

**Defense Health Program  
Operation and Maintenance  
Fiscal Year (FY) 2012 Budget Estimates  
Private Sector Care**

**I. Description of Operations Financed:** This Budget Activity Group provides for all medical and dental care plus pharmaceuticals received by DoD-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 (TRRx) program. TRRx provides network pharmaceutical prescription benefits for medications from local economy establishments.

**TRICARE Managed Care Support Contracts (MCSC):** The TRICARE Managed Care Support Contracts provide a managed care program which integrates a standardized health benefits package with military medical treatment facilities and civilian network providers on a regional basis. With the full deployment of TRICARE, all but a small portion of the standard Civilian Health and Medical Program of the Uniformed Services benefits have been absorbed into the MCSC. Includes health care costs provided in civilian facilities and by private practitioners to retired military personnel and authorized family members of Active Duty, retired, or deceased military service members.

**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.

**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 their family members.

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**Uniformed Services Family Health Program (USFHP):** Provides TRICARE-like benefits authorized through contracts with designated civilian hospitals in selected geographic markets to beneficiaries who reside in one of these markets and who are enrolled in the program.

**Supplemental Care - Health Care:** This program 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 Purchased Health Care program element.

**Supplemental Care - Dental:** Provides for uniform dental care and administrative cost for Active Duty members receiving dental care services in the civilian sector to include Veteran Administration 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 provide services to the Military Health Care System and Medicare.

**Overseas Purchased Health care:** Includes coverage for delivery of TRICARE Prime benefits in civilian facilities by private practitioners to eligible Active Duty and Active Duty family members through the TRICARE Overseas and Global Remote Overseas programs. 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. The Supplemental Care program which funds health care provided in the private sector to Active Duty members and other designated eligible patients records costs for the overseas beneficiaries in this program element.

**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, TMA managed demonstrations and congressionally directed health care programs, and the TRICARE Reserve Select program which is a premium based option available to Selected

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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 not actual health care. Contracts for marketing and education functions, claims auditing, e-Commerce and the National Quality Monitoring Service are reflected in this program element.

**II. Force Structure Summary:** Approximately 9.6 million DoD beneficiaries are eligible to receive care under private sector care programs, including approximately 2.1 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 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):**

	<b>FY 2010 Actuals</b>	<b>Budget Request</b>	<b>FY 2011 Congressional Action</b>		<b>Current Appropriation</b>	<b>Current Estimate</b>	<b>FY 2012 Estimate</b>
			<b>Amount</b>	<b>Percent</b>			
<b>A. <u>Subactivities</u></b>							
1. Pharmaceuticals Purchased Health Care	323,953	320,885	0	0%	320,885	320,885	391,514
2. National Retail Pharmacy	1,885,198	1,853,760	0	0%	1,853,760	1,853,760	1,984,627
3. Managed Care Support Contracts	6,663,455	7,376,503	0	0%	7,376,503	7,376,503	7,203,021
4. MTF Enrollee Purchased Care	2,321,367	2,977,883	0	0%	2,977,883	2,977,883	2,947,481
5. Dental Purchased Care	334,546	354,505	0	0%	354,505	354,505	403,540
6. Uniformed Services Family Health Program	365,014	423,380	0	0%	423,380	423,380	455,714
7. Supplemental Care - Health Care	1,314,300	1,573,663	0	0%	1,573,663	1,573,663	1,642,260
8. Supplemental Care - Dental	170,840	144,021	0	0%	144,021	144,021	207,082
9. Continuing Health Education/Capitalizatio	318,320	336,156	0	0%	336,156	336,156	341,764
10. Overseas Purchased Health care	272,799	302,044	0	0%	302,044	302,044	313,650
11. Miscellaneous Purchased Health Care	291,604	261,825	0	0%	261,825	261,825	404,609
12. Miscellaneous Support Activities	<u>63,614</u>	<u>110,120</u>	<u>0</u>	<u>0%</u>	<u>110,120</u>	<u>110,120</u>	<u>82,010</u>
Total	14,325,010	16,034,745	0	0%	16,034,745	16,034,745	16,377,272

**Notes:**

1. FY 2010 actuals include \$530.567 for Overseas Contingency Operations (OCO) under DoD Supplemental Appropriations Act of 2010, Public Law 111-118, and \$28.175M from DoD Supplemental Appropriations Act of 2010, Public Law 111-112
2. FY 2011 President's Budget Request excludes \$538.376M for OCO.
3. FY 2012 Request excludes \$464.869M for OCO.
4. Excluded from the figures above are the receipts from the DoD Medicare Eligible Retiree Health Care Fund, in the amount of \$6,777.565M in FY 2010. Excluded are projections for MERHCF in FY 2011 of approximately \$7,597.400M and in FY 2012 \$7,997.411M to pay for purchased health care.

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<b>B. <u>Reconciliation Summary</u></b>	<b>Change <u>FY 2011/FY 2011</u></b>	<b>Change <u>FY 2011/FY 2012</u></b>
<b>Baseline Funding</b>	<b>16,034,745</b>	<b>16,034,745</b>
Congressional Adjustments (Distributed)	0	n/a
Congressional Adjustments (Undistributed)	0	n/a
Adjustments to Meet Congressional Intent	0	n/a
Congressional Adjustments (General Provisions)	0	n/a
<b>Subtotal Appropriated Amount</b>	<b>16,034,745</b>	<b>n/a</b>
OCO and Other Supplemental Appropriations	538,376	<b>n/a</b>
Fact-of-Life Changes	0	n/a
<b>Subtotal Baseline Funding</b>	<b>16,573,121</b>	<b>n/a</b>
Anticipated Supplemental	0	n/a
Reprogrammings	0	n/a
Less: OCO and Other Supplemental Appropriations	-538,376	<b>n/a</b>
<b>Revised Current Estimate</b>	<b>16,034,745</b>	<b>16,034,745</b>
Price Change	n/a	561,217
Functional Transfers	n/a	-7,600
Program Changes	<u>n/a</u>	<u>-211,090</u>
<b>Current Estimate</b>	<b>16,034,745</b>	<b>16,377,272</b>

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	(\$ in Thousands)	
	<u>Amount</u>	<u>Totals</u>
<b>C. <u>Reconciliation of Increases and Decreases</u></b>		
<b>FY 2011 President's Budget Request</b>		<b>16,034,745</b>
1. Congressional Adjustments		0
a. Distributed Adjustments	0	
b. Undistributed Adjustments	0	
c. Adjustments to meet Congressional Intent	0	
d. General Provisions	0	
<b>FY 2011 Appropriated Amount</b>		<b>16,034,745</b>
2. OCO and Other Supplemental Appropriations		538,376
3. Fact of Life Changes		0
a. Functional Transfers	0	
b. Technical Adjustments	0	
c. Emergent Requirements	0	
<b>FY 2011 Baseline Funding</b>		<b>16,573,121</b>
4. Reprogrammings (requiring 1415 Actions)		0
a. Increases	0	
b. Decreases	0	
5. Less: OCO and Other Supplemental Appropriations		-538,376
<b>Current Estimate for FY 2011</b>		<b>16,034,745</b>
6. Price Change		561,217
7. Transfers		-7,600
a. Transfers In		0
b. Transfers Out		-7,600
1) Third Generation of TRICARE Contracts (T3) Support:	-7,600	
Realignment of funding to support programming revisions under T3 versions of MCSC within the automated eligibility systems used by the Military Health System.		

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		<u>(\$ in Thousands)</u>	
<u>C. Reconciliation of Increases and Decreases</u>		<u>Amount</u>	<u>Totals</u>
8. Program Increases			1,402,548
a. Annualization of New FY 2011 Program		0	
b. One-Time FY 2012 Costs		14,253	
1) OCO to Base - Transfer of Navy Individual Augmentees:		14,253	
Realigns 3,836 temporary Navy Individual Augmentees and funding from			
FY 2012 OCO request to the FY 2012 base budget request.			
c. Program Growth in FY 2012			1,388,295
1) Utilization of Managed Care Support Contracts:		743,114	
Cost increases are the result of 1.04% growth in health care users and			
5.62% increased utilization of health care benefits by all users as well			
as sustaining the increased users from Active Duty end-strength growth,			
additional retirees and their family members who are now using TRICARE as			
their primary health care plan.			
2) Federal Ceiling Pricing:			
Revised estimates for cost savings projections under initiative enacted			
for achieving reimbursement paid to the government from prescriptions		379,052	
filled by civilian pharmacies implementing maximum rates per Federal			
Ceiling Pricing standards. FY 2011 Retail Pharmacy Funding Baseline:			
\$1,853.8M.			
3) Pharmacy:			
Cost increases are the result of 1.93% growth in new users and 3.74%		128,771	
increased utilization of the pharmacy benefits by all users as well as			
sustaining the increase in users resulting from active duty end-strength			
growth, additional retirees and their family members who are now using			
TRICARE as their primary health care plan. FY 2011 PSC Pharmacy Funding			
Baseline: \$2,174.6M.			
4) TRICARE Reserve Select (TRS):			
Increase in government costs due to rise in enrollment above previous		137,358	
projections. FY 2011 TRS Funding Baseline: \$201.0M.			

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**C. Reconciliation of Increases and Decreases**

	<u>Amount</u>	<u>Totals</u>
9. Program Decreases		-1,613,638
a. One-Time FY 2011 Costs	0	
b. Annualization of FY 2011 Program Decreases	0	
c. Program Decreases in FY 2012	-1,613,638	
1) Change in Growth Projections:	-1,383,777	
Decrease in requirements resulting from lower baseline costs per claim and slower growth pattern of eligibles as retirees age into Medicare at age 65 with claims paid by the Medicare-Eligible Retiree Health Care Fund (MERHCF).		
2) Patient Centered Medical Home:	-25,574	
Reduction to PSC requirements for assumed increases in workload within the In-House Care BAG under the Patient Center Medical Home concept.		
3) Clear and Legible Reporting:	-20,071	
Transfer of requirement to In-House Care BAG for oversight of Clear and Legible Reporting duties.		
4) Fraud, Waste and Abuse Activities:	-14,620	
Additional incremental estimated savings over FY 2011 from initiatives designed to improve identification and verification of waste, fraud and abuse within the TRICARE pharmacy and health care programs.		
5) Secretary of Defense Efficiencies - Front End Assessment (FEA)-Personnel, Pharmacy Co-Pay adjustment:	-106,421	
Assumed savings resulting from proposal to adjust pharmacy co-pays for working age retirees and families at retail establishments to incentivize use of Military Treatment Facility pharmacy locations and mail order. FY 2011 PSC Pharmacy Funding Baseline: \$2,171.6M		



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**C. Reconciliation of Increases and Decreases**

	<u>Amount</u>	<u>Totals</u>
6) Secretary of Defense Efficiencies - FEA-Personnel, Enrollment Fees: Assumed savings resulting from proposal to increase current enrollment fees. The fees will apply to working age retirees and families.	-31,398	
7) Secretary of Defense Efficiencies - FEA-Personnel, Medicare Rates at Sole Community Hospitals: Projected savings resulting from proposal to adhere to Medicare reimbursement rates for inpatient and outpatient services rendered at Sole Community Hospitals.	-31,000	
8) Secretary of Defense Efficiencies - FEA-Logistics, Medical Supply Chain Sourcing Optimization: Approves the logistics efficiency to optimize medical supply chain sourcing; adjusts TRICARE Mail Order Pharmacy based on these optimization initiatives. FY 2011 Pharmaceuticals (Mail Order) Funding Baseline: \$320.9M.	-777	

**FY 2012 Budget Request**

**16,377,272**

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

	FY 2010 <u>Actuals</u>	FY 2011 <u>Estimate</u>	FY 2012 <u>Estimate</u>	Change <u>FY 2010/FY 2011</u>	Change <u>FY 2011/FY 2012</u>
<b>Uniformed Services Family Health Services</b>	<b>102,631</b>	<b>105,616</b>	<b>110,108</b>	<b>2,985</b>	<b>4,492</b>
Enrollees (Non-MERHCF, DoD only)	65,345	67,303	70,771	1,958	3,468
Enrollees (MERHCF, DoD only)	37,286	38,313	39,337	1,027	1,024

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**V. Personnel Summary:**

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>Change</u> <u>FY 2010/FY 2011</u>	<u>Change</u> <u>FY 2011/FY 2012</u>
<u>Active Military End Strength (E/S)</u>					
Officer	0	0	0	0	0
Enlisted	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Military	0	0	0	0	0
 <u>Active Military Average Strength(A/S)</u>					
Officer	0	0	0	0	0
Enlisted	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Military	0	0	0	0	0
 <u>Civilian FTEs</u>					
U.S. Direct Hire	0	0	0	0	0
Foreign National Direct Hire	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Direct Hire	0	0	0	0	0
Foreign National Indirect Hire	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Civilian	0	0	0	0	0
 Average Civilian Salary (\$000's)	0.000	0.000	0.000		
 <u>Contractor FTEs (Total)</u>	0	0	0	0	0

**VI. Outyear Summary: N/A**

**VII. OP 32 Line Items as Applicable (Dollars in thousands - see next page):**