

**Defense Health Program
Fiscal Year (FY) 2011 Budget Estimates
Defense Health Program
Appropriation Highlights**

(\$ in Millions)

	<u>FY 2009¹</u>	<u>Price</u>	<u>Program</u>	<u>FY 2010²</u>	<u>Price</u>	<u>Program</u>	<u>FY 2011³</u>
	<u>Actuals</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>
<u>Appropriation Summary:</u>							
Operation & Maintenance	26,622.8	1,456.1	-518.4	27,560.4	763.9	1,591.0	29,915.3
RDT&E	1,094.8	12.0	181.2	1,288.0	18.0	-806.1	499.9
Procurement	<u>361.6</u>	<u>7.4</u>	<u>-2.3</u>	<u>366.7</u>	<u>8.5</u>	<u>144.7</u>	<u>519.9</u>
Total, DHP	28,079.1	1,475.5	-339.5	29,215.2	790.4	929.6	30,935.1
MERHCF Receipts ⁴	<u>7,960.4</u>			<u>8,231.6</u>			<u>8,939.9</u>
Total Health Care Costs	36,039.5			37,446.8			39,875.0

^{1/} FY 2009 actuals include Operation and Maintenance (O&M) funding of \$1,100.0M from the FY 2009 Overseas Contingency Operations (OCO) Bridge Supplemental, Public Law 110-252, and \$1,055.3M from the Supplemental Appropriations Act of 2009, Public Law 111-32 (\$845.5M for O&M; \$159.6M for Research, Development, Test and Evaluation (RDT&E); and \$50.2M for Procurement).

^{2/} FY 2010 current estimate excludes O&M funding of \$1,256.7M for OCO under the FY 2010 Department of Defense Appropriations Act, Public Law 111-118. Additionally, FY 2010 excludes \$132.0M O&M funding transferred from Health and Human Services (HHS) for H1N1 in the Supplemental Appropriations Act of 2009, Public Law 111-32; the FY 2010 current estimate does include \$8.0M RDT&E funds for H1N1 from Public Law 111-32.

^{3/} The Department of Defense projects \$132.2M O&M funding should transfer in FY 2011 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 Fiscal Year 2010).

^{4/} Reflects Departmental DoD Medicare-Eligible Retiree Health Care Fund (MERHCF) for FY 2009, FY 2010, and FY 2011 (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 2011 Defense Health Program budget request of \$30,935.1 million includes realistic cost growth for pharmacy, managed care support contracts, and other health care services either provided in Military Treatment Facilities or purchased from the private sector. This budget also includes funding to support costs associated with the Army and Marine Corps permanent strength increases for Ground Forces Augmentation requirements, funding for enduring Traumatic Brain Injury and Psychological Health and Wounded, Ill and Injured requirements, funds for the Electronic Health Record and Joint Incentive Fund initiatives, and funding for the creation of the Captain James A. Lovell Federal Health Care Center in North Chicago, Illinois, created by the total integration of the North Chicago Veteran's Affairs Medical Center and the Navy Health Clinic, Great Lakes.

The DHP appropriation 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, Private Sector Care, and Information Management Operation and Maintenance health care costs.

The DHP appropriation Research, Development, Test and Evaluation (RDT&E) Program provides funds for medical Information Management/Information Technology (IM/IT), battlefield injury research, medical laboratory research and the Armed Forces Radiobiological Research Institute.

The DHP appropriation Procurement Program funds acquisition of capital equipment in Military Treatment Facilities 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 obsolete, or uneconomically repairable items; equipment supporting programs such as pollution control, clinical investigation, and occupational/environmental health; and Military Health System information processing requirements.

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Narrative Explanation of FY 2010 and FY 2011 Operation and Maintenance (O&M) Changes:

The Defense Health Program O&M funding reflects an overall increase of \$2,354.9 million between FY 2010 and FY 2011, consisting of \$763.9 million in price growth and net program increase of \$1,591.0 million.

Program increases include: \$1,182.5 million for Private Sector Care requirements associated with higher number of users, higher utilization of pharmacy and health care, and expanded dental benefits; \$438.9 million for increased direct care requirements associated with health care delivery; \$307.6 million for initial outfitting and transition costs associated with military construction (MILCON) and restoration and modernization projects; \$120.3 million for Electronic Health Record projects with Veterans Affairs; \$107.5 million for increased operational, IM/IT and associated sustainment, and facilities requirements supporting Wounded Warrior and Traumatic Brain Injury and Psychological Health programs; \$26.2 million for increased industrial hygiene, occupational health, and veterinary services support and higher costs for Military Entrance Processing Centers; \$10.3 million for Joint Medical Command collocation lease costs and other Management Headquarters requirements; and, \$7.1 million to develop the Joint Medical Education Training Center and other training programs.

Program decreases include: \$321.8 million to reverse one-time FY 2010 Congressional adjustments; \$165.5 million for decreased Private Sector Care requirements associated with additional reimbursements under Federal Ceiling Pricing; \$40.3 million for decreased operational and IM/IT requirements associated with accelerated Ground Forces Augmentation; \$27.0 million for cost savings resulting from medical supply chain management initiatives across the full range of military health care operations; \$24.7 million transfer to MILCON for recapitalization of medical treatment facilities; \$23.7 million for reversal of military-to-civilian conversions; and \$6.4 million transfer for Procurement and Research, Development, Testing and Evaluation Programs.

Beginning in FY 2011, the Department projects \$132.154 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 Fiscal Year 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.

Narrative Explanation of FY 2010 and FY 2011 Research Development Test and Evaluation (RDT&E) Changes:

The DHP RDT&E Program reflects a net decrease of \$788.1 million between FY 2010 and FY 2011. This includes price growth of \$18.0 million and a net program decrease of \$806.1 million.

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Program increases include: \$41.6 million increase for the Electronic Health Record; \$15.7 million reprogrammed from DHP O&M for the Centers of Excellence; \$5.0 million increase for the Virtual Lifetime Electronic Record (VLER); \$4.9 million for Defense Medical Logistics Standard System (DMLSS) associated with interface development and upgrades for data fields to document service unique data elements associated with task and time; \$3.8 million for Defense Occupational and Environmental Health Readiness-Industrial Hygiene (DOEHRS IH) for development of additional Environmental Health functionality; \$0.6 million increase to research programs in support of high-interest projects and enhance competitiveness; and \$4.1 million miscellaneous enhancements/realignment <\$1.5M (net of increases and decreases).

Program decreases include: \$666.9 million decrease for one-time Congressional adds; \$140.1 million in Guidance for the Development of the Force (FY 2010-2015) medical capability gap requirements (the Defense Advanced Research Projects Agency (DARPA) will sustain a \$125.0 million level of effort toward battlefield injury research gap requirements beginning in FY 2011); \$15.5 million decrease for the Small Business Innovation Research Program which occurs during year of execution; \$8.3 million for completion of development and system demonstration of financial system enhancements; \$8.0 million decrease for Pandemic Influenza Preparedness and Response; \$6.8 million decrease for Defense Medical Human Resources System-internet (DMHRSi) associated with the completion of modernizations/enhancements providing interfaces for Service readiness and pay systems as well as COTS configuration; \$5.8 million for completion of the Joint Electronic Health Record Interoperability (JEHRI) capabilities associated with electronic sharing between DoD and VA in FY 2010; \$5.6 million with the CHCS ancillary system change request planned developmental schedules; \$5.2 million for completing the transaction of Medical Situational Awareness in Theater (MSAT) to replace the Joint Medical Workstation (JMeWS)/Theater Medical Data Storage (TMDS) and the transition of the Joint Theater Trauma Registry (JTTR) to Theater Medical Information Program-Joint (TMIP-J); \$3.4 million in Enterprise Blood Management System (EBMS) attributed to completion of design and configuration of the COTS solution in FY 2010 with a transition to testing and integration activities in FY 2011; \$3.2 million for initial outfitting of the new USAMRIID and USAMRICD facilities; \$2.3 million in Executive Information/Decision Support (EI/DS) reductions in FY 2011 to the MHS Management and Reporting Tool (M2) and MHS Data Repository (MDR) enhancements to offset higher priority portfolio needs; and \$10.7 million miscellaneous enhancements/realignment under \$1.5M (net of increases and decreases).

Narrative Explanation of FY 2010 and FY 2011 Procurement Changes:

The DHP Procurement Program has a net increase of \$153.2 million between FY 2010 and FY 2011. This consists of \$8.5 million in price growth and program growth of \$144.7 million.

Program increases include: \$140.4 million increase related to the Electronic Health Record; \$40.9 million reprogramming from DHP O&M for initial outfitting associated with US Army Medical Command (USAMEDCOM) MILCON projects; \$18.4 million due to replacement cycles of End User Agreements (EUDs) and Large Area Network (LAN) upgrades and additional infrastructure support for Wounded, Ill and Injured; \$4.2 million

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associated with the deployment of DOEHRs IH Mobile to the Air Force and Navy; and \$3.8 million miscellaneous enhancements/realignment under \$1.5M (net of increases and decreases).

Program decreases include: \$44.6 million for one-time Congressional adds; \$8.2 million for completion of Wounded, Ill and Injured Procurement requirements associated with imaging in FY 2010; \$6.4 million in support of COTS solution for blood management schedule and planned license purchases; \$2.2 million for purchases associated with the Clinical Case Management Wounded, Ill and Injured requirements planned to be accomplished in FY 2010; and \$1.6 million decrease for DMLSS associated with completion of deployment requirements tied to migration to a net centric, service oriented architecture.

President's Management Plan - Performance Metrics Requirements:

The 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. 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, referred to as RWP) - 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 RVU) - 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 (HMO), 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

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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 2009 exceeded the goal of 57 percent during each quarter for the year. Due to yearly weighting algorithm process, a consolidated FY 2009 number is not yet available. Continuous increases in enrollment and improvement in the score demonstrates real progress for the program with respect to satisfying our beneficiaries.
- **Inpatient Production Target** (Relative Weighted Products) - For the most recent reported monthly data for FY 2009, the MHS is projected to produce 210 thousand RWPs against a target of 222 thousand RWPs. These numbers are based on the records reported to date, and will increase slightly 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.
- **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. For FY 2009, the system produced 32.8 million relative value units versus a goal of 31.7 million relative value units. The MHS achieved the goal for the year.
- **Primary Care Productivity** - Due to significant system and data reporting issues for a large number of Military Treatment Facilities (MTFs), 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 2009. Based on the data currently available for the first 3 quarters of FY 2009, the MHS performance is 18.2 versus the goal of 19.1 RVUs per Primary Care Provider per Day. This metric will be updated during the next budget cycle when data has been completed.

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- **Medical Cost Per Member Per Year - Annual Cost Growth** - Due to significant system and data reporting issues for a large number of MTFs, this measure is using projected data for the FY 2009 3rd quarter results. Based on this data, the annual cost growth for FY 2009 through the 3rd quarter was 11.7 percent, compared with the goal for the year of 5.0 percent. The goal was established based on private sector health insurance cost growth. 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 year to date performance number has improved each quarter. This measure will continue to be monitored and updated once data is more complete.