

Defense Health Program
Fiscal Year (FY) 2008/2009 Budget Estimates
Exhibit PBA-19, Defense Health Program
Appropriation Highlights
(\$ in Millions)

	<u>FY 2006^{1,2}</u>	<u>Price</u>	<u>Program</u>	<u>FY 2007^{2,3}</u>	<u>Price</u>	<u>Program</u>	<u>FY 2008²</u>	<u>Price</u>	<u>Program</u>	<u>FY 2009²</u>
	<u>Actual</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>
<u>Appropriation Summary:</u>										
Budget Activity 4: Administration and Service-wide Activities										
Operation & Maintenance	20,266.1	1,157.0	-1,173.9	20,249.2	1,246.6	-1,313.4	20,182.4	1,176.2	171.7	21,530.3
Procurement	387.2	12.1	-2.9	396.4	11.8	-45.9	362.3	10.9	-65.0	308.1
RDT&E	<u>566.3</u>	<u>13.5</u>	<u>-449.2</u>	<u>130.6</u>	<u>3.0</u>	<u>.9</u>	<u>134.5</u>	<u>3.0</u>	<u>39.5</u>	<u>177.0</u>
Total, DHP	21,219.6	1,182.6	-1,626.0	20,776.1	1,261.4	-1,358.4	20,679.1	1,190.1	146.2	22,015.4
MERHCF receipts ⁴	<u>6,666.3</u>			<u>7,256.9</u>			<u>7,851.2</u>			<u>8,497.4</u>
Total Health Care Costs	27,885.9			28,033.0			28,530.3			30,512.8

¹FY 2006 estimate includes \$1,481.7 million in O&M and \$28.6 million in Procurement funding to address the Global War on Terrorism, Hurricanes, and Pandemic Influenza.

-P.L. 109-148, Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006, Section 3801, Hurricane Division B, Title I, Chapter 2, provide DHP O&M \$208,130,000 for emergency hurricane and other related expenses.

-P.L. 109-148 Department of Defense Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006, Division B, Title II, Chapter 2, provides the DHP O&M with \$120,000,000 for pandemic influenza preparedness.

-P.L. 109-148, Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006, Section 3801, Hurricane Division B, Title I, Chapter 2, provide DHP Procurement \$28,592,000 for emergency hurricane and other related expenses.

-P.L. 109-234, Emergency Supplemental Appropriation Act for Defense, The Global War on Terror and Hurricane Recovery 2006, Title 1, Chapter 2, provides DHP O&M \$1,153,562,000 for Global War on Terrorism.

P.L. 109-148, Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006, Section 3801, provides for a one-percent congressional rescission for the Department of Defense (\$193,020,120 DHP O&M, \$5,423,000 DHP RDT&E, \$3,791,000 DHP Procurement)

FY06 Fiscal Year Actuals do not include DHP Carryover funding from FY 05 DHP O&M funding.

²Totals may not sum due to rounding

³Reflects FY 2007 President's Budget Request. Current Continuing Resolution total funding is \$21,025 million.

⁴Reflects Departmental DoD Medicare-Eligible Retiree Health Care Fund (MERHCF) projections for FY 2007, FY 2008 and FY 2009.

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Description of Operations Financed:

The medical mission of the Department of Defense (DoD) is 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. The Defense Health Program (DHP) appropriation funding provides for worldwide medical and dental services to active forces and other eligible beneficiaries, veterinary services, medical command headquarters, specialized services for the training of medical personnel, and occupational and industrial health care. Included are costs associated with provisions of the TRICARE benefit which provides for the health care of eligible active duty family members, retired members and their family members, and the eligible surviving family members of deceased active duty and retired members. The FY 2008 Defense Health Program budget request of \$20,679.1 million includes realistic cost growth for pharmacy, managed care support contracts, and other health care services purchased from the private sector. This budget includes funding to support Military Health System costs associated with the Army and Marine Corps permanent strength increases recently announced by the President to strengthen our military for the long war against terrorism. In FY 2008, this budget includes \$1,862 million in proposed assumed savings which assumes enactment of a \$719 million legislative proposal and additional regulatory modification requiring further study and a recommendation to be made by the Department of Defense Task Force on the Future of Military Health Care established by Public Law 109-452 on benefit reform. Operation and Maintenance (O&M) funding is divided into seven major areas: In-House Care, Private Sector Care, Information Management, Education and Training, Management Activities, Consolidated Health Support, and Base Operations. The DoD Medicare Eligible Retiree Health Care Fund (MERHCF) is an accrual fund to pay for DoD's share of health care costs for Medicare-eligible retirees, retiree family members and survivors. MERHCF receipts fund applicable In-House and Private Sector Care operation and maintenance health care costs.

The DHP appropriation also funds procurement of capital equipment in military medical treatment facilities and other selected health care activities. Procurement funding includes equipment for initial outfitting of newly constructed, expanded, or altered

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health care facilities; equipment for modernization and replacement of worn-out, obsolete, or uneconomically repairable items; equipment supporting programs such as pollution control, clinical investigation, and occupational/environmental health; Medical Treatment Facilities information processing requirements and equipment. The Research, Development, Test and Evaluation (RDT&E) program of the DHP appropriation funds medical Information Management/Information Technology (IM/IT), medical laboratory research and the Armed Forces Radiobiological Research Institute.

Narrative Explanation of FY 2007 and FY 2008 O&M Changes:

The Defense Health Program Operation and Maintenance overall program decreases \$66.8 million between FY 2007 and FY 2008, reflecting \$1,246.7 million in price growth offset by a negative program growth of \$1,313.4 million. O&M Program increases include: \$735.0 million for the reversal of saving assumptions for the TRICARE benefit reform that was not approved; \$251.0 million for the reversal of saving assumptions for the pharmacy procurement initiative that was not approved; \$125.9 for increased health care and pharmaceutical demands by beneficiaries using the Military Healthcare System around the world in the private sector care program; \$156.9 million for Military to Civilian personnel conversions; \$100.0 million for the Pandemic Influenza surveillance and vaccine purchase; \$73.6 million for expansion of benefits for TRICARE Reserve Select program eligibility; \$43.0 million for Army and Marine Corps permanent end-strength increases; \$17.7 million of Departmental funding to support the Financial Improvement and Audit Readiness (FIAR) Program; \$15.0 million to support the congressionally mandated DoD/VA Joint Incentive Fund (JIF); \$7.8 million for additional sustainment costs associated with Central IM/IT programs; \$3.6 million to establish a medical readiness operational analysis cell; \$2.0 million for initial outfitting and transition costs for new medical and dental military construction projects. Program decreases include: \$1,862.0 million for estimated savings resulting from recommendations on benefit reform to be provided by the DoD Task Force on the Future of Military Health Care; \$298.0 million for additional estimated savings resulting from recommendations to be provided by the DoD Task Force on the Future of Military Health Care; \$248.0 million for Medical Treatment Facilities efficiencies; \$278.0 million for revised assumptions for pharmacy growth; \$50.2 million for reduced Consolidated Health Support requirements; \$44.3 million for reduced

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requirements due to Service Line end strength reductions; \$16.9 million to fund BRAC requirements for the Joint Medical Activities; \$11.7 million to fund mission transfers from the DHP to line Services; \$3.7 million to Procurement to fund Adenovirus Food and Drug Administration testing; \$26.1 million for reduction in base operations support; \$3.0 million to RDT&E for support of the Institute of Aerospace Medicine (\$2.0 M) and to correct revised RDT&E inflation assumptions (\$1.0 M); and \$3.0 million in decreased requirements for the Armed Forces Institute of Pathology(AFIP).

Narrative Explanation of FY 2007 and FY 2008 Procurement Changes:

The DHP Procurement Program has a net decrease of \$34.1 million between FY 2007 and 2008. This consists of \$11.8 million in price growth offset by a negative program growth of \$45.9 million. Program increases include: \$33.5 million for end user devices and local area network upgrade requirements; \$16.4 million for upgrading to Blade Server technology; \$10.3 million for the purchase of Patient Accounting System (PAS) Charge Master Based billing licenses; \$3.7 million for additional Adenovirus Food and Drug Administration testing; \$3.8 million for new initial outfitting requirements; \$7.4 million for deployment of the Defense Medical Human Resources System (internet) requirements; \$2.9 million for the hardware replacement of Defense Medical Logistics Standard System requirements; and \$1.5 million for one-time TRICARE On-Line hardware refresh requirements. Program decreases include: \$76.0 million for revised AHLTA deployment of Block 3 incorporating inpatient/ancillary requirements; \$13.9 million for Enterprise Wide Scheduling-Registration(EWS-R)cache license purchases made in FY07; \$9.4 million for enterprise wide license reduced requirements; \$4.5 million for the deferment of an audiometer upgrade that will be completed in FY09; \$3.7 million for revised Executive Information/Decision Support capabilities; \$4.4 million for lower Service IM/IT requirements; \$10.2 million for lower digital imaging requirements; and \$3.3 million for miscellaneous Central IM/IT requirements.

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Narrative Explanation of FY 2007 and FY 2008 Research Development Test & Evaluation
(RDT&E) Changes:

The Defense Health Program RDT&E program reflects a net increase of \$3.9 million between FY 2007 and FY 2008. This includes price growth of \$3.0 million and a net program increase of \$.9 million. Program increases include: \$18.5 million for increased software testing and integration funding for Theater Medical Information Program (TMIP); \$5.7 million for the Defense Medical Logistics Standard System (DMLSS) enterprise solution for evidenced based medical logistics support/AHLTA interface; \$4.5 million for the Enterprise Wide Referral and Authorization Module (EWRAM) Commercial Off The Shelf (COTS); \$4.2 million for increased Defense Blood System Standard requirements for patient safety hazards; \$3.6 million for DoD/VA Sharing Initiatives with the Central IM/IT program associated with the DoD/VA domains (patient identification/demographics, pharmacy/prescriptions, medication lists, allergies list and laboratory results); \$3.0 million from O&M for the Institute of Aerospace Medicine requirement(\$2.0 million)and revised RDT&E inflation assumptions (\$1.0 million); and \$1.6 million for the development of Expense Assignment System (EAS) IV workload accounting activities. Program decreases include: \$14.9 million for reduced AHLTA inpatient/ancillary capabilities requirements; \$7.2 million for reduced cache license requirements for EWS-R; \$5.9 million for Defense Medical Human Resources System (internet) for Version 1 integration using FY07 funding; \$3.8 million for decreased TRICARE On-line funding; \$3.1 million for the completion of Patient Accounting System (COTS) integration; \$1.4 million reduction to TRANSCOM (Medical) Regulating and Command and Control Evacuation System (TRAC2ES) requirements; and \$3.9 million for miscellaneous Central IM/IT requirements.

Narrative Explanation of FY 2008 and FY 2009 O&M Changes:

The Defense Health Program Operation and Maintenance overall program increases \$1,347.9 million between FY 2008 and FY 2009, reflecting \$1,176.2 million in price growth program growth of \$171.7 million. Program increases include: \$397.0 million for Army and Marine Corps permanent end-strength increases; \$159.4 million for increased health care and

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pharmaceutical demands by beneficiaries using the Military Healthcare System around the world in the private sector care program; \$116.5 million for Military to Civilian personnel conversions; \$81.1 million for the expansion of benefits for TRICARE Reserve Select program; \$10.9 million for initial outfitting and transition costs for medical and dental military construction projects; \$9.8 million from Procurement to O&M for completion of Adenovirus testing; \$3.9 million in support of the Defense Management Review Panel(DMRP); \$.5 million from Procurement to fund Private Sector Care requirements; and \$3.5 million for miscellaneous increased requirements. Program decreases include: \$321.5 million for estimated savings resulting from recommendations on benefit reform to be provided by the DoD Task Force on the Future of Military Health Care; \$23.9 million for additional estimated savings resulting from recommendations to be provided by the DoD Task Force on the Future of Military Health Care; and \$265.5 million for Medical Treatment Facilities efficiencies.

Narrative Explanation of FY 2008 and FY 2009 Procurement Changes:

The DHP Procurement Program has a net decrease of \$54.1 million between FY 2008 and 2009. This consists of \$10.9 million in price growth offset by negative program growth of \$65.0 million. Program increases include: \$5.4 million for increased Pharmacy Commercial Off-the-Shelf (COTS) licenses; \$5.4 million for increased hardware refresh of the Defense Blood Standard System (DBSS); \$5.2 million for Defense Occupational and Environmental Health Readiness System-Hearing Conservation; \$3.0 million for Veterinary COTS licenses; \$2.1 million for increased Defense Occupational and Environmental Health Readiness System-Industrial Hygiene; \$1.7 million for increased initial outfitting requirements; \$1.0 million for Research Institute for Infectious Disease(RIID)procurement requirements; and \$1.2 million for other Central IM/IT requirements. Program decreases include: \$26.0 million for Blade Servers funded in FY08; \$18.2 million for reduced end user devices and local area network upgrade requirements; \$13.0 million for reduced radiographic modernization requirements; \$9.8 million to O&M for completion of Adenovirus testing; \$9.2 million for Patient Accounting System requirements funded in FY08; \$8.2 million for the completion of Defense Medical Human Resources System (internet) Increment 1; \$2.1

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million for one-time deployment costs for TRICARE On-Line; \$1.7 million for completion of Increment 1 for Patient Safety Report requirements; \$1.3 million in other miscellaneous replacement equipment; and \$.5 million to O&M for Private Sector Care Requirements.

Narrative Explanation of FY 2008 and FY 2009 Research Development Test & Evaluation (RDT&E) Changes:

The Defense Health Program RDT&E program reflects a net increase of \$42.5 million between FY 2008 and FY 2009. This includes price growth of \$3.0 million and a net program increase of \$39.5 million. Program increases include: \$18.8 million for Defense Medical Human Resources System internet; \$11.8 million for development and testing of Defense Medical Logistics Standard System for evidence based medical logistics support; \$11.2 million for increased development requirements for Defense Occupational and Environmental Health Readiness System-Industrial Hygiene; \$8.2 million for increased Expense Assignment System(EAS)IV requirements associated with workload accounting; and \$3.3 million for software testing and integration funding for Theater Medical Information Program (TMIP). Program decreases include: \$6.2 million for increased sustainment associated with increased functionality for tracking Private Sector Care and In-House workload accounting; \$2.9 million for the completion of Pharmacy Commercial off the Shelf(COTS)integration requirements; \$2.7 million for reduced Defense Blood Standard System(DBSS)requirements; and \$2.0 million for miscellaneous Central IM/IT requirements.

President's Management Plan - Performance Metrics Requirements:

The Defense Health Program(DHP)continues to refine existing performance measures and develop specific criterion to determine and measure outputs/outcomes as compared with initial goals. Currently, the DHP is using five performance measures to monitor overall program performance. These measures will be added to over time as new measures are developed. The current five measures are:

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- Beneficiary Satisfaction with Health Plan - An increase in the satisfaction with the Health Plan indicates that actions being taken are improving the overall functioning of the plan from the beneficiary perspective. The goal is to improve overall satisfaction level to that of civilian plans using a standard survey instrument.
- Inpatient Production Target(Relative Weighted Products)- Achieving the production targets ensures that the initial plan for allocation of personnel and resources are used appropriately in the production of inpatient workload.
- Outpatient Production Target(Relative Value Units)- Achieving the production targets ensures that the initial plans for allocation of personnel and resources are used appropriately in the production of outpatient workload.
- Primary Care Productivity - In order to run a premier Health Maintenance Organization, the critical focus area is primary care. The primary care provider frequently represents the first medical interaction between the beneficiary and the HMO. In this role, the primary care provider is responsible for the majority of the preventive care to keep beneficiaries healthy and away from more costly specialty care.
- Medical Cost Per Member Per Year - Annual Cost Growth - The medical cost per member per year looks at the overall cost of the Prime enrollees for the DHP. This tracks all costs related to care delivered to enrollees. The objective is to keep the rate of cost growth for the treatment of TRICARE enrollees to a level at or below the civilian health care plans rate increases at the national level. Currently the measure provides insight to issues regarding unit cost, utilization management, and purchased care management. The metric has been enhanced to properly account for differences in population demographics and health care requirements of the enrolled population. Since enrollment demographics can vary significantly by Service, and across time, it is important to adjust the measure. For example, as increasing numbers of older individuals enroll, the overall average medical

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expense per enrollee would likely increase. Conversely, as younger, healthy active duty enroll, the overall average would likely decrease. Through the use of adjustment factors, a comparison across Services and across time is made more meaningful.

Initial goals have been developed for each of these performance measures. The overall success of each area measured is discussed below:

- Beneficiary Satisfaction with Health Plan - Satisfaction with Health Care Plan scores for each quarter of FY2006 above the same quarter for FY2005. While the system did not achieve the goal for the first three quarters of the year, it did achieve the goal in the fourth quarter of the Fiscal Year. Continuous increases in enrollment and improvement in the score demonstrates real progress for the program.
- Inpatient Production Target(Relative Weighted Products)- For the first 9 months of FY 2006 production was 147K relative weighted products versus a goal of 154K relative weighted products. Part of the difference between current performance and the goal is related to the decrease in the number of returning wounded that requires specialty care at the Military Treatment Facilities. We will continue to monitor performance this coming year and take any necessary actions to improve performance.
- Outpatient Production Target(Relative Value Units)- During FY 2006, total Medical Treatment Facility production was 24.2 million relative value units versus a goal of 24.8 million relative value units. While the system did not achieve the goal as a whole, it was within 3 percentage points of the goal. We will continue to monitor performance this coming year, and take any necessary actions to improve performance.

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- Primary Care Productivity - Improvements in productivity are continuing in FY 2006. While not all of the facilities have reported final data, the current achievement level is 15.6 relative value units per primary care provider per day versus a goal of 14.8 relative value units per primary care provider per day. Minimal adjustments may occur when data is complete, but it should still be above the FY 2006 goal. The FY 2006 goal was more realistic with annual improvement targets than prior years, and performance improvements seem to have been achieved. The objective is to move the Defense Health Program forward in a manner that requires significant improvements to the system.

Medical Per Member Per Year - Annual Cost Growth - Due to the nature of the data supporting this measure, data is only reported through the third quarter of FY 2006, and is projected to completion at that point. In general the data maturity for the measure requires about a six month lag to handle claims submission and processing issues for improved accuracy. For FY 2006, through the 3rd quarter, the annual cost growth is 7.9%, compared with the goal for the year of 9%. The 9% goal was established based on projected private sector health insurance cost growths. Current performance is slightly below the goal, and should continue to decrease as claims data becomes more complete and lower projection factors are needed. As long as the system continues to operate at its current performance level or slight improvement, the goal will likely be met for the year.