

**Defense Health Program
Fiscal Year (FY) 2018 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 Military Health System (MHS)-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 (TMOP). Excludes all administrative costs for the management of the 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 eligible beneficiaries from private sector retail pharmacies. Excludes all administrative costs for the management of the (TTRx).

TRICARE Managed Care Support Contracts (MCSC) - Includes at-risk health care costs specifically for providing benefits identified in Title 32 to the Code of Federal Regulations Part 199 (32 CFR 199) and measurable to the following areas serviced by TRICARE Managed Care Support Contracts: healthcare authorized under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) for the following beneficiaries: (a) retired military personnel and (b) for spouses and dependent children of active duty,

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I. Description of Operations Financed (cont.)

retired, or deceased military personnel in civilian facilities and by private practitioners. Also includes costs for the Extended Care Health Option (ECHO) for disabled dependents of active duty personnel covered under the Program for Persons with Disabilities (PPPWD) Act. Includes healthcare costs for those programs that are considered at-risk to the TRICARE Managed Care Support Contracts, and external and internal resource sharing agreements when paid by the TRICARE Managed Care Support contractors. Includes underwritten costs for health care both for those beneficiaries enrolled with the contractors as well as those who are not enrolled. Underwritten costs for private sector care provided to MTF enrollees are accounted for in Military Treatment Facility (MTF) Enrollees Purchased Care (as stated below). Excludes all administrative costs of the Defense Health Agency associated with the management of TRICARE Managed Care Support Contracts. Excludes claims processed by the TRICARE Overseas Program and any not-at-risk/non-under-written costs associated with the Managed Care Support Contracts.

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 (CHAMPUS).

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. Also, includes administrative, management, and health care costs associated with these dental services.

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I. Description of Operations Financed (cont.)

Uniformed Services Family Health Program (USFHP) - Includes expenses associated with the costs based on annual capitation rates for providing benefits authorized through contracts with designated civilian hospitals in selected markets to beneficiaries enrolled to the program. Beneficiaries eligible for enrollment into USFHP include active duty family members, retirees and their family members and survivors who live within the specially designated geographic area.

Supplemental Care - Health Care - Includes costs for providing the TRICARE Prime benefit to Active Duty Service members and other designated eligible patients who receive health care services in the civilian sector or non-defense facilities either referred or non-referred from the Military Treatment Facility, emergent care and authorized non-emergent care. Includes members in travel status, Navy/Marine Corps service members enrolled to deployable units and referred by the unit Primary Care Manager, eligible Reserve Component personnel, ROTC students, cadets/midshipmen, and eligible foreign military. This program also covers health care sought in the civilian sector due to active duty assignments in remote locations. The types of claims include health care under TRICARE Prime Remote, MTF Referred Care, Emergency Care, and authorized Non-Emergency/Non-Referred Care. Includes the costs of sharing agreements that are not paid by the Managed Care Support contractors. Excludes all costs associated with dental care expensed in Dental - Purchased Care and Dental - Supplemental Care.

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Supplemental Care - Dental - Provides for a dental benefit for uniform dental care and administrative costs for Active Duty members including eligible mobilized Select Reserves or Individual Ready Reserves (IRR), receiving services in the civilian sector to include Department of Veterans' Affairs facilities. This program also covers dental care sought in the civilian sector due to active duty assignments in remote locations. 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 which provide services to the Military Health System and Medicare. These facilities operate under the Diagnosis Related Group (DRG system) of payment providing federal inpatient services under TRICARE and Medicare.

TRICARE Overseas Program (TOP)- Includes costs specifically for the delivery of Military Health System Prime benefits in civilian facilities by private practitioners to eligible Active Duty and Active Duty Family Member beneficiaries in the TRICARE Overseas Program (TOP) and foreign claims for non-active duty beneficiaries including Medicare eligibles (when Medicare Part B is purchased). Coverage includes Europe, the Pacific region, Latin America, Asia, Africa, Canada, and areas covered through TOP-Remote per the contract (such as military liaison offices in US embassies world-wide). The scope of health care includes medical, dental, inpatient care, laboratory work, health care testing, and other health care services equivalent to the DoD TRICARE program.

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Miscellaneous Purchased Health Care - Includes costs specifically for providing benefits identified in Title 32 to the Code of Federal Regulations Part 199 (32 CFR 199) authorized under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) for the following beneficiaries: (a) retired military personnel and (b) spouses and dependent children of active duty, retired, or deceased military personnel in civilian facilities and by private practitioners. Also includes costs for special education and institutional care in civilian facilities for disabled dependents of active duty personnel covered under the Program for Persons with Disabilities (PPWD) Act. Includes administrative, management, and health care costs for Custodial Care, Special and Emergent Care Claims, Alaska Claims, Expanded Cancer, TRICARE/Medicare dual eligible beneficiaries program (e.g., TRICARE Dual Eligible Fiscal Intermediary Contract - TDEFIC) Transition assistance programs and TRICARE Reserve Select (TRS).

Miscellaneous Support Activities - Includes the miscellaneous administrative costs and support contract expenses for various programs, demonstrations and other congressionally mandated programs or actions not directly providing health care. Programs financed include: the TRICARE Quality Monitoring Program (TQMP), marketing and education functions, printing, background checks, Defense Manpower Data Center/Defense Enrollment Eligibility Reporting System (DMDC/DEERS) support, long term Other Health Insurance (OHI) discovery, travel, case management, surveys, and many other small cost administrative support items.

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II. Force Structure Summary:

Approximately 9.5 million Military Health System beneficiaries are eligible to receive care under the private sector care programs, including approximately 2.4 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). Up to January 1, 2018, 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). After January 1, 2018, the Tricare benefit structure transitions to a simpler system by providing beneficiaries two care alternatives. Tricare Prime will remain unaltered, while Tricare Standard and Extra are replaced by the new Preferred Provider Option styled plan, Tricare Select.

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III. Financial Summary (\$ in thousands)

	FY 2016 <u>Actuals</u>	Budget <u>Request</u>	FY 2017 <u>Congressional Action</u>			Current <u>Estimate</u>	FY 2018 <u>Estimate</u>
			<u>Amount</u>	<u>Percent</u>	<u>Appropriated</u>		
A. <u>BA Subactivities</u>							
1. Pharmaceuticals Purchased Health Care	773,040	966,727	0	0.0	966,727	966,727	841,590
2. National Retail Pharmacy	993,307	900,289	0	0.0	900,289	900,289	809,762
3. Managed Care Support Contracts	6,501,704	6,984,185	0	0.0	6,984,185	6,461,158	6,838,409
4. MTF Enrollee Purchased Care	2,635,735	2,719,986	0	0.0	2,719,986	2,719,986	2,799,907
5. Dental Purchased Care	340,667	341,473	0	0.0	341,473	341,473	355,493
6. Uniformed Services Family Health Program	516,537	519,325	0	0.0	519,325	519,325	552,850
7. Supplemental Care - Health Care	1,311,914	1,362,644	0	0.0	1,362,644	1,362,644	1,348,918
8. Supplemental Care - Dental	87,227	91,835	0	0.0	91,835	91,835	85,418
9. Continuing Health Education/Capitalization	354,044	350,815	0	0.0	350,815	350,815	358,500
10. Overseas Purchased Health Care	283,937	303,937	0	0.0	303,937	303,937	314,555
11. Miscellaneous Purchased Health Care	779,443	867,593	0	0.0	867,593	867,593	890,330
12. Miscellaneous Support Activities	136,412	104,118	0	0.0	104,118	104,118	122,000
Total	14,713,967	15,512,927	0	0.0	15,512,927	14,989,900	15,317,732

1. FY 2016 actuals include \$192,210K for Overseas Contingency Operations (OCO).

2. FY 2016 actuals do not include Department of Defense Medicare-Eligible Retiree Health Care Fund (MERHCF) of \$8,153,997K (O&M Only).

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3. FY 2016 actual includes above threshold reprogrammings of \$70,461K (16/16 O&M, IHC) and \$67,274K (16/18 Procurement) (total \$137,735K).
4. FY 2017 current estimate excludes \$235,620K for OCO.
5. FY 2017 current estimate does not include Department of Defense Medicare-Eligible Retiree Health Care Fund (MERHCF) of \$8,404,999K (O&M Only).
6. FY 2017 estimate is based on amended FY 2017 President's Budget request "FY 2017 Request for Additional Appropriations," which lowers Private Sector Care Budget Activity Group by \$-225,832K.
7. FY 2018 estimate excludes \$331,968K for OCO.
8. FY 2018 estimate does not include Department of Defense Medicare-Eligible Retiree Health Care Fund (MERHCF) of \$8,696,504K (O&M Only).

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B. <u>Reconciliation Summary</u>	Change	Change
	<u>FY 2017/FY 2017</u>	<u>FY 2017/FY 2018</u>
Baseline Funding	15,512,927	14,989,900
Congressional Adjustments (Distributed)		
Congressional Adjustments (Undistributed)		
Adjustments to Meet Congressional Intent		
Congressional Adjustments (General Provisions)		
Subtotal Appropriated Amount	15,512,927	
Fact-of-Life Changes (2017 to 2017 Only)	-523,027	
Subtotal Baseline Funding	14,989,900	
Supplemental	235,620	
Reprogrammings		
Price Changes		603,398
Functional Transfers		
Program Changes		-275,566
Current Estimate	15,225,520	15,317,732
Less: Wartime Supplemental	-235,620	
Normalized Current Estimate	14,989,900	

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C. <u>Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
FY 2017 President's Budget Request (Amended, if applicable)		15,512,927
1. Congressional Adjustments		
a. Distributed Adjustments		
b. Undistributed Adjustments		
c. Adjustments to Meet Congressional Intent		
d. General Provisions		
FY 2017 Appropriated Amount		15,512,927
2. OCO and Other Supplemental Enacted		235,620
a. OCO and Other Supplemental Requested		
1) OCO Supplemental	235,620	
3. Fact-of-Life Changes		-523,027
a. Functional Transfers		
b. Technical Adjustments		
c. Emergent Requirements		
1) Program Increases		
2) Program Reductions		
a) One-Time Costs		
b) Program Decreases		
i) PSC Reduction: Reduced requirements based on changing beneficiary utilization of Private Sector Care (PSC) and incorporation of recent execution experience.	-523,027	
FY 2017 Baseline Funding		15,225,520
4. Reprogrammings (Requiring 1415 Actions)		
Revised FY 2017 Estimate		15,225,520
5. Less: OCO and Other Supplemental Appropriations and Reprogrammings (Items 2 and 4)		-235,620
FY 2017 Normalized Current Estimate		14,989,900
6. Price Change		603,398

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<u>C. Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
7. Functional Transfers		
8. Program Increases		26,146
a. Annualization of New FY 2017 Program		
b. One-Time FY 2018 Increases		
c. Program Growth in FY 2018		
1) Population Increase: Increase Private Sector Care requirement to support an increase of 0.2% in the projected beneficiary population from FY 2017 to FY 2018.	26,146	
9. Program Decreases		-301,712
a. Annualization of FY 2017 Program Decreases		
b. One-Time FY 2017 Increases		
c. Program Decreases in FY 2018		
1) Private Sector Care Pharmacy: Incremental reduction to FY 2018 pharmacy requirements as a result of the impact of the FY 2016 pharmacy benefit change on the beneficiaries' utilization of pharmaceuticals.	-185,000	
2) Reduced Estimated Requirements for Healthcare Benefits: Reduction in estimate for expanded benefits from FY 2017 (~\$100 million) to FY 2018 (~\$31 million) due to the beneficiaries limited utilization of the urgent care benefit.	-69,000	
3) Implementation of New TRICARE Health Plans: Reduced requirement from the FY 2017 to FY 2018 upfront costs needed to implement the new TRICARE	-31,000	

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C. <u>Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
Health Plans.		
4) Anticipated Savings from TRICARE Private Sector Care FY 2018 Pharmacy Benefit: Anticipated savings from the PB 2018 pharmacy co-pay proposal that seeks to adjust pharmacy co-pay structures to fully incentivize beneficiaries to use mail order and generic drugs in lieu of the retail pharmacy. Prescriptions will continue to be filled at no cost to beneficiaries at Military Treatment Facilities (MTFs).	-16,000	
5) Reduced Requirement for Contract Services: Defense Health Agency-Comptroller, used best practices to contract for reduced funding requirements in advisory and assistance services (OP32 line 932), studies, analysis and evaluations (OP32 line 933), IT contract support services (OP32 line 990), and very small amounts (\$5K or less) in various other non-healthcare contracts. The FY 2017 baseline funding request for non-medical care contracts within Private Sector Care is \$49,648K.	-712	
FY 2018 Budget Request		15,317,732

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IV. Performance Criteria and Evaluation Summary:

	<u>FY 2016 Actuals</u>	<u>FY 2017 Estimate</u>	<u>FY 2018 Estimate</u>	<u>Change FY 2016/2017</u>	<u>Change FY 2017/2018</u>
Uniformed Service Family Health Services (Non-MERHCF Eligible)	88,582	90,601	92,758	2,019	2,157
DoD Enrollees (Non-MERHCF Eligible)	4,262,915	4,226,189	4,207,225	-36,726	-18,964
Workload ¹ for Medical Care and Pharmacy:					
Admissions	327,572	322,184	320,733	-5,388	-1,451
Weighted Workload-Inpatient RWPs	319,620	316,863	315,438	-2,756	-1,425
Visits	45,697,022	45,303,190	45,099,715	-393,832	-203,475
Weighted Workload-Outpatient RVUs	115,427,479	114,432,720	113,918,800	-994,759	-513,921
Retail Pharmacy Prescriptions ²	25,901,886	25,668,769	25,564,113	-233,117	-104,656
Mail Order Prescriptions	6,174,478	6,118,908	6,094,432	-55,570	-24,476
TRICARE Dental Program Enrollment	718,510	709,020	704,631	-9,490	-4,389

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IV. Performance Criteria and Evaluation Summary:

Note: (1) Workload includes all non-MERHCF beneficiaries (not just contractor enrollees) who receive care in the private sector care network. (2) Retail pharmacy is declining due to co-pay fee structure changes approved by Congress to promote use of mail order and military treatment facility pharmacies over retail pharmacies.

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V. Personnel Summary

N/A

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VI. OP 32 Line Items as Applicable (Dollars in thousands):

<u>OP 32 Line</u>	<u>FY 2016</u> <u>Actuals</u>	<u>Change</u> <u>FY 2016/FY 2017</u>		<u>FY 2017</u> <u>Estimate</u>	<u>Change</u> <u>FY 2017/FY 2018</u>		<u>FY 2018</u> <u>Estimate</u>
		<u>Price</u>	<u>Program</u>		<u>Price</u>	<u>Program</u>	
308 Travel of Persons	1,052	20	-578	494	10	-1	503
399 TOTAL TRAVEL	1,052	20	-578	494	10	-1	503
647 DISA Enterprise Computing Centers	8,453	-845	-3,836	3,772	72	-33	3,811
699 TOTAL DWCF PURCHASES	8,453	-845	-3,836	3,772	72	-33	3,811
921 Printing & Reproduction	3,879	74	1,658	5,611	112	-6	5,717
924 Pharmaceutical Drugs	1,721,837	68,873	76,306	1,867,016	72,814	-288,478	1,651,352
925 Equipment Purchases (Non-Fund)	18	1	-19	0	0	0	0
932 Mgt Prof Support Svcs	49,533	941	-36,922	13,552	271	-611	13,212
933 Studies, Analysis & Eval	4,570	87	-2,671	1,986	40	-89	1,937
934 Engineering & Tech Svcs	870	17	-887	0	0	0	0
955 Other Costs (Medical Care)	3,677	147	-3,824	0	0	0	0
960 Other Costs (Interest and Dividends)	473	9	-482	0	0	0	0
986 Medical Care Contracts	12,864,055	514,562	182,841	13,561,458	528,897	-509,206	13,581,149
987 Other Intra-Govt Purch	26,762	508	-2,194	25,076	502	-26	25,552
989 Other Services	1,213	23	1,942	3,178	64	-145	3,097
990 IT Contract Support Services	27,575	524	2,685	30,784	616	2	31,402
999 TOTAL OTHER PURCHASES	14,704,462	585,766	218,433	15,508,661	603,316	-798,559	15,313,418
Total	14,713,967	584,941	214,019	15,512,927	603,398	-798,593	15,317,732