Defense Health Program
Fiscal Year (FY) 2018 Budget Estimates
Operation and Maintenance
Introductory Statement

($ in Millions)

Appropriation Summary:	FY 2016[1] Actuals	Price Growth	Program Growth	FY 2017[2] Estimate	Price Growth	Program Growth	FY 2018[3] Estimate
Operation & Maintenance[4]	29,873.9	934.3	1,197.4	32,005.6	1,031.7	-941.3	32,095.9
RDT&E	2,121.5	40.3	-1,338.9	822.9	16.5	-166.2	673.2
Procurement	298.1	8.8	106.3	413.2	11.5	470.6	895.3
Total, DHP	**32,293.5**	**983.4**	**-35.2**	**33,241.7**	**1,059.7**	**-636.9**	**33,664.5**
MERHCF Receipts[5]	9,680.1			10,037.9			10,381.8
Total Health Care Costs	**41,973.6**			**43,279.6**			**44,046.2**

1/ FY 2016 actuals includes $285.032 million for OCO.
2/ FY 2017 estimate excludes $334.311 million for OCO.
3/ FY 2018 request excludes $395.805 million for OCO.
4/ The Department of Defense transferred O&M funding of $120.4 million in FY 2016 and will transfer $122.4 million in FY 2017 and up to $115.5 million in FY 2018 to the Joint Department of Defense – Department of Veterans Affairs Medical Facility Demonstration Fund established by section 1704 of Public Law 111-84 (National Defense Authorization Act for FY 2010). Additionally, the Department transferred $15 million of O&M funding in FY 2016 and will transfer the same amount in FY 2017 to the DoD-VA Health Care Joint Incentive Fund (JIF) as required by Section 8111 of Title 38 of the United States Code (USC) and Section 721 of Public Law 107-314 (National Defense Authorization Act for 2003). For FY 2018 $15 million will be transferred to JIF.
5/ Reflects DoD Medicare-Eligible Retiree Health Care Fund (MERHCF) O&M Receipts for FY 2016, FY 2017 and FY 2018.

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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) 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 2018 budget request of $32,095.9 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 Department of Defense’s initiative for operations efficiencies, including assumed savings for proposed military healthcare reform initiatives. 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.

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 and (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; equipment supporting programs such as pollution control, clinical investigation, and occupational/environmental health; and Military Health System (MHS) information technology (IT) requirements.

Narrative Explanation of FY 2017 and FY 2018 Operation and Maintenance (O&M) Changes:

The DHP O&M funding reflects an overall increase of $90.4 million between FY 2017 and FY 2018, consisting of $1,031.7 million in price growth and a net program decrease of $941.3 million. Program increases include:

- $118.7 million for continued deployment of Department of Defense Healthcare Management System Modernization (GENESIS and Joint Operation Medicine Information System) and other Information Management Support consolidations/increases
- $90.1 million for increased facility restoration and sustainment necessary to ensure world-class Military Treatment Facilities
- $82.8 million for healthcare services in support of increased active duty end-strength and their family members
- $26.1 million for an increase in the anticipated beneficiary population in Private Sector Care
- $17.0 million to establish a single Military Health System (MHS) Enterprise Resourcing Planning (ERP) system
- $15.7 million for expansion of telehealth capabilities

- $8.4 million for occupational and environmental health readiness, safety and compliance
- $8.4 million for Global Nurse Advice Line (NAL) expansion
- $6.5 million transfer from Department of the Air Force to support Desktop to Datacenter (D2D) Infrastructure
- $4.7 million for sexual assault and other targeted medical education and training and associated resources
- $2.5 million for investment in High Reliability Organization teams and other Continual Process Improvement enhancements to review quality and safety procedures to improve patient access, quality and safety

Program decreases include:

- $523.0 million for reduction in Private Sector Care requirements due to the incorporation of recent execution experience
- $185.0 million incremental reduction to FY 2018 pharmacy requirements as a result of the FY 2016 pharmacy benefit change on beneficiaries utilization of pharmaceuticals
- $164.4 million associated with transfers to align funding to other agencies for correct execution (Program transfers include the non-clinical resources of the Army Wounded Warrior program to align readiness requirements with the Department of Army, resources for Operation Live Well and the Healthy Base Initiatives, and Navy Reserve Immunization resources)
- $110.2 million reduction in Information Management driven by various IT optimization and consolidation efforts in the MHS

- $69.0 million reduction due to a change in the forecast for expanded benefits from FY 2017 (~$100 million) to FY 2018 (~$31 million) driven primarily due to lower estimates for urgent care requirements
- $64.7 million for implementing best practices for strategic resourcing of contract services
- $57.5 million reduction in pharmaceutical requirements due to improved contract compliance for ordering and aggressive formulary management at the MTFs
- $31.0 million decrease associated with the change in upfront costs required to implement changes to TRICARE Health Plans from FY 2017
- $28.6 million for reduced costs and planned student levels associated with Health Professions Scholarship Program (HPSP)
- $28.4 million reduction driven by the reconfiguration of military-unique medical programs to better serve the beneficiaries and warfighters
- $21.2 million for initial outfitting and transition (IO&T) requirements for MILCON and restoration and modernization projects
- $16.0 million reductions in Major (formerly Management) Headquarters
- $16.0 million anticipated savings from the PB 2018 Pharmacy Co-Pay proposal that seeks to adjust pharmacy co-pay structures to fully incentivize the use of mail order and generic drugs
- $4.1 million for patient and mission travel
- $3.0 million reduction associated with efficient utilization of Computerized Tomography Scanners Magnetic Resonance Imaging inventory

Continuing in FY 2018, the Department projects that up to $115.5 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 Facility in the country by the total integration of the North Chicago VA Medical Center and the Navy Health Clinic Great Lakes.

Continuing in FY 2018, 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.

<u>Narrative Explanation of FY 2017 and FY 2018 Research Development Test & Evaluation (RDT&E) Changes:</u>

The DHP RDT&E Program reflects a net decrease of $149.6 million between FY 2017 and FY 2018. This includes price growth of $16.5 million and a net program decrease of $166.1 million. Program increases include:

- $65.3 million to support Joint Operational Medicine Information Systems (JOMIS) based upon the updated life-cycle cost estimate
- $13.5 million in support of the transition to a single financial and accounting Enterprise Resource Planning (ERP) solution
- $10.6 million increase for decommissioning costs of existing USAMRIID facilities, clean-up, and relocation of personnel, equipment, and research to replacement facility. Construction to be completed in FY 2019
- $9.8 million increase to support the DoD Cancer Moonshot initiative
- $1.8 million in Health IT Shared Service investments

Program decreases include:

- $256.1 million in DHMSM funds after limited deployment in FY 2017 prior to Full Deployment Decision in FY 2018
- $3.5 million decrease to support the MHS Procurement, enterprise-wide IT function
- $1.9 million in ESSENCE support due to planned completion of enhanced query capability and advanced geospatial analysis
- $1.0 million in Combating Antibiotic Resistant Bacteria (CARB) research based upon changes to the Sepsis and Malaria projects
- $4.6 million for minor miscellaneous adjustments

<u>Narrative Explanation of FY 2017 and FY 2018 Procurement Changes:</u>

The DHP Procurement Program has a net increase of $482.1 million between FY 2017 and FY 2018. This consists of $11.5 million in price growth and a net program increase of $470.6 million. Program increases include:

- $469.1 million increase to DoD Healthcare Management System Modernization (DHMSM) Procurement for the planned purchase of commercial software licenses and multiple deployments of the modernized Electronic Health Record to the Military Treatment Facilities after the Full Deployment Decision is approved by the Milestone Decision Authority
- $19.8 million increase in Infrastructure & Operations (I&O) Procurement funding which will provide additional D2D support for Compute and Storage Management Support (CSMS) and Desktop as a Service (DaaS) for Non-clinical End User Devices (EUDs). These activities are in preparation for the roll out of MHS GENESIS
- $9.0 million increase for the transition to a single financial and accounting ERP system

- $5.9 million increase for the program updated strategy and timeline to support site readiness, change management, and user training activities post-Initial Operating Capability deployment for JOMIS
- $1.5 million increase associated with moving/upgrading AHLTA from Oracle 11g to Oracle 12c
- $0.3 million for minor miscellaneous adjustments

Program decreases include:

- $26.0 million decrease to radiology equipment due to life cycle requirement realigned to FY 2019
- $4.9 million decrease is due to the purchase of APLIS and Medical Community of Interest hardware being accomplished with FY 2017 funds
- $4.1 million decrease in Health Artifact and Image Management Solution (HAIMS) Procurement funding is due to 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. This Procurement reduction offset a need for increased Service Treatment Record (STR) sustainment activities at the Records Processing Centers, STR Department of Defense/Veterans Affairs interface support, and clinical operations support

<u>President's Management Plan – Performance Metrics Requirements:</u>

The DHP continues to refine existing performance measures and develop specific criteria to determine and measure outputs/outcomes as compared with initial goals. The Quadruple Aim is a focused and balanced approach to overall performance to include not only production but outcome measures related to medical readiness, a healthy population, positive patient experiences and responsible management of health care costs.

- **Individual Medical Readiness** - 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 Components and Reserve Components 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 by the MHS are improving beneficiary experiences with the health care benefit and services they receive through the system.

- **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 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 2016 related to the measures related to the Quadruple Aim, and two output measures related to production plan targets. The overall success of each area measured is discussed below:

- **Individual Medical Readiness** – The Military Health System achieved the goal for the Total Force Medical Readiness for FY 2016 with a score of 86% compared to the goal of 85%. This represents the third 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 2016 exceeded the goal of 57 percent for the fiscal year. While the MHS has continued to surpass the civilian standard, there is a slight decrease in the overall performance level. 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 are already underway to review specialty and primary care access for the Military Treatment Facilities.

- **Medical Cost Per Member Per Year** – Annual Cost Growth – The Year to Date performance estimate for FY 2016 is 1.0% vs goal of 3.4%. While final claims data are still lagging, the system was able to achieve the goal during the fiscal year. Pharmacy showed dramatic improvement due to NDAA 2015 Maintenance Medication change and operational changes. Under the NDAA 2015, maintenance medications were redirected from the retail pharmacy to either the TRICARE Mail Order or Military Treatment Facilities (MTFs), which resulted in significant improvements. Additionally, through the Pharmacy & Therapeutics Committee explicit formulary management and actionable Prime enrollee leakage reports for non-maintenance medication further reductions overall costs were achieved.

- **Inpatient Production Target (MS-RWPs)** – For the most recent reported monthly data for FY 2016, the MHS produced 213 thousand MS-RWPs against a target of 212 thousand MS-RWPs, slightly above the target. These numbers are based on the records reported to date, and may increase slightly as all records are completed.

- **Outpatient Production Target (RVUs)** – With an increased emphasis on paying for performance, the system has seen a renewed focus on production of outpatient care. Production increased by more than one million relative value units compared with FY15. However, for FY 2016, the production 79.8 million relative value units, failed to reach the goal of 81.6 million relative value units. While the MHS failed to achieve the goal for the year, it expects continued improvements in the coming years. Initiatives are already underway to review specialty and primary care efficiency for the Military Treatment Facilities. Through the review process and tracking of performance measures by the MHS, overall production should increase in future years.