Defense Health Program
Fiscal Year (FY) 2010 Budget Estimates
Defense Health Program
Appropriation Highlights

($ in Millions)

	FY 2008 [1] Actuals	Price Growth	Program Growth	FY 2009 [2] Estimate	Price Growth	Program Growth	FY 2010 Estimate
Appropriation Summary:							
Operation & Maintenance	23,951.1	1,342.6	-689.3	24,604.4	1,397.8	965.8	26,968.0
RDT&E	955.5	12.4	-65.3	902.6	11.7	-301.2	613.1
Procurement	459.2	8.6	-155.9	311.9	6.4	3.8	322.1
Total, DHP	25,365.8	1,363.6	-910.5	25,818.9	1,415.9	668.4	27,903.2
MERHCF Receipts [3]	7,914.6			8,705.7			9,104.3
Total Health Care Costs	33,280.4			35,524.6			37,007.5

[1/]FY 2008 actuals include $573.5 million in funding from Public Law 110-161, Consolidated Appropriations Act, 2008, Division L, Title V, for Global War on Terror (GWOT) Bridge Supplemental.

FY 2008 actuals include $1,379.1 million for Defense Appropriations Supplemental for Fiscal Year 2008, Title IX, Public Law 110-252 ($922.3 million for Operation and Maintenance, $364.9 million for Research, Development, Test and Evaluation; and $91.9 million for Procurement).

[2/]FY 2009 current estimate does not include Operation and Maintenance funding of $1,100.0 million from Public Law 110-252, for FY 2009 Global War on Terror (GWOT) Bridge Supplemental.

[3/]Reflects Departmental DoD Medicare-Eligible Retiree Health Care Fund (MERHCF) for FY 2008, FY 2009, and FY 2010 O&M only.

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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 2010 Defense Health Program budget request of $27,903.2 million includes realistic cost growth for pharmacy, managed care support contracts, and other health care services either provided in the Military Treatment Facility or 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 supported by the Department for Ground Forces Augmentation requirements. The Department provided funding for enduring Traumatic Brain Injury and Psychological Health (TBI/PH) and Wounded, Ill and Injured (WII) requirements. It also includes additional funding provided by the Department to restore unrealized savings from benefit reform proposals. 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 the Research, Development, Test and Evaluation (RDT&E) program for medical Information Management/Information Technology (IM/IT), medical laboratory research and the Armed Forces Radiobiological Research Institute. The DHP

appropriation Procurement program funds procurement of capital equipment in Military Treatment facilities and other selected health care activities which include equipment for initial outfitting of newly constructed, expanded, or altered health care facilities; equipment for modernization and replacement of worn-out, obsolete, or uneconomically reparable items; equipment supporting programs such as pollution control, clinical investigation, and occupational/environmental health; and Military Treatment Facilities information processing requirements and equipment.

Narrative Explanation of FY 2009 and FY 2010 O&M Changes:

The Defense Health Program, Operation and Maintenance funding reflects an overall increase of $2,363.6 million between FY 2009 and FY 2010, consisting of $1,397.8 million in price growth and net program increase of $965.8 million. Program increases include: $1,834.8 million for higher demands for health care and pharmaceuticals by eligible beneficiaries due to increased users and increased utilization of benefits; $1,184.0 million to restore unrealized savings associated with TRICARE benefit reform; $673.1 million to reverse the Military Treatment Facility (MTF) efficiencies; $650.0 million to support enduring Traumatic Brain Injury and Psychological Health requirements; $640.0 million to support enduring Wounded, Ill and Injured requirements; $392.7 million to reverse savings associated with the Federal Pricing reduction; $151.3 million for demonstration projects for preventive health, smoking cessation, and Tobacco and Alcohol use/abuse and Obesity (Tobeshol) programs; $137.4 million for medical and dental care to support the Ground Forces Augmentation; $110.2 million for enduring Global War on Terror (GWOT) requirements; $88.0 million for Civilian Recruitment, Retention and Relocation; $50.0 million to support the Department's Avian Flu/Malaria surveillance efforts; $48.4 million for the National Bio-Defense Campus; $38.0 million for Prospective Payment System increase to support increased workload; $29.9 million to support planning, transition and other operations costs for United States Army Medical Research Institute for Infectious Diseases; $28.0 million for initial outfitting requirements; $8.8 million to sustain the Joint Medical Education and Training initiative; $5.8 million to support departmental emphasis on response and mitigation of Chemical, Biological, Radiological/Nuclear, and

Explosive (CBRNE) incidents; $4.0 million to support departmental regenerative medicine initiatives at Uniformed Services University of the Health Sciences; $3.0 million to support Defense Health Board requirements; and, $29.8 million in miscellaneous program increases (net of increases and decreases). Program decreases include: $1,594.7 million reversal of FY 2009 Congressional Special Interest (CSI) items; $1,376.4 million reversal of FY 2008 one year funding from National Stockpile account and adjustment to benefit reform savings; $760.7 million for decreased requirement in Retail Pharmacy for estimated savings associated with Federal Pricing regulations for purchases at civilian pharmacies; $378.7 million for reversal of funds provided for health benefits other than benefit reform initiatives; $314.6 million in adjusted requirement for savings associated with billings to TRICARE using Outpatient Prospective Payments System (PPS) rates; $209.7 million transferred to Defense-Wide MILCON to support recapitalization of medical treatment facilities; $133.2 million for reversal of military to civilian conversions; $125.0 million to fund Base Realignment and Closure (BRAC) initial outfitting and transition costs; $102.6 million reduction for pharmaceuticals/vaccines to combat Avian Influenza/Pandemic Influenza as efficacy and availability issues are resolved; $68.0 million for the TRICARE Reserve Select Program (TSRP) first year implementation of actuarial basis in determining monthly premium adjustments applied at the beginning of the calendar year; $33.8 million realignment from O&M to RDT&E for E-Commerce, United States Army Medical Research Institute for Infectious Diseases (USAMRIID), and Seapower 21 and Expeditionary Maneuver Warfare requirements; $18.5 million due to elimination of Financial Statements Audits; $12.0 million from O&M to Procurement for Information Management/Technology security upgrades; $10.1 million to Defense Manpower Data Center to support software maintenance for managed care contractors; and $3.4 million for facility sustainment adjustments.

Narrative Explanation of FY 2009 and FY 2010 Research Development Test & Evaluation (RDT&E) Changes:

The Defense Health Program RDT&E program reflects a net decrease of $289.5 million between FY 2009 and FY 2010. This includes price growth of $11.7 million and a net program decrease of $301.2 million. Program increases include: $372.2 million program

enhancement to reduce medical RDT&E capability gaps the Secretary of Defense seeks to close by 2025 under the Guidance for the Development of the Force (2010-2015); $31.5 million to rebase research programs in support of high-interest projects and enhance competitiveness; $21.0 million to support the Centers of Excellence in Breast Cancer, Prostate Cancer, Gynecological Cancer, Cardiac and, Pain/Neuroscience; $17.0 million for reprogramming from DHP O&M for initial outfitting of a new United States Army Medical Research Institute for Infectious Diseases (USAMRIID) facility; $3.5 million for the Regenerative Medicine research; $3.3 million to Expense Assignment System (EAS) IV supporting development and system demonstration for workload accounting capability; $3.1 million for Armed Forces Health Longitudinal Technology Application (AHLTA) enhancements, such as allergy, Emergency Room capabilities, medication weights, and surrogate workflow requirements in support of patient safety; $2.9 million to support TBI/PH Wounded Warrior initiatives; $2.6 million for Central IM/IT to begin development and testing of a common services platform starting in FY 2010; $2.6 million increase due to a SBIR tax reduction; $2.1 million increase due to departmentally directed support to Wounded Warrior electronic data sharing requirements; $1.9 million for TMIP support to departmentally directed Wounded Warrior imaging initiatives and; $4.3 million for Miscellaneous enhancements/realignment <$1.5M (net of increases and decreases). Program decreases include: $717.7 million for one-time Congressional adds; $22.6 million in Small Business Innovation Research (SBIR) reductions; $8.6 million for fluctuations in Defense Medical Logistics Standard System (DMLSS) profile associated with timing various requirements in migrating to a net centric, service oriented architecture; $6.3 million for completion of Defense Occupational and Environmental Health Readiness System-Industrial Hygiene (DOEHRS IH) interfaces with Theater Medical Information Program (TMIP) and additional training planned in FY 2009; $3.2 million for high priority Composite Health Care System (CHCS) ancillary system change requests starting development in FY 2009; $3.2 million due to TRANSCOM Regulating and Command and Control Evacuation System (TRAC2ES) reaching Full Operational Capability (FOC) in FY 2009; $2.9 million for adjustment in profile of Defense Medical Human Resources System-internet(DMHRSi) associated with requirements to provide interfaces for Service readiness and pay systems $2.4 million for completion of configuration, integration, and testing of Patient Safety Reporting (PSR) COTS solution and; $1.8 million due to completion of adding new data types for Joint Electronic Health Record Interoperability (JEHRI) through the Bi-Directional Health Information Exchange

(BHIE) capability and; $0.4 for completion of E-Commerce financial management system legacy application and modernization.

Narrative Explanation of FY 2009 and FY 2010 Procurement Changes:

The DHP Procurement Program has a net increase of $10.2 million between FY 2009 and FY 2010. This consists of $6.4 million in price growth and net program growth of $3.8 million. Program increases include: $19.2 million due to replacement cycles of End User Devices (EUD) and LAN Upgrades, as well as additional infrastructure support for Wounded Warrior initiatives; $12.0 million reprogramming from DHP O&M for technology upgrades and security enhancements for patient care and IM/IT equipment; $8.2 million for departmentally directed funding for AHLTA support to Wounded Warrior initiatives and; $2.1 million for departmentally directed funding for AHLTA support to Clinical Case Management for Wounded Warrior initiatives and; $1.2 million for Miscellaneous enhancements/realignment <$1.5M (net of increases and decreases). Program decreases include: $8.0 million for one-time FY 2009 Congressional Special Interest (CSI) projects; $7.1 million due to one time CHCS hardware replacement in FY 2009; $6.8 million associated with deployment of digital files and imaging module within AHLTA to additional sites in FY 2009; $5.3 million due to DOEHRS HC audiometer refresh completion with FY 2009 funding; $4.5 million reduction in DOEHRS IH due to deployment activities associated with Corporate Reporting and Environmental Health Modules to be accomplished in FY 2009; $2.4 million for completion of Executive Information/Decision Support (EI/DS) hardware replacement; $1.5 million due to one time hardware refresh for Defense Blood Standard System (DBSS) in FY 2009; $3.3 million for Miscellaneous enhancements/realignment <$1.5M (net of increases and decreases).

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:

- **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. The measure that will be tracked is RVUs per Primary Care Provider per Day, with a long term goal of meeting the civilian sector benchmark.
- **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.

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 performance for FY 2008 was 60 percent versus the goal of 61 percent. While the yearly performance is slightly below the goal, performance still improved over the previous year. Continuous increases in enrollment and improvement in the score demonstrates real progress for the program.

- **Inpatient Production Target** (Relative Weighted Products) – During FY 2008, the MHS is projected to produce 216 thousand RWPs against a target of 242 thousand RWPs. These numbers are based on the records reported to date, and will grow a bit more as all records are completed. While care for Active Duty continues at high levels due to care for Wounded Warriors, there was a drop in the overall utilization from prior years that was not accounted for in the plan. Additionally, there has been a slight drop for other beneficiaries within the Direct Care MTFs. The MHS will continue to monitor performance this year and take any necessary actions to improve performance.
- **Outpatient Production Target** (Relative Value Units) – With an increase emphasis on paying for performance, the system has seen a renewed focus on production of outpatient care. The system produced 31.5 million relative value units versus a

goal of 30.2 million relative value units. For FY 2008, the MHS has achieved the goal.

- **Primary Care Productivity** – Due to significant system and data reporting issues for a large number of Medical Treatment Facilities, this measure is missing a number of MTFs and may change when these sites are included. Currently the Services are working on making sure the systems function properly and updating the data for FY 2008. Based on the data currently available, the MHS performance is 15.5 versus the goal of 15.7 RVUs per Primary Care Provider per Day. This metric will be updated during the next budget cycle when data has been completed.
- **Medical Per Member Per Year** – Annual Cost Growth – Due to significant system and data reporting issues for a large number of Medical Treatment Facilities, this measure is using projected data for the FY 2008 3rd quarter results. Based on updated FY 2008 data, the annual cost growth for FY 2008 through the 3rd quarter was 7.2 percent, compared with the goal for the year of 6.1 percent. The goal was established based on private sector health insurance cost growths. Since projected to completion data is being used for the metric, improvements in performance are anticipated as claims data matures. At this point in time, it does not appear that the goal will be achieved, but the final number is expected to be lower than the current 3rd quarter number. This measure will continue to be monitored and updated once data is more complete.