Defense Health Program
Fiscal Year (FY) 2019 Budget Estimates
Operation and Maintenance
Introductory Statement

($ in Millions)

Appropriation Summary:	FY 2017[1] Actuals	Price Growth	Program Growth	FY 2018[2] Estimate	Price Growth	Program Growth	FY 2019[3] Estimate
Operation & Maintenance[4]	30,999.9	891.4	204.7	32,095.9	990.7	-941.2	32,145.4
RDT&E	2,101.6	42.0	-1,470.4	673.2	12.1	25.3	710.6
Procurement	402.2	9.7	483.5	895.3	19.7	-41.9	873.2
Continuing Resolution	*0.0*	*0.0*	*-114.2*	*-114.2*	*0.0*	*0.0*	*0.0*
Total, DHP	**33,503.7**	**943.1**	**-896.4**	**33,550.2**	**1,022.5**	**-957.8**	**33,729.2**
MERHCF Receipts[5]	9,940.8			10,549.9			11,066.0
Total Health Care Costs	**43,444.5**			**44,100.1**			**44,795.2**

1/ FY 2017 actuals includes $335.603 million for OCO and excludes funds transferred to VA for Lovell FHCC and the Joint Incentive Fund ($137 million).

2/ FY 2018 estimate excludes $395.805 million for OCO and $0.704 million for Emergency Supplemental Request; includes both $115.519 million for transfer to VA for Lovell FHCC and $15 million for transfer to Joint Incentive Fund.

3/ FY 2019 request excludes $352.068 million for OCO; includes $113.000 million for transfer to VA for Lovell FHCC and $15 million for transfer to Joint Incentive Fund.

4/ Reflects DoD Medicare-Eligible Retiree Health Care Fund (MERHCF) O&M transfer Receipts for FY 2017, FY 2018 and FY 2019 that support 2.4 million Medicare-eligible retirees and their family members.

Defense Health Program
Fiscal Year (FY) 2019 Budget Estimates
Operation and Maintenance
Introductory Statement

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) Operation and Maintenance (O&M) appropriation funding provides for worldwide medical and dental services to active forces and other eligible beneficiaries, veterinary services, occupational and industrial health care, specialized services for the training of medical personnel, and medical command headquarters. Included are costs associated with the delivery 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 2019 budget request of $33,729.2 million includes realistic cost growth for health care services either provided in the Military Treatment Facilities (MTFs) or purchased from the private sector through the managed care support contracts, and for pharmaceuticals. This budget includes funding for continued support of Traumatic Brain Injury and Psychological Health (TBI/PH) and Wounded, Ill and Injured (WII) requirements. It complies with the Congressional mandate related to support of Centers of Excellence (COE) and DoD's initiatives for operations efficiencies, including assumed savings for military healthcare reform and efficiency initiatives such as the restructure of the TRICARE T-17 Contract Administration Fees and modifications to Long-Term Health Care reimbursement. 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 applicable Direct Care and Private Sector Care operation and maintenance health care costs for Medicare-eligible retirees, retiree family members and survivors.

Defense Health Program
Fiscal Year (FY) 2019 Budget Estimates
Operation and Maintenance
Introductory Statement

The DHP appropriation also funds the Research, Development, Test and Evaluation (RDT&E) program for medical Information Management/Information Technology (IM/IT), research to reduce medical capability gaps, and support to both Continental United States (CONUS) and Outside the Continental United States (OCONUS) medical laboratory facilities.
The DHP appropriation Procurement program funds acquisition of capital equipment in MTFs and other selected health care activities which include equipment for initial outfitting of newly constructed, expanded, or modernized health care facilities; equipment for modernization and replacement of uneconomically reparable items; and Military Health System (MHS) information technology (IT) requirements.

Narrative Explanation of FY 2018 and FY 2019 Operation and Maintenance (O&M) Changes:

The DHP O&M funding reflects an overall increase of $49.5 million between FY 2018 and FY 2019, consisting of $990.7 million in price growth and a net program decrease of $941.2 million. Program **increases** include:

- $249.2 million in healthcare services in support of increased active duty end strength and their family members
- $120.6 million for transition to the IT Risk Management Framework (RMF) associated with enhanced security of cyber networks and medical devices
- $108.8 million associated with the continued deployment of Department of Defense Healthcare Management System Modernization (MHS GENESIS, Joint Operation Medicine Information System (JOMIS), DoD Medical Exchange and Interoperability (DMIX) and patient level cost accounting and billing application)
- $89.1 million to sustain end-user devices life cycle replacement and to provide for information technology server refresh

- $50.2 million to continue expansion of MHS Virtual Health to provide accessible care to patients in geographically remote locations
- $29.3 million in facility sustainment necessary to ensure to ensure MTFs are maintained to the highest levels
- $25.7 million to fund enduring prosthetics and invisible wounds care and for improved physical exam and standards processes
- $22.5 million in training to enhance the integrated system of readiness and health
- $15.2 million to support Theater Medical Information Program-Joint (TMIP-J) due to slight JOMIS schedule delay
- $13.9 million increases necessary for DHP Audit preparation (e.g. medical coding improvements)
- $12.1 million enhanced referral management tracking and increased consumables and other operating costs associated with re-opening overseas surgical center
- $6.3 million to cover increased facilities operations costs
- $0.6 million in drinking water potability initiatives

Program **decreases** include:

- $506.0 million reduction improvements implemented in the new T-17 TRICARE managed care support contract administration fee structure
- $299.0 million in DHP requirements due to changes to TRICARE co-payments as per the Interim Final Rule (IFR)
- $207.1 million associated with one-time strategic investment in FY 2018 facility Restoration and Modernization projects
- $198.4 million reduction from FY 2018 request achieved by continued contract management process improvements

- $168.7 million financial management improvements to reduce historical de-obligation trends
- $97.0 million achieved savings by the adoption of Center for Medicare and Medicaid Services' (CMS) reimbursement rates for TRICARE Long Term Care and Inpatient Residential Facilities
- $88.3 million for Military Health System's IT management reforms and consolidation of support activities
- $38.4 million driven by FY 2018 National Defense Authorization Act (NDAA) changes to pharmacy co-pay structure
- $37.4 million headquarters (HQs) reduction and FY 2017 NDAA - reform of duplicative activities associated with management and administration of MTFs
- $12.7 million due to continued Functional Area Application (FAA) efficiencies associated with the elimination of duplicative IT systems
- $10.4 million in transfers out of DHP associated with Air Force Operational Support Teams (OST) and Alcohol and Tobacco Counter Marketing Efforts
- $10.3 million associated with implementation of efficiencies and best practices in management and patient care activities
- $4.9 million reduction in IM/IT driven by changes in the Defense Information Systems Network (DISN) cost recovery model
- $3.8 million in travel associated with other health activities
- $2.5 million in DoD share of CAPT James A. Lovell Federal Health Care Center costs

Continuing in FY 2019, the Department projects that up to $113.0 million should transfer to the Joint Department of Defense (DoD) - Department of Veterans Affairs (VA) Medical Facility Demonstration Fund established by section 1704 of Public Law 111-84, (National Defense Authorization Act for FY 2010). This fund combines the resources of DoD and VA

to operate the first totally integrated Federal Health Care Center in the country by the total integration of the North Chicago VA Medical Center and the Navy Health Clinic Great Lakes, IL.

Continuing in FY 2019, the Department will transfer $15 million to the DoD-VA Health Care Joint Incentive Fund (JIF). Authority for the JIF is established by Section 8111, Title 38, of the United States Code (USC) and Section 721 of Public Law 107-314(National Defense Authorization Act for 2003. This fund combines the resources of the DoD and VA to implement, fund, and evaluate creative coordination and sharing initiatives at the facility, intraregional, and nationwide levels.

Narrative Explanation of FY 2018 and FY 2019 Research Development Test & Evaluation (RDT&E) Changes:

The DHP RDT&E Program reflects a net increase of $37.4 million between FY 2018 and FY 2019. This includes price growth of $12.1 million and a net program increase of $25.3 million. Program **increases** include:

- $39.9 million to support Guidance for Development of the Force (GDF) research for battlefield injuries that will enable a reduction in capability gaps
- $19.4 million increase for implementation and development of a patient level cost accounting and billing application necessary to provide integrated patient level billing in the MHS GENESIS modernized electronic health record system. Increase also includes $5.7M for the development of the new Legacy Data Repository
- $6.8 million to support Army programs such as the extension of the Early Capture HIV Cohort Studies, the Deployed Warfighter Protection Project, and sustainment of infrastructure support for overseas laboratories in Kenya, Thailand, and Georgia

- $5.0 million to support overlapping utilities, personnel, travel, and IT support functions for the anticipated relocation of NAMRU-3 currently located in Cairo, Egypt ($3M). The remainder supports the contract of animal care for the additional animals at Vivarium (Animal Facility) and an increase in utilities at Command facilities and salaries to Foreign Nationals ($2M)
- $4.3 million due to continued efforts in the Air Force en-route care and right-sizing the funding based on actual execution in the efforts for the Operational Medicine Thrust Area, which develops validated solutions for preventive care, intervention, and treatment to DoD beneficiaries
- $4.4 million due to adjustments in the USUHS Centers of Excellence programs and in-house lab research programs such as infectious disease, military operational medicine, and combat casualty care that reflect prior year execution

Program **decreases** include:

- $34.4 million within MHS GENESIS and JOMIS due to FY 2018 planned completion of Development, Test, and Evaluation of Segment 2 for new interfaces, patches, and semi-annual releases; completion of configuration efforts, system updates, testing and integration in response to results of the Initial Operational Test & Evaluation and limited fielding for IOC.
- $13.5 million for the decommissioning costs and completion of the initial outfitting and transition (IO&T) program associated with the U.S. Army Medical Research Institute of Infectious Diseases (USAMRIID) military construction project
- $6.0 million for completion of the Health Information Technology Portfolio Rationalization Investment in FY 2018 and the Defense Medical Logistics Standard Support (DMLSS) Program IT development
- $0.6 million for minor miscellaneous adjustments

Defense Health Program
Fiscal Year (FY) 2019 Budget Estimates
Operation and Maintenance
Introductory Statement

Narrative Explanation of FY 2018 and FY 2019 Procurement Changes:

The DHP Procurement Program has a net decrease of $22.168 million between FY 2018 and FY 2019. This consists of $19.719 million in price growth and a net program decrease of $41.887 million. Program **increases** include:

- $38.5 million to MHS GENESIS for the planned purchase of commercial software licenses and multiple deployments of the modernized electronic health record to the MTFs after the Full Deployment Decision is approved by the Milestone Decision Authority
- $27.3 million to support replacement of medical equipment to include Medical/Surgical, Pathology/Lab, and Radiographic
- $11.9 million for planned software and hardware purchases in support of the Legacy Data Repository
- $11.8 million in Infrastructure and Operations (I&O) to fund additional Desktop to Data Center (D2D) support for Compute and Storage Management Support (CSMS) and Desktop as a Service (DaaS) in preparation for the roll out of MHS GENESIS, as well as refresh of MTF Local Area Network, Wireless Local Area Network and network electronics to current technology standards
- $10.0 million for implementation of a patient level cost accounting and billing coding application necessary to provide integrated patient level billing in the Military Health System GENESIS Electronic Health Record system
- $10.0 million realignment of funding in the IO&T program between O&M and Procurement appropriations for one year to meet military construction project

schedules for Equipment Outfitting in accordance with Procurement appropriation thresholds

- $6.9 million purchase of Oracle Real Application Testing licenses and additional Clinical Data Repository storage space for Armed Forces Health Longitudinal Technology Application (AHLTA)
- $1.2 million for continued implementation of single financial and accounting Enterprise Resource Planning solution
- $0.3 million for minor miscellaneous adjustments

Program **decreases** include:

- $85.6 million realignment to O&M to fund the non-clinical end-user devices managed and distributed by DHA Health Information Technology (HIT) for MTF organizations as part of the Desktop to Data Center (D2D) initiative
- $60.4 million realignment of MHS GENESIS funding to O&M in support of increased sustainment costs for hosting services and corresponding cybersecurity efforts, as well as increased requirement of government testing of the Commercial Off the Shelf product
- $8.5 million realignment to JOMIS RDT&E activities and O&M sustainment of TMIP-J due to the delay of delivery of MHS GENESIS Gold Disk to JOMIS
- $2.8 million due to completion of the DHA HIT Portfolio Rationalization Investment activities
- $2.5 million reduced requirement for Health Artifact and Image Management Solution (HAIMS) by removing the Microsoft SharePoint product, migrating archived data to a cheaper tiered storage, and refocusing the HAIMS storage refresh on a smaller footprint/best value approach.

Defense Health Program
Fiscal Year (FY) 2019 Budget Estimates
Operation and Maintenance
Introductory Statement

President's Management Plan – Performance Metrics Requirements:

The Military Health System (MHS) continues to refine existing performance measures and develop specific criteria to determine and measure outputs/outcomes as compared with initial goals. The Quadruple Aim provides a focused and balanced approach to overall performance. This approach includes not only production but outcome measures related to medical readiness, a healthy population, positive patient experiences and the responsible management of health care costs.

- **Individual Medical Readiness** – This measure provides operational commanders, Military Department leaders and primary care managers use this measure to monitor the medical readiness status of their personnel, ensuring a healthy and fit fighting force medically ready to deploy. This represents the best-available indicator of the medical readiness of the Total Force (Active Component and Reserve Component) prior to deployment.

- **Beneficiary Satisfaction with Health Plan** – Satisfaction is measured using a standard survey instrument comparable to those used by civilian plans. The goal is to improve MHS beneficiary overall satisfaction with TRICARE to a level at or above benchmark satisfaction with civilian plans. Increasing satisfaction with the Health Plan indicates that actions being taken are improving the overall functioning of the health plan from the beneficiary perspective.

- **Medical Cost Per Member Per Year** – This measure focuses on the annual overall cost growth for the Prime enrollees and includes all costs related to health care delivered to enrollees. The objective is to keep the rate of cost growth for the TRICARE Prime enrollees to a level at or below the increases for the Civilian health care plans 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 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.

Output related measures that influence Medical Cost Per Member Per Year:

- **Inpatient Production Target** (Medicare Severity Adjusted Relative Weighted Products, referred to as MS-RWPs) – 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, referred to as RVUs) – Achieving the production targets ensures that the initial plans for allocation of personnel and resources are used appropriately in the production of outpatient workload.

Below is reporting for FY 2017 performance measures related to the Quadruple Aim, and two output measures related to production plan targets. The overall success of each measured is discussed below:

Individual Medical Readiness – The Military Health System achieved the goal for the Total Force Medical Readiness for FY 2017 with a score of 86 percent compared to the goal of 85 percent. This represents the fourth year in a row that the MHS has surpassed the performance goal for the measure, and constant MHS attention and effort to ensure that performance can be sustained into the future.

Beneficiary Satisfaction with Health Plan – Satisfaction with Health Care Plan performance for FY 2017 exceeded the goal of 57 percent for the fiscal year. Performance levels this year exceeded the goal for all beneficiary categories and enrollment status. This has been a continuous process to maintain and improve performance to levels comparable with the civilian sector, and performance must be maintained. The major areas that drive performance for this measure are related to Claims Processing Timeliness, Interaction during Health Care, and Access to Health Care. Given there have been no changes with Claims Processing Timeliness, the focus will be on Health Care Interactions and Access, which are areas with continued focus for improvement with in the MHS. Initiatives related to specialty and primary care access for the Military Treatment Facilities appear to be working.

Medical Cost Per Member Per Year – Annual Cost Growth – The Year to Date performance estimate for FY 2017 is 1.0 percent vs goal of 3.4 percent. While final claims data are still lagging, the system was able to achieve the goal during the fiscal year. Pharmacy continued to show improvements through the Pharmacy & Therapeutics Committee explicit formulary management and actionable Prime enrollee leakage reports for non-maintenance medication further reductions overall costs were achieved. Additionally improvements to specialty care provider efficiency and primary care management for Prime enrollees are positively impacting performance.

Inpatient Production Target (MS-RWPs) – For the most recent reported monthly data for FY 2017, the MHS produced 191 thousand MS-RWPs against a target of 204 thousand MS-RWPs, slightly below the target. These numbers are based on the records reported to date, and may increase slightly as all records are completed. Part of the reason for the decrease was related to earlier than expected closures of some smaller hospitals. NDAA 2017 required a review of inpatient care locations where clinical readiness of providers and staff can be sustained at sufficient levels. Implementation plans are expected to be completed during FY 2018 providing better

estimates for FY 2019 with a renewed focus of improved readiness for Military providers.

Outpatient Production Target (RVUs) – With an increased emphasis on paying for performance, the system has seen a renewed focus on production of outpatient care. For FY 2017, the production 80.6 million relative value units, surpassed the goal of 80.2 million relative value units. Initiatives are already underway related to improve specialty and primary care efficiency for the Military Treatment Facility specialty and primary care efficiency.