

**Defense Health Program  
Fiscal Year (FY) 2017 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 Program (TMOP).

**National Retail Pharmacy -** Includes pharmaceutical costs associated with contractual pharmacy services providing authorized benefits to eligible beneficiaries via the TRICARE Retail Pharmacy Program (TRRx). TRRx provides network pharmaceutical prescription benefits for eligible beneficiaries from private sector retail pharmacies.

**TRICARE Managed Care Support Contracts (MCSC) -** Provides a managed care program which integrates a standardized health benefits package with military treatment facilities and civilian network providers on a regional basis. Includes underwritten health care costs provided in civilian facilities and by private practitioners to eligible MHS beneficiaries authorized under the Civilian Health and Medical Program of the Uniformed Services.

**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.

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**I. Description of Operations Financed (cont.)**

**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.

**Uniformed Services Family Health Program (USFHP)** - Includes expenses associated with delivering the TRICARE Prime benefit based on annually negotiated capitation rates through contracts with designated civilian hospitals in selected markets. Eligible beneficiaries must enroll with the USFHP.

**Supplemental Care - Health Care** - Provides the TRICARE Prime benefit to Active Duty Service Members and other designated eligible patients who receive health care services in the civilian sector and non-DoD facilities either referred or non-referred from the MTF including emergency care. This program also covers health care sought in the civilian sector or non-DoD facilities due to Active Duty assignments in remote locations under TRICARE Prime Remote. Care to Active Duty members stationed overseas who receive health care in the private sector paid under this program will appear in the Overseas program element.

**Supplemental Care - Dental** - Provides for uniform dental care and administrative cost for Active Duty members, including eligible mobilized Guard and Reservists, ROTC Students, cadets/midshipmen, and eligible foreign military, receiving dental care services in the civilian sector to include Veterans' Affairs facilities. 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 that provides services to the Military Health System and Medicare.

**Overseas Purchased Health Care** - Includes coverage for delivery of TRICARE Prime benefits in civilian facilities by private sector practitioners to eligible Active Duty and Active

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**I. Description of Operations Financed (cont.)**

Duty Family Members through the TRICARE Overseas Program (TOP). The program also includes health care provided to retiree and retiree family members residing overseas who are eligible under the TRICARE Standard option and Medicare programs. Also includes health care purchased overseas for Active Duty Service Members under the Supplemental Health Care Program.

**Miscellaneous Purchased Health Care** - Provides for payments of health care services in civilian facilities by private practitioners not captured in other specifically defined elements. Includes administrative, management, and health care costs for Alaska claims, Custodial Care, Continuing Health Care Benefits Program, Dual-Eligible Beneficiaries Program, Defense Health Agency (DHA) managed demonstrations and congressionally directed health care programs, and the TRICARE Reserve Select Program which is a premium based option available to Selected Reservists and their family members. The qualifying Dual-Eligible Beneficiaries claims are paid by the Medicare Eligible Retiree Health Care Fund (MERHCF).

**Miscellaneous Support Activities** - Provides for payments of costs for functions or services in support of health care delivery but not actual health care services. Includes certain contract expenses to monitor health care quality, provide marketing and education services, information management and information technology required to administer and manage all purchased care contract invoicing and accounting, and all other miscellaneous administrative expenses not identified in other purchased health care program elements

**II. Force Structure Summary:**

Approximately 9.4 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). The MCSCs provide a uniform, triple-option health care plan to eligible beneficiaries, allowing them to enroll in the health maintenance

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**II. Force Structure Summary (cont.)**

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).

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**III. Financial Summary (\$ in thousands)**

	FY 2016						
	FY 2015	Budget	Congressional Action			Current	FY 2017
			<u>Actual</u>	<u>Request</u>	<u>Amount</u>		
<b>A. <u>BA Subactivities</u></b>							
1. Pharmaceuticals Purchased Health Care	619,428	852,493	0	0.0	852,493	852,493	966,727
2. National Retail Pharmacy	2,327,367	1,125,025	0	0.0	1,125,025	1,125,025	900,289
3. Managed Care Support Contracts	6,336,000	6,493,776	-505,281	-7.8	5,988,495	5,988,495	7,210,017
4. MTF Enrollee Purchased Care	2,629,339	2,524,033	0	0.0	2,524,033	2,524,033	2,719,986
5. Dental Purchased Care	324,009	356,647	0	0.0	356,647	356,647	341,473
6. Uniformed Services Family Health Program	489,351	514,464	0	0.0	514,464	514,464	519,325
7. Supplemental Care - Health Care	1,330,288	1,282,120	0	0.0	1,282,120	1,282,120	1,362,644
8. Supplemental Care - Dental	95,778	142,315	0	0.0	142,315	142,315	91,835
9. Continuing Health Education/Capitalization	330,550	429,909	0	0.0	429,909	429,909	350,815
10. Overseas Purchased Health Care	287,730	303,711	0	0.0	303,711	303,711	303,937
11. Miscellaneous Purchased Health Care	838,458	713,048	0	0.0	713,048	713,048	867,593
12. Miscellaneous Support Activities	93,010	155,142	0	0.0	155,142	155,142	104,118
<b>Total</b>	<b>15,701,308</b>	<b>14,892,683</b>	<b>-505,281</b>	<b>-3.4</b>	<b>14,387,402</b>	<b>14,387,402</b>	<b>15,738,759</b>

1. FY 2015 actual includes \$214.3M for Overseas Contingency Operations (OCO).

2. FY 2015 actual does not include Department of Defense Medicare-Eligible Retiree Health Care Fund (MERHCF) of \$8,060.0M (O&M Only).

3. FY 2015 actual does not include Defense Health Program, 14/15 (O&M) Carryover (\$307.1M) pursuant to Title VI of Public Law 113-76, the Department of Defense Appropriations Act, 2014.

4. FY 2015 actual includes reprogrammings of \$885.5M. Without reprogramming, total is \$16,308.4M.

5. FY 2016 current estimate excludes \$192.2M for OCO.

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6. FY 2016 current estimate does not include Department of Defense Medicare-Eligible Retiree Health Care Fund(MERHCF) of \$7,784.6M (O&M Only).
7. FY 2017 estimate excludes \$233.1M for OCO.
8. FY 2017 estimate does not include Department of Defense Medicare-Eligible Retiree Health Care Fund(MERHCF) of \$8,214.8M (O&M Only).

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<b>B. <u>Reconciliation Summary</u></b>	<b>Change</b>	<b>Change</b>
	<b><u>FY 2016/FY 2016</u></b>	<b><u>FY 2016/FY 2017</u></b>
<b>Baseline Funding</b>	<b>14,892,683</b>	<b>14,387,402</b>
Congressional Adjustments (Distributed)	-505,281	
Congressional Adjustments (Undistributed)		
Adjustments to Meet Congressional Intent		
Congressional Adjustments (General Provisions)		
<b>Subtotal Appropriated Amount</b>	<b>14,387,402</b>	
Fact-of-Life Changes (2016 to 2016 Only)		
<b>Subtotal Baseline Funding</b>	<b>14,387,402</b>	
Supplemental	192,210	
Reprogrammings		
Price Changes		544,275
Functional Transfers		
Program Changes		807,082
<b>Current Estimate</b>	<b>14,579,612</b>	<b>15,738,759</b>
Less: Wartime Supplemental	-192,210	
<b>Normalized Current Estimate</b>	<b>14,387,402</b>	

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<b>C. <u>Reconciliation of Increases and Decreases</u></b>	<b><u>Amount</u></b>	<b><u>Totals</u></b>
<b>FY 2016 President's Budget Request (Amended, if applicable)</b>		<b>14,892,683</b>
1. Congressional Adjustments		-505,281
a. Distributed Adjustments		
1) Congressional adjustment for historical under execution.	-450,000	
2) Congressional adjustment for unauthorized health plan consolidation.	-55,281	
b. Undistributed Adjustments		
c. Adjustments to Meet Congressional Intent		
d. General Provisions		
<b>FY 2016 Appropriated Amount</b>		<b>14,387,402</b>
2. OCO and Other Supplemental Enacted		192,210
a. OCO and Other Supplemental Requested		
1) OCO Supplemental.	192,210	
3. Fact-of-Life Changes		
<b>FY 2016 Baseline Funding</b>		<b>14,579,612</b>
4. Reprogrammings (Requiring 1415 Actions)		
<b>Revised FY 2016 Estimate</b>		<b>14,579,612</b>
5. Less: OCO and Other Supplemental Appropriations and Reprogrammings (Items 2 and 4)		-192,210
<b>FY 2016 Normalized Current Estimate</b>		<b>14,387,402</b>
6. Price Change		544,275
7. Functional Transfers		
8. Program Increases		1,102,370
a. Annualization of New FY 2016 Program		
b. One-Time FY 2017 Increases		
c. Program Growth in FY 2017		
1) Private Sector Care Healthcare Services: Funds the projected cost increases for services purchased in the private sector. Healthcare costs in	505,429	



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<p>the private sector began to increase during FY 2015. After no to low-growth healthcare cost increases since 2010, the costs for purchased services began to increase starting in FY 2015. These increased costs for services excludes the costs associated with compound pharmaceuticals experienced in FY 2015. Costs for services purchased in the private sector are projected to continue to grow in future years. The FY 2016 Private Sector Care baseline funding is \$14,387.4M.</p>		
<p>2) FY 2016 National Defense Authorization Act Urgent Health Care Pilot: In compliance with the FY 2016 National Defense Authorization Act (NDAA), Section 725, "Pilot Program on Urgent Care under TRICARE Program," provides funding to change current TRICARE policy to allow TRICARE PRIME beneficiaries the use of private sector urgent care centers without a pre-authorization from their primary care provider. The pilot will run for three years. The FY 2016 Managed Care Support Contract funding baseline is \$5,988.5M.</p>	200,000	
<p>3) TRICARE Reserve Select (TRS): Funds the enrollment of additional eligible beneficiaries into the TRS health plan to comply with the Affordable Care Act. FY 2016 Miscellaneous Purchased Health Care baseline funding is \$713.0M.</p>	127,448	
<p>4) TRICARE Mail Order Pharmacy (TMOP): Funds pharmaceuticals for the TRICARE Mail Oder Program to meet the beneficiaries' projected escalating demand for the low cost home delivery</p>	109,893	

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pharmaceutical alternative to the more expensive prescriptions filled at the retail pharmacy. The FY 2016 TMOP funding baseline is \$852.5M.		
5) Mental Health Care Services: Funds the expansion of mental health care services for active duty family members, retirees and their family members as a result the Department of Defense, within its authority, eliminating quantitative health care provisions to meet the intent of the Mental Health Parity and Addiction Equity Act of 2008. The FY 2016 Managed Care Support Contract funding baseline is \$5,988.5M.	64,600	
6) FY 2017 Health Plan Benefit Proposal to Streamline Health Plan Options: Provides funds for the start-up costs of a package of Military Health System (MHS) reforms. These reforms are directed at retirees and their family members and are designed to influence patient health care behavior towards the goal of reducing over utilization of services and encouraging the use of Military Treatment Facilities (MTFs). To achieve this goal, the MHS is recommending a reduction in the health plan options from the current three choices (Standard, Plus and Prime) to two: TRICARE Select and TRICARE Choice. By streamlining health plan choices, the MHS will significantly reduce redundancies and costs in the administration of the health plans. The FY 2016 Managed Care Support Contracts and MTF Enrollee Purchased Care funding baseline is \$8,512.5M.	57,000	

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7) Force of the Future - Fertility Treatment Benefits: Enhances the ability of service members, especially those frequently deployed, to have a family by offering elective oocyte (egg) and sperm cryopreservation. This benefit would preserve the family option in the event the service member sustains a line of duty injury that negatively affects reproduction. The FY 2016 baseline funding for TRICARE Managed Care Support Contracts and MTF Enrollee Purchased Care is \$8,512.5M.	38,000	
9. Program Decreases		-295,288
a. Annualization of FY 2016 Program Decreases		
b. One-Time FY 2016 Increases		
c. Program Decreases in FY 2017		
1) Retail Pharmacy: Decrease in the amount of pharmacy prescriptions filled from the more expensive retail pharmacies as a result of beneficiaries electing to utilize the low cost TRICARE Mail Order Program or a Military Treatment Facility. The FY 2016 Retail Pharmacy funding baseline is \$1,125.0M.	-233,981	
2) FY 2016 NDAA Pharmacy: Incremental reduction for retail pharmacy requirements as a result of the FY 2016 NDAA which authorized the implementation of higher co-pays for the use of retail pharmacy to fill maintenance prescriptions. While retail pharmacy co-pays increase, the TRICARE Mail Order Pharmacy (TMOP) (now mandatory for maintenance medications) co-pays remain low and no co-pay at the military treatment	-44,000	

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facilities (MTF) pharmacies. The TMOP and MTF pharmacies are much more cost effective than the retail pharmacies. The FY 2016 Retail and TMOP pharmacy baseline funding is \$1,977.5M.		
3) FY 2017 Proposed Pharmacy Benefit: Reduced retail pharmacy requirements achieved through additional adjustments to co-pay fee structure to provide additional incentive for active duty family members, retirees and their family members to use the low cost TRICARE Mail Order Program or a Military Treatment Facility for pharmaceuticals, to include the lower cost and equally effective generic drugs in lieu of brand name drugs. Proposed increases are phased-in over a 9-year period, and prescriptions will continue to be filled at no cost to beneficiaries at Military Treatment Facilities (MTFs). The FY 2016 Retail and Mail Order Pharmacies baseline funding is \$1,977.5M.	-17,000	
4) Secretary of Defense Efficiency: Secretary of Defense efficiency to reduce funding requirements for contracts. FY 2016 Miscellaneous Support Activities baseline funding is \$155.1M.	-280	
5) Defense Logistics Agency (DLA) - Supply Chain: Defense-wide directed realignment of reimbursable funding for the Defense Logistics Agency's Electronic Document Access and Wide Area Work Flow from overhead rates to direct billing of the responsible customer. This amount reflects the Defense Health Program, Private Sector Care's share of the \$28.7M Defense-wide realignment. The realignment for PSC is assessed	-27	

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<u>C. Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
against pharmaceutical supplies OP 32 line 924. The FY 2016 Purchased Health Care and Retail Pharmaceuticals baseline funding is \$1,977.5M.		
<b>FY 2017 Budget Request</b>		<b>15,738,759</b>

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**IV. Performance Criteria and Evaluation Summary:**

	<b><u>FY 2015 Actual</u></b>	<b><u>FY 2016 Estimate</u></b>	<b><u>FY 2017 Estimate</u></b>	<b><u>Change FY 2015/2016</u></b>	<b><u>Change FY 2016/2017</u></b>
Uniformed Service Family Health Services (Non-MERHCF Eligible)	94,522	91,108	93,200	(3,414)	2,092
DoD Enrollees (Non-MERHCF Eligible)	1,202,893	1,192,873	1,187,496	(10,020)	(5,377)
Workload <sup>1</sup> for Medical Care and Pharmacy:					
Admissions	306,210	310,635	312,843	4,425	2,208
Weighted Workload-Inpatient RWPs	288,810	292,983	311,248	4,173	18,265
Visits	47,237,883	46,830,850	46,295,438	(407,033)	(535,412)
Weighted Workload-Outpatient RVUs	107,765,566	104,278,789	103,132,011	(3,486,777)	(1,146,778)
Retail Pharmacy Prescriptions <sup>2</sup>	30,563,574	29,065,959	27,641,727	(1,497,615)	(1,424,232)
Mail Order Prescriptions <sup>2</sup>	5,646,102	6,306,696	7,044,579	660,594	737,883

*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 and mail order is increasing due to co-pay fee structure changes approved by Congress to decrease the use of the former and increase the use of the latter.*

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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 2015</u> <u>Actual</u>	<u>Change</u> <u>FY 2015/FY 2016</u>		<u>FY 2016</u> <u>Estimate</u>	<u>Change</u> <u>FY 2016/FY 2017</u>		<u>FY 2017</u> <u>Estimate</u>
		<u>Price</u>	<u>Program</u>		<u>Price</u>	<u>Program</u>	
308 Travel of Persons	751	13	-279	485	9	0	494
<b>399 TOTAL TRAVEL</b>	<b>751</b>	<b>13</b>	<b>-279</b>	<b>485</b>	<b>9</b>	<b>0</b>	<b>494</b>
647 DISA Enterprise Computing Centers	3,000	-300	3,946	6,646	-665	-2,209	3,772
671 DISA DISN Subscription Services (DSS)	10	-1	-9	0	0	0	0
<b>699 TOTAL DWCF PURCHASES</b>	<b>3,010</b>	<b>-301</b>	<b>3,937</b>	<b>6,646</b>	<b>-665</b>	<b>-2,209</b>	<b>3,772</b>
771 Commercial Transport	10	0	-10	0	0	0	0
<b>799 TOTAL TRANSPORTATION</b>	<b>10</b>	<b>0</b>	<b>-10</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
913 Purchased Utilities (Non-Fund)	213	4	-217	0	0	0	0
921 Printing & Reproduction	3,996	68	1,446	5,510	99	2	5,611
924 Pharmaceutical Drugs	2,946,795	109,032	-1,078,309	1,977,518	75,146	-185,648	1,867,016
925 Equipment Purchases (Non-Fund)	103	2	-105	0	0	0	0
932 Mgt Prof Support Svcs	26,677	454	-13,667	13,464	242	-154	13,552
933 Studies, Analysis & Eval	6,157	105	-4,288	1,974	36	-24	1,986
986 Medical Care Contracts	12,666,429	468,658	-808,321	12,326,766	468,417	992,107	13,787,290
987 Other Intra-Govt Purch	16,645	283	7,698	24,626	443	7	25,076
989 Other Services	904	15	2,239	3,158	57	-37	3,178
990 IT Contract Support Services	29,618	504	-2,867	27,255	491	3,038	30,784
<b>999 TOTAL OTHER PURCHASES</b>	<b>15,697,537</b>	<b>579,125</b>	<b>-1,896,391</b>	<b>14,380,271</b>	<b>544,931</b>	<b>809,291</b>	<b>15,734,493</b>
<b>Total</b>	<b>15,701,308</b>	<b>578,837</b>	<b>-1,892,743</b>	<b>14,387,402</b>	<b>544,275</b>	<b>807,082</b>	<b>15,738,759</b>