

DEFENSE HEALTH PROGRAM

	(\$ in Millions)						
	FY 2001	Price	Program	FY 2002	Price	Program	FY 2003
	Actual	Growth	Growth	Estimate	Growth	Growth	Estimate
Operation & Maintenance (O&M)	12,858.2	+555.8	+4660.6	18,074.6	+1,229.9	-4,944.3	14,360.3
Procurement	290.4	+7.0	-29.4	267.9	+6.8	+4.0	278.7
RDT&E	431.7	+6.5	+25.6	463.8	+7.0	-403.5	67.2
Total DHP	13,580.3	+569.3	4,656.8	18,806.3	1,243.7	-5,343.8	14,706.2
<i>Receipt from Accrual Fund</i>	-	-	-	-	-	-	5,097.6
<i>Total Health Care Costs</i>	13,580.3			18,806.3			19,803.8

Department projection of FY 2003 Health Care receipts from the DoD Medicare-Eligible Retiree Health Care Fund to pay for health care costs.

The medical mission of the Department of Defense (DoD) is to maintain readiness by providing medical services and support to the armed forces during military operations and to provide medical services and support to members of the armed forces, their dependents, and other beneficiaries entitled to DoD health care. The Defense Health Program (DHP) appropriation supports worldwide medical and dental services to the active forces and other eligible beneficiaries, veterinary services, medical command headquarters, graduate medical education for the training of medical personnel, and occupational and industrial health care.

The Department's managed care program, called "TRICARE", is designed to provide military families with access to quality care that is cost-effective. The TRICARE program provides medical care to about 8.2 million eligible beneficiaries through a network of 76 military hospitals, 513 military clinics, and 7 regional Managed Care Support (MCS) contracts valued at about \$5.4 billion in FY 2003. The TRICARE program offers a triple option benefit: (1) TRICARE Prime, a Health Maintenance Organization (HMO) style benefit requiring beneficiary enrollment; (2) TRICARE Extra, a Preferred Provider Organization (PPO) style benefit; and (3) TRICARE Standard, a fee-for-service option.

Beginning in FY 2003, the Department will implement an accrual-type fund for health care provided to Medicare-eligible retirees, retiree family members and survivors. This will include payments into the fund to cover the Government's liability for the future health care cost of current military personnel as well as receipts from the fund to pay for care provided to eligible beneficiaries, to include the new TRICARE for Life benefits implemented in FY 2002.

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The FY 2003 Defense Health Program budget request of \$14,706.2 million includes significant fiscal adjustments for the implementation of the DoD Medicare Eligible Retiree Health Care Fund. The budget also includes resources to support other non-Medicare eligible requirements legislated in the FY 2001 National Defense Authorization Act (NDAA) (P. L. 106-398) and increases above inflation for pharmacy, managed care support contracts, and other health care purchased from the private sector.

Operation & Maintenance Program

	<u>(\$ in Millions)</u>						
	<u>FY 2001</u>	<u>Price</u>	<u>Program</u>	<u>FY 2002</u>	<u>Price</u>	<u>Program</u>	<u>FY 2003</u>
	<u>Actual</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>
In-House Care	3,935.1	+227.8	+688.3	4,851.1	+384.3	-1,164.6	4,070.8
Private Sector Care	6,191.5	+250.7	+3,800.3	10,242.5	+749.8	-3,832.7	7,159.7
Information Management	330.0	+5.3	+292.8	628.1	+14.2	+24.4	666.7
Education & Training	330.4	+11.6	-11.8	330.2	+14.5	+5.4	350.1
Management Activities	209.6	+4.9	+12.6	227.1	+8.1	-13.5	221.8
Consolidated Health Support	892.6	+27.9	-140.6	779.9	+36.5	-6.9	809.5
Base Operations	<u>969.0</u>	<u>+27.7</u>	<u>+18.9</u>	<u>1015.6</u>	<u>+22.5</u>	<u>+43.5</u>	<u>1,081.7</u>
Total	12,858.2	+555.8	+4,660.6	18,074.6	+1,229.9	-4,944.3	14,360.3
<i>Receipt from Accrual Fund, In-House Care</i>	-			-			806.7
<i>Receipt from Accrual Fund, Private-Sector Care</i>				-			4,291.0
<i>Total Health Care Costs</i>	12,858.2			18,074.6			19,458.0

Department projection of FY 2003 Health Care receipts from the DoD Medicare-Eligible Retiree Health Care Fund to pay for health care costs.

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Program/Price Growth

The FY 2003 Defense Health Program Operations and Maintenance budget request decreases by -\$3,714.3 million, reflecting \$1,229.9 million in price growth and -\$4,944.4 million in net program changes. The net program growth of -\$4,944.4 million includes program reductions of; \$5,097.6 million in funds transferred to the Medicare-eligible Retiree Health Care Fund for TRICARE for Life benefits and the level of effort currently serviced by military treatment facilities; \$587.3 million for one-time FY 2002 congressional adds not continued in FY 2003, carryover of multi-year emergency supplement funds, and other one-time initiatives; \$32.2 million for reduced costs in dental and cancer programs and completion of the FEHBP demonstration program; and other decreases totaling 17.1 million. These program decreases are offset by program increases of; \$424.5 million in Private Sector Care costs above inflation; \$63.5 million in pharmaceutical price and volume over inflation; \$13.1 million transferred from the Army to cover the cost of hospital utilities at TRADOC installations; \$25.8 million growth for elevator upgrades, Health Profession Scholarships, and course development for dental technicians and medical corpsman; and \$39.6 million in to fully fund Base Operations Facility Sustainment.

In-House Care

The DHP In-House Care provides for the delivery of care in MTF's worldwide. The program includes care in medical centers, station hospitals, clinics, and dental care activities. The FY 2003 In-House Care budget estimate of \$4,070.8 million decreases by \$780.3 million below the FY 2002 funding level. This decrease includes price growth of \$384.3 million and a net program decrease of \$1,164.6 million. The net -\$1,164.6 million program growth includes reductions of: \$806.7 million for reduced requirements of appropriated funds for Medicare-eligible beneficiaries in anticipation of receipts from the health care accrual fund; \$275.9 million realigned to private-sector care for private sector health care costs of enrolled beneficiaries; and, \$147.1 million in one-time FY 2002 congressional adds not continued in FY 2003. These program decreases are offset by program increases of \$63.5 million for pharmacy growth above inflation and \$1.5 million transferred into the DHP from the Navy for the Bahrain Medical Clinic.

Private Sector Care

The DHP Private Sector Care provides for delivery of care outside the military treatment facilities. The program includes Managed Care Support (MCS) contracts, the CHAMPUS program, TRICARE for Life, Uniformed Services Family Health Plan (formerly known as Uniformed Service Treatment Facilities (USTFs)) and supplemental/emergency care. Under the MCS contracts and CHAMPUS, active duty families and retirees and their families can individually obtain medical and dental care from civilian sources at the government's expense, after satisfying applicable enrollment fees, deductibles, and co-payments. Currently, there are seven MCS contracts that deliver health care nationwide to the military and their dependents. The MCS contractors are responsible for the purchase of TRICARE standard fee-for-service benefits and coordinating the care between MTFs and civilian providers. The FY 2003 Private Sector Care budget request

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of \$7,159.7 million reflects a net decrease of \$3,082.8 million from the FY 2002 funding level. This includes price growth of \$749.8 million and a net program decrease of \$3,832.7 million. The net -\$3,832.7 million program growth includes reductions of: \$3855.0 million for reduced requirements of appropriated funds for the TRICARE for Life benefit in anticipation of receipts from the health care accrual fund; \$436.0 million for reduced requirements of appropriated funds for the Uniformed Services Family Health Plan and pharmacy programs that service Medicare eligible retirees in anticipation of receipts from the health care accrual fund; \$375.7 for a one-time carryover of FY 2001/02 supplemental funds not continued in FY 2003; and, \$99.5 million in reduced costs for dental and cancer programs, one-time implementation costs of new benefits, and completion of the FEHBP demonstration program. These program decreases are offset by the following program increases: \$343.6 million in program growth above inflation for the managed care support contracts; \$275.9 million realigned from In-House Care for private sector health care costs for enrolled beneficiaries; \$233.0 million for one-time FY 2002 congressional reductions not continued in FY 2003; and, \$80.9 million for program growth above inflation for supplemental care, revised financing and <65 National Mail Order Pharmacy and Uniformed Services Family Health Program.

Information Management

The DHP Information Management focuses on the development and deployment of standardized systems to ensure close integration, interoperability, and commonality of information management throughout the military health system. The Information Management budget request of \$666.7 million reflects an increase of \$38.6 million above the FY 2002 funding level. This includes price growth of \$14.2 million and a net program increase of \$24.4 million. The net \$24.4 million program growth includes increases of: \$46.5 million for additional software licenses, database conversion costs, and IM/IT sustainment and infrastructure modernization and \$3.8 million transferred in from the Air Force for medical information systems. These program increases are offset by program decreases of \$25.9 million for one-time FY 2002 congressional adds not continued in FY 2003

Education & Training

The DHP Education and Training provides support for worldwide medical education and training for active duty personnel, civilian medical personnel, and students. The FY 2003 Education and Training budget request of \$350.1 million reflects an increase of \$19.9 million above the FY 2002 funding level. This includes a price growth of \$14.5 million and a net program increase of \$5.4 million. The net \$5.4 million program growth includes increases of: \$11.3 million for the development of initial and advanced courses for dental and medical corpsman; \$8.2 million to increase the number of Health Profession Scholarships issued; and, \$6.3 million for upgrades of heating and air conditioning systems and elevators at Uniformed Services University of the Health Sciences (USUHS). These program increases are offset by program decreases of \$16.8 million in one-time FY 2002 congressional adds for USUHS not continued in FY 2003 and \$3.6 for a one-time cost for General Medical Officer Conversion and Accession support.

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Management Activities

The DHP Management Activities includes the TRICARE Management Activity (TMA) and the medical commands. These headquarters activities oversee the delivery of DoD healthcare worldwide. The FY 2003 Management Activities budget request of \$221.8 million reflects a net decrease of \$5.3 million from the FY 2002 funding level. This includes a price growth of \$8.1 million and program decreases of \$13.5 million. The -\$13.5 million program growth includes reductions of \$13.2 million for one-time FY 2002 congressional adds not continued in FY 2003 and \$0.3 million transferred to Washington Headquarters Services to provide human resources and security service to TMA civilian personnel.

Consolidated Health Support

The DHP Consolidated Health Support includes support functions such as occupational health, strategic aeromedical evacuation, pathology, examining activities, regional health care management functions and veterinary service. The FY 2003 Consolidated Health Support budget request of \$809.5 million reflects an increase of \$29.6 million above the FY 2002 funding level. This includes a price growth of \$36.5 million and a net program decrease of \$6.9 million. The net -\$6.9 million program growth includes reductions of: \$8.6 million in one time FY 2002 congressional adds not continued in FY 2003; and, \$7.9 million resulting from management efficiencies and reduction in costs for permits, certifications and licensure fees. These program decreases are offset by increases of \$9.0 million for Aeromedical Evacuation due to change of airframe and an increase of \$0.6 million to restore development and production of the adenovirus vaccine

Base Operations

The DHP Base Operations/Communications includes funding for the operation and maintenance of 76 hospitals and 513 clinics and other DHP facilities. The Base Operations/Communications FY 2003 budget request of \$1,081.7 million reflects a net increase of \$66 million above the FY 2002 funding levels. This includes a price growth of \$22.5 million and a net program increase of \$43.5 million. The net \$43.5 million program growth includes increases of \$39.6 million in Facility Sustainment requirements and \$13.1 million transferred from the Army Training and Doctrine Command (TRADOC) to cover the cost of hospital utilities at TRADOC installations. These program increases are offset by decreases of \$6.9 million Defense Finance and Accounting Service rate adjustment and \$2.3 million for a Defense Working Capital Adjustment.

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Procurement Program

	<u>(\$ in Millions)</u>						
	<u>FY 2001</u>	<u>Price</u>	<u>Program</u>	<u>FY 2002</u>	<u>Price</u>	<u>Program</u>	<u>FY 2003</u>
	<u>Actual</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>
Medical Equipment - Replacement/Modernization	272.6	+6.6	-18.3	260.9	+6.6	+3.9	271.4
Medical Equipment - New Facility Outfitting	<u>17.8</u>	<u>+4</u>	<u>-11.1</u>	<u>7.1</u>	<u>+2</u>	<u>0</u>	<u>7.3</u>
Total	290.4	+7.0	-29.4	267.9	+6.8	+4.0	278.7

The DHP Procurement Program totals \$278.7 million in FY 2003 and funds procurement of capital equipment in support of the DoD health care program in military medical treatment facilities and other health activities worldwide. It includes equipment for initial outfitting of new, expanded, or altered health care facilities. Also funded is modernization and replacement of equipment past its useful life and automated equipment (IM/IT) in support of the TRICARE Management Activity. The Procurement Program funding level increases in FY 2003 from FY 2002 by \$10.8 million, reflecting price growth of \$6.8 million and a program increase of \$4.0 million. The \$4.0 million program increase is for replacement and modernization equipment requirements.

Research, Development, Test and Evaluation (RDT&E) Program

	<u>(\$ in Millions)</u>						
	<u>FY 2001</u>	<u>Price</u>	<u>Program</u>	<u>FY 2002</u>	<u>Price</u>	<u>Program</u>	<u>FY 2003</u>
	<u>Actual</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>
RDT&E	431.7	+6.5	+25.6	463.8	+7.0	-403.5	67.2

The DHP RDT&E program funds health care related Information Management/Information Technology development and Small Business Innovative Research (SBIR). The FY 2003 RDT&E program budget request of \$67.2 million reflects a net decrease of \$396.6 million below the FY 2002 funding level. This includes a price growth of \$7.0 million and a program reduction of \$403.5 million. The \$403.5 million program reduction consists of one-time FY 2002 congressional adds not continued in FY 2003.

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Program Data

	<u>FY 2001</u>		<u>FY 2002</u>		<u>FY 2003</u>
	<u>Actual</u>	<u>Change</u>	<u>Estimate</u>	<u>Change</u>	<u>Estimate</u>
<u>Organic Medical Programs</u>					
Hospitals/Medical Centers	76	0	76	0	76
Clinics	515	-2	513	0	513
Dispositions (000)	290	0	290	-1	289
Inpatient Work Units (000)	321	0	321	0	321
Occupied Bed Days (000)	1,008	1	1,009	0	1,009
Average Length of Stay (Days)	3.5	0	3.5	0	3.5
Ambulatory Visits (000)	32,005	5	32,011	-8	32,003
<u>Training Workloads</u>					
USUHS	983	-10	973	3	976
Other Education & Training	63,490	-2,710	60,780	1,310	62,090
Health Professionals Scholarship Program/ Financial Assistance Program	4,434	507	4,941	116	5,057
<u>Civilian Personnel FTEs</u>					
U.S. Direct Hire	37,714	-2,066	35,648	-12	35,636
Foreign National Direct Hire	<u>586</u>	<u>-34</u>	<u>552</u>	<u>-5</u>	<u>547</u>
Total Direct Hire	38,300	-2,100	36,200	-17	36,183
Foreign National Indirect Hire	<u>1,531</u>	<u>+143</u>	<u>1,674</u>	<u>-14</u>	<u>1,660</u>
Total	39,831	-1,957	37,874	-31	37,843
<u>Military Personnel End Strength</u>					
Officers	31,277	+1,203	32,480	-1	32,479
Enlisted	<u>56,944</u>	<u>+1,557</u>	<u>58,501</u>	<u>1</u>	<u>58,502</u>
Total	88,221	2,760	90,981	0	90,981

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	FY 2001		FY 2002		FY 2003
	<u>Actual</u>	<u>Change</u>	<u>Estimate</u>	<u>Change</u>	<u>Estimate</u>
<u>Eligible Beneficiary Population (000)</u>					
Active Duty	1,552	+1	1,553	0	1,553
Dependents of Active Duty	2,138	-2	2,136	0	2,136
Dependents of Retirees Under 65	1,940	-19	1,921	-12	1,909
Retirees Under 65	1,120	-16	1,104	-10	1,094
Beneficiaries Over 65	<u>1,481</u>	<u>+52</u>	<u>1,533</u>	<u>+46</u>	<u>1,578</u>
Total	8,231	+16	8,247	+23	8,270
<u>User Population (000)</u>					
Active Duty	1,552	+1	1,553	0	1,553
Dependents of Active Duty	2,046	-1	2,045	0	2,045
Dependents of Retirees Under 65	1,207	-11	1,195	-7	1,188
Retirees Under 65	685	-10	675	-6	669
Beneficiaries Over 65	<u>356</u>	<u>+13</u>	<u>369</u>	<u>+11</u>	<u>380</u>
Total	5,847	-9	5,838	-2	5,836
<u>Managed Care Support (MCS) Contracts (000)</u>					
Total CHAMPUS Eligibles	5,198	-37	5,161	-22	5,139
Total CHAMPUS Users	3,938	-22	3,916	-13	3,903