands (RMCs)
MTFs and Others

Navy BUMED

Naval Medical Command (NAVMEDs)
MTFs and Others

Air Force SG

Major Commands (MAJCOMS)
MTFs and Others

TMA Financial Operations

TMA Contract Resource Management - Aurora

NOTE: USUHS is being realigned under the TRICARE Management Activity
Operations and Maintenance Budget Structure
FY 2007 DHP O&M (President’s Budget) by Budget Activity Group

($ in thousands)

- **Management Activities**, $237,388
- **Education & Training**, $460,082
- **Information Management**, $904,899
- **Consolidated Health Support**, $1,219,873
- **Base Operations/Communications**, $1,195,338
- **Private Sector Care**, $10,638,784
- **In-House Care**, $5,592,799

FY 2007 total: $20,249,163

81% of DHP O&M budget is for Patient Care
Budget Activity Group 1:  
**In-House Care**

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

FY 2007: $5.593B (28% of DHP O&M total)

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

• 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
• Considers total cost (O&M plus MilPers) of MTF workload unit produced
Budget Activity Group 2:  
Private Sector Care

Funds patient care and pharmacy services purchased from private sector providers

FY 2007: $10.639B (53% of DHP O&M total)

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
Cost Drivers

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

2. Increased utilization – *existing users are consuming more health care*

3. Inflation – *health care inflation is still above other sectors*

4. New Benefits – *authorized by Congress but not always funded*
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 2007 : $1.220B (6% of DHP O&M total)

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 2007 O&M: $905M (4% of DHP O&M total)

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 2007: $237M (1% of DHP O&M total)

Program Includes:
- Army Medical Command
- Navy Bureau of Medicine and Surgery
- Air Force Major Commands
- TRICARE Management Activity
Budget Activity Group 6: Education & Training

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

FY 2007: $460M (2% of DHP O&M total)

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 2007: $1.195B (6% of DHP O&M total)

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 2007 Medical Military Construction Projects ($000)

<table>
<thead>
<tr>
<th>Service</th>
<th>Location</th>
<th>Installation</th>
<th>Project Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Army</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AK</td>
<td>FT Richardson</td>
<td>Health Clinic</td>
<td></td>
<td>37,200</td>
</tr>
<tr>
<td>CA</td>
<td>Ft. Irwin</td>
<td>Dental Clinic Addition/Alteration</td>
<td></td>
<td>6,050</td>
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<tr>
<td>IT</td>
<td>Vicenza</td>
<td>Enhanced Health Service Center</td>
<td></td>
<td>52,000</td>
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<tr>
<td>MD</td>
<td>Ft Detrick</td>
<td>USAMRIID Replacement Stage I, Increment 1of 5</td>
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<td>29,000</td>
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<tr>
<td>NY</td>
<td>Ft. Drum</td>
<td>Dental Clinic</td>
<td></td>
<td>9,700</td>
</tr>
<tr>
<td>TX</td>
<td>Ft Hood</td>
<td>Womens Health Add/Alt</td>
<td></td>
<td>18,000</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td>114,750</td>
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<tr>
<td><strong>Navy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FL</td>
<td>NH Jacksonville</td>
<td>Hospital Alteration</td>
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<td>16,000</td>
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<tr>
<td>HI</td>
<td>NS Pearl Harbor</td>
<td>EPMU 6 Replacement Facility</td>
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<td>7,700</td>
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<tr>
<td>IL</td>
<td>NH Great Lakes</td>
<td>Fed Health Care, (Parking Structure)</td>
<td></td>
<td>20,000</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td>43,700</td>
</tr>
<tr>
<td><strong>Air Force</strong></td>
<td></td>
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<td></td>
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<tr>
<td>FL</td>
<td>MacDill AFB</td>
<td>Clinic Replacement</td>
<td>(Total Auth =$92M)</td>
<td>87,000</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Worldwide</strong></td>
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<td>ZZ</td>
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<td>Minor Construction</td>
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<td>ZZ</td>
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<td>Planning and Design</td>
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<td><strong>Total</strong></td>
<td></td>
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<td>85,121</td>
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<tr>
<td><strong>Total FY 2007</strong></td>
<td></td>
<td></td>
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<td>330,571</td>
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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?

**FY07 Estimated Outlays $7.7B**
($1.8B In-House Care; $5.9B Private Sector Care)

- Dept of Treasury unfunded actuarial liability (UAL) - $538.0B amortized over 50 years (15.6B FY07)
- Annual DoD actuarial “Normal Cost” contribution ($11.2B FY07)
- MERHCF investment earnings
Current Financial Issues

Military Health System
Global War on Terrorism (GWOT) Requirements and Funding Summary

• Operations:
  • *Enduring Freedom, Iraqi Freedom, and Noble Eagle*

• GWOT Funding is based on a comprehensive model collaboratively developed and continuously refined by DoD Health Affairs/TRICARE Management Activity, Services’ Medical Departments, Comptroller and OMB.

<table>
<thead>
<tr>
<th></th>
<th>FY03</th>
<th>FY04</th>
<th>FY05</th>
<th>FY06</th>
<th>FY07 (pending request)</th>
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<tbody>
<tr>
<td>Funding</td>
<td>$597M</td>
<td>$765M</td>
<td>$894M</td>
<td>$1,153M</td>
<td>$1,046M</td>
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Impact of Full Year Continuing Resolution on the FY 2007 Defense Health Program

If the amount is limited to FY 2006 enacted amount ($19.107 billion), DHP Operations and Maintenance Budget will be over $2 billion short of the Presidents Budget (FY 2007 requirement $21.235 billion). MILCON would also be impacted in that no new projects would be funded.
Military Health System

Questions