Defense Health Program
Fiscal Year (FY) 2015 Budget Estimates
Defense Health Program
Appropriation Highlights

($ in Millions)

Appropriation Summary:	FY 2013[1] Actuals	Price Growth	Program Growth	FY 2014[2] Estimate	Price Growth	Program Growth	FY 2015[3] Estimate
Operation & Maintenance[4]	29,288.4	909.6	498.2	30,696.2	882.0	-546.3	31,031.9
RDT&E	1,017.7	17.3	517.3	1,552.3	27.9	-925.6	654.6
Procurement	336.8	8.4	96.5	441.8	12.4	-145.8	308.4
Total, DHP	**30,642.9**	**935.3**	**1,112.0**	**32,690.3**	**922.3**	**-1,617.7**	**31,994.9**
MERHCF Receipts[5]	7,868.0			8,774.6			9,352.4
Total Health Care Costs	**38,510.9**			**41,464.9**			**41,347.4**

1/ FY 2013 actuals includes $993.898 million for OCO.
2/ FY 2014 estimate excludes $898.701 million for OCO.
3/ FY 2015 request excludes OCO.
4/ The Department of Defense projects O&M funding of $117.9 million in FY 2013, $143.1 million in FY 2014, and $146.8 million in FY 2015 should transfer 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 projects O&M funding for $15 million in FY 2013, $15 million in FY 2014, and $15 million in FY 2015 should transfer to the DoD-VA Health Care Sharing Incentive Funding established by Title 38, Section 8111 of the United States Code (USC) and Section 721 of Public Law 107-314 (National Defense Authorization Act for 2003).
5/ Reflects DoD Medicare-Eligible Retiree Health Care Fund (MERHCF) O&M Receipts for FY 2013, FY 2014, and FY 2015.

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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 2015 budget request of $31,994.9 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), medical research to reduce capability gaps, support to continental United States and (CONUS) and outside of continuous United States (OCONUS) medical laboratory facilities, and the Armed Forces Radiobiological Research Institute (AFRRI).

The DHP appropriation Procurement program funds acquisition of capital equipment in Military Treatment Facilities (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 worn-out, obsolete, or 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 2014 and FY 2015 Operation and Maintenance (O&M) Changes:

The DHP O&M funding reflects an overall increase of $335.7 million between FY 2014 and FY 2015, consisting of $882.0 million in price growth and a net program decrease of $546.3 million. Program increases include:

- $240.3 million for New Programs/Extended Healthcare Coverage to meet the Patient Protection and Affordable Care Act (ACA) and Defense of Marriage Act (DOMA) and other program changes for Private Sector Care.
- $144.1 million in two geographical regions to align funding to actual execution for health care services. These two regions are the National Capital Region (NCR) and the Joint Base San Antonio (JBSA) market areas. The increase in JBSA is due to higher than predicted population growth.
- $88.0 million for FY 2015 proposed benefit reform proposals for the consolidated TRICARE Plan to provide better flexibility and choice.
- $55.9 million for reversal of FY 2014 One-Time Congressional Adjustments.
- $25.6 million in additional funding to address a refined information technology mission focused on data interoperability, implementation of national health data standards for the seamless integrated sharing of electronic health data between the DoD and Department of Veterans Affairs (VA) and other health partners, and the Defense Health Management System Modernization (DHMSM).
- $25.2 million for increases to support legacy IM/IT systems such as Clinical Information System (CIS) and Armed Services Blood Program Office (ASBPO); and for the Armed Forces Billing and Collection Utilization Solution (ABACUS).

- $14.9 million for transfer of the non-operational activities associated with the US Special Operations Command (USSOCOM) embedded behavioral health and warrior care program.
- $9.3 million for net changes to meet education and training programs to focus on changing industry standards, staff development, simulation, and academic enrichment.
- $8.2 million to support Department of Defense financial statement auditing efforts.
- $7.5 million for base operations costs associated with the new US Army Research Institute for Chemical Defense (USAMRICD) facility.
- $7.1 million for base operations costs such as hospital/clinic laundry, utilities, and base support services.
- $6.1 million for critical bio-surveillance activities at the Armed Forces Health Surveillance Center (AFHSC).
- $3.5 million to support operations at six additional National Intrepid Center of Excellence (NICoE) satellite facilities under construction.

Program decreases include:

- $382.3 million for initial outfitting and transition (IO&T) based upon updated military construction (MILCON) projects and restoration and modernization (R&M) requirements.
- $180.0 million for FY 2015 proposed benefit reform proposals for the pharmacy co-pays.
- $177.9 million for equipment purchases to match normal life-cycle replacement rate.
- $157.0 million in Shared Services Savings (these are net savings to include initial investment requirements).
- $91.6 million for savings associated with the Military Health System (MHS) Modernization study.
- $80.5 million decrease in Facilities Sustainment, Restoration and Modernization (FSRM) to normalize the annual investment profile to meet a more consistent risk mitigation and acquisition management strategy.
- $44.3 million for efficient spending through reduced travel and printing costs.
- $35.1 million for Department directed 20% management headquarters reductions.
- $23.3 million reduction of biodefense vaccines based upon projected population changes.

- $6.3 million for savings associated with reshaping the MHS civilian workforce.
- $3.7 million for transfer of Commercial Airline Travel Program (CATP) to the Services and for various rate changes such as Defense Information Systems Agency (DISA), Defense Finance and Account Services (DFAS), and DHHQ Force Protection.

Continuing in FY 2015, the Department projects $146.8 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. Authority for this 5-year program expires on September 30, 2015.

Continuing in FY 2015, the Department project $15 million should transfer to the DoD-VA Health Care Sharing Incentive Fund 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. Authority for this program expires in September 30, 2015.

Narrative Explanation of FY 2014 and FY 2015 Research Development Test & Evaluation (RDT&E) Changes:

The DHP RDT&E Program reflects a net decrease of $897.7 million between FY 2014 and FY 2015. This includes price growth of $27.9 million and a net program decrease of $925.6 million. Program increases include:

- $139.4 million in additional funding to address a refined information technology mission focused on data interoperability, implementation of national health data standards for the seamless integrated sharing of electronic health data between the DoD and Department of Veterans Affairs (VA) and other health partners, and the Defense Health Management System Modernization (DHMSM).

- $5.7 million for OCONUS Laboratory Infrastructure Support sustainment costs associated with administrative and facility functions at the various Army laboratories.
- $1.2 million in various smaller enhancements/realignments (these are the net of increases and decreases).

Program decreases include:

- $909.4 million due to FY 2014 one-time Congressional adds to the Defense Health Program RDT&E appropriation.
- $80.8 million for medical/health Research coinciding with a reduction in capability gaps in the diagnosis and treatment of brain injury, psychological health (PH), polytrauma and blast injury, injury prevention and reduction, radiation health, and rehabilitation.
- $35.5 million to IO&T requirements associated with the US Army Medical Research Institute of Infectious Disease (USAMRIID) and the US Army Medical Research Institute of Chemical Defense (USAMRICD) military construction (MILCON) projects.
- $31.1 million to central IM/IT funding associated with the planned completion and integration efforts for various DHP IM/IT platforms such as the Health Artifact and Image management solution (HAIMS) application and the Federated Registries Framework.
- $9.1 million to Air Force non-warfighter injury research funding to allow a focus on continuing the pace of progress in critical and higher priority research areas.
- $3.3 million to support the operations and maintenance at the Pacific-Based Joint Information Technology Center-Pacific (JITC-Pacific).
- $2.7 million in various smaller enhancements/realignments (these are the net of increases and decreases).

Narrative Explanation of FY 2014 and FY 2015 Procurement Changes:

The DHP Procurement Program has a net decrease of $133.4 million between FY 2014 and FY 2015. This consists of $12.4 million in price growth and decreased program growth of $145.8 million.

Program increases include:

- $45.7 million for various IM/IT equipment purchases, Military Treatment Facility (MTF) Communications requirements - Local Area Network (LAN), and Health Artifact and Image Management Solution (HAIMS).
- $32.9 million associated with the transfer of responsibilities for the new IT initiative from the Program Executive Office Defense Healthcare Management Systems (PEO DHMS) to the Defense Health Agency (DHA).
- $9.2 million in additional funding to address a refined information technology mission focused on data interoperability, implementation of national health data standards for the seamless integrated sharing of electronic health data between the DoD and Department of Veterans Affairs (VA) and other health partners.
- $2.1 million investment related to the consolidation of the DHA Shared Services Health Information Technology (HIT) Portfolio initiative.

Program decreases include:

- $67.7 million for reduced IM/IT equipment in the areas of End User Devices (EUDs) replacement, LAN and Server Upgrades due to the cyclical nature of hardware refresh.
- $5.2 million in Health Artifact and Image Management Solution Procurement due to completion of deployment and training activities prior to FY 2015 and out funding planned for cyclical refresh.
- $3.3 million in Armed Forces Health Longitudinal Technology Application (AHLTA) associated with completion of one-time Local Cache Server refresh in FY 2014.
- $2.0 million to Joint Electronic Health Records Interoperability (JEHRI) predominately due to the planned refresh of hardware in FY 2014.
- $1.8 million associated with planned completion of additional training requirements in FY 2014 as TMIP-J program nears full deployment decision for Increment 2.
- The following reductions are related to Departmental initiatives:

  - $65.0 million reduction in medical equipment Replacement and Modernization (R&M).
  - $43.0 million reduction in non-medical programs for Initial Outfitting Equipment (IO&T).
  - $30.0 million reduction in medical programs for IO&T.
  - $16.0 million reduction in non-medical equipment R&M.
- $1.7 million in various smaller enhancements/realignments (these are the net of increases and decreases).

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. The Quadruple Aim is focused on a 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** - This measure provides operational commanders, Military Department leaders and primary care managers the ability 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** – 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. Improvements represent positive patient experiences with the health care benefit and services they receive through the system. The goal is to improve overall satisfaction level to that of civilian plans using a standard survey instrument.

- **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 2013 related to the prior performance measure goals. The next reporting period will focus on 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 along with information related to continuation of reporting in future documents:

- **Individual Medical Readiness** – The Military Health System achieved the goal for the Total Force Medical Readiness for FY 2013 with a score of 85% compared to the goal of 83%. This is the first time the MHS has reported this high of an overall performance level for the measure, and will have to take significant steps to ensure that performance can be sustained. Overall one of the major reasons for the improvement is focused Guard and Reserve health care where performance continued increasing an additional 5% from the prior year. This measure will continue to be reported in support of the Quadruple Aim.

- **Beneficiary Satisfaction with Health Plan** – Satisfaction with Health Care Plan performance for FY 2013 exceeded the goal of 57 percent during each quarter for the year, with an aggregate score of 66 percent for the first three quarters of the year. Fourth quarter data is missing due to the sequestration. Continuous increases in enrollment and improvement in the score demonstrates real progress for the program with respect to satisfying our beneficiaries. While progress on this metric demonstrates program success, changes to the number of individuals covered by the TRICARE Prime benefit over the next couple of years may result in a decreased overall satisfaction with the Health Plan. This measure will continue to be reported in support of the Quadruple Aim.

- **Inpatient Production Target** (MS-RWPs) – For the most recent reported monthly data for FY 2013, the MHS produced 209 thousand MS-RWPs against a target of 225 thousand MS-RWPs slightly below the target. These numbers are based on the records reported to date, and will increase slightly as all records are completed. With the continued focus on early ambulatory care to prevent inpatient admissions, there was a drop in the overall inpatient utilization from prior years. Additionally, with the consolidation of inpatient services in the National Capital Region, there is a temporary decrease in inpatient workload for the year. While the overall production for the year started strong compared to the prior year, the implementation of the furloughs under sequestration, caused the workload for the last months of the year to fall below the prior year's performance. The expectation going into FY 2014 is this reduction is only temporary and will be overcome through improved performance

during the year. This measure will continue to be reported as an output measure for the DHP.

- **Outpatient Production Target** (RVUs) – With an increased emphasis on paying for performance, the system has seen a renewed focus on production of outpatient care. For FY 2013, the system produced 83 million relative value units versus a goal of 80 million relative value units. The MHS achieved the goal for the year, and expects continued improvements in the coming years. This measure will continue to be reported as an output measure for the DHP.

- **Medical Cost Per Member Per Year – Annual Cost Growth** – The Year to Date performance estimate for FY 2013 is 2.8% vs goal of 5.0%. While final claims data are still lagging, the system was able to achieve the goal during the fiscal year. A significant reason for keeping the low growth rates is related to the lack of salary inflation increases for Department civilian employees, as well very limited inflationary growth for Military. Additionally, while utilization increased slightly, it remains below the utilization growth rates experienced in the past. The MHS continues to see improvements related to changes made with respect to the outpatient prospective payments in Purchased Care and Patient Centered Medical Home within Direct Care. The expectation is that the improvements should continue into FY 2014 where the measure will continue to be reported.