

**Defense Health Program
Fiscal Year (FY) 2016 Budget Estimates
Operation and Maintenance
Introductory Statement**

(\$ in Millions)

<u>Appropriation Summary:</u>	FY 2014¹	Price	Program	FY 2015²	Price	Program	FY 2016³
	<u>Actuals</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>
Operation & Maintenance ⁴	30,219.2	871.7	-1,078.9	30,012.0	863.6	14.3	30,889.9
RDT&E	1,710.3	30.8	-10.5	1,730.6	29.4	-779.9	980.1
Procurement	<u>705.8</u>	<u>16.4</u>	<u>-413.8</u>	<u>308.4</u>	<u>8.2</u>	<u>56.7</u>	<u>373.3</u>
Total, DHP	32,635.3	918.9	-1,503.2	32,051.0	901.2	-708.9	32,243.3
MERHCF Receipts ⁵	<u>8,766.3</u>			<u>9,126.1</u>			<u>9,486.2</u>
Total Health Care Costs	41,401.6			41,177.1			41,729.5

^{1/} FY 2014 actuals includes \$715.484 million for OCO.

^{2/} FY 2015 estimate excludes \$300.531 million for OCO.

^{3/} FY 2016 request excludes \$272.704 million for OCO.

^{4/} The Department of Defense transferred O&M funding of \$117.9 million in FY 2014 and will transfer \$117.1 million in FY 2015 and \$120.4 million in FY 2016 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 transferred \$15 million of O&M funding in FY 2014 and will transfer the same amount in FY 2015 to the DoD-VA Health Care Joint Incentive Fund (JIF) as required by Section 8111 of Title 38 of the United States Code (USC) and Section 721 of Public Law 107-314 (National Defense Authorization Act for 2003). Pending congressional action on extending the JIF through FY 2016, \$15 million will be transferred to the JIF.

^{5/} Reflects DoD Medicare-Eligible Retiree Health Care Fund (MERHCF) O&M Receipts for FY 2014, FY 2015, and FY 2016.

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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 2016 budget request of \$30,889.9 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 savings from the consolidation of like services to shared services and 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), research to reduce medical capability gaps, and support to both Continental United States (CONUS) and Outside the Continental United States (OCONUS) medical laboratory facilities. The DHP appropriation Procurement program funds acquisition of capital equipment in 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 uneconomically repairable items; equipment supporting programs such as pollution control, clinical investigation, and

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occupational/environmental health; and Military Health System (MHS) information technology (IT) requirements.

Narrative Explanation of FY 2015 and FY 2016 Operation and Maintenance (O&M) Changes:

The DHP O&M funding reflects an overall increase of \$877.9 million between FY 2015 and FY 2016, consisting of \$863.6 million in price growth and a net program increase of \$14.3 million. Program increases include:

- \$1,215.0 million for reversal of FY 2015 One-Time Congressional Adjustments.
- \$63.0 million for Enterprise-Wide Information Technology Sustainment and Investments.
- \$60.5 million for increase in Facilities Sustainment, Restoration and Modernization (FSRM) to normalize the annual investment profile to meet a more consistent risk mitigation and acquisition management strategy.
- \$28.1 million to support the Joint Electronic Health Record data sharing and interoperability between Department of Defense and Department of Veterans Affairs
- \$22.7 million for one more civilian paid day.
- \$11.6 million for support of military-relevant programs for Combating Antibiotic Resistant Bacteria (CARB) in support of the President's Countering Biological Threats and promoting the Global Health Security Agenda (GHSA).
- \$10.1 million for increased Initial Outfitting and Transition requirements for MILCON and Facilities Replacement and Modernization projects.
- \$6.9 million for support of the Secretary of Defense's direction to shape a properly sized and highly capable civilian workforce.
- \$6.0 million for continued Temporary Disability Retirement List (TDRL) legal support to expedite service member medical status determinations.
- \$5.2 million realigned from RDT&E to support operations at the Pacific-Based Joint Information Technology Center (PJITC).
- \$0.8 million for start-up costs to support to the Defense Health Agency Shared Services initiative.

Program decreases include:

- \$806.8 million for reduced Private Sector Care and Direct Care requirements due to a reduced beneficiary population.

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- \$222.0 million for enactment of the FY 2015 National Defense Authorization Act and proposed FY 2016 Health Benefit Reform proposals.
- \$197.1 million in Shared Services Savings (these are net savings to include initial investment requirements).
- \$101.1 million for decreased requirements associated with Traumatic Brain Injury/Psychological Health (TBI/PH) and Wounded, Ill, and Injured (WII) requirements due to a 26% decrease in redeployments which has resulted in a decrease in associated workload.
- \$49.2 million for reduced Integrated Disability Evaluation System (IDES) requirements.
- \$18.5 million for Department directed 20% management headquarters reductions.
- \$8.3 million for reduced audit contract responsibilities realigned to OSD Comptroller.
- \$7.9 million for education and training resources for support of healthcare services and operations.
- \$2.4 million for Defense Health Agency employee assistance program, Navy Medical advanced life support and other administrative activities transferred to non-Defense Health Program organizations.
- \$1.3 million for decreased Chemical, Biological, Radiological, Nuclear and Explosive (CBRNE) training.
- \$1.0 million for Defense Financial Accounting Services (DFAS) rate reduction.

Continuing in FY 2016, the Department projects \$120.4 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 program is extended to September 30, 2016.

Pending Congressional action to extend the DoD-VA Health Care Joint Incentive Fund (JIF) the Department will transfer \$15 million to the JIF in FY 2016. Authority for the JIF, 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) expires on September 30, 2015. 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.

Narrative Explanation of FY 2015 and FY 2016 Research Development Test & Evaluation (RDT&E) Changes:

The DHP RDT&E Program reflects a net decrease of \$750.5 million between FY 2015 and FY 2016. This includes price growth of \$29.4 million and a net program decrease of \$779.9 million. Program increases include:

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- \$347.0 million in additional funding for the DoD Healthcare Management System Modernization (DHMSM) in order to support requirements review/finalization, configuration, integration and testing efforts.
- \$11.0 million realignment from the integrated Electronic Health Record (iEHR) Program Element (PE) to support the newly established DoD Medical Information Exchange & Interoperability (DMIX) PE initiative.
- \$12.0 million for phased requirements based on the United States Army Medical Research Institute of Infectious Diseases (USAMRIID) phase I safety certifications for Beneficial Occupancy Date (BOD).

Program decreases include:

- \$1,076.1 million due to the reversal of FY 2015 one-time Congressional adds to the Defense Health Program RDT&E appropriation.
- \$60.8 million reduction to Integrated Electronic Health Record (iEHR) due to approved funding profile adjustments provided in departmental fiscal guidance for the integrated Electronic Health Record (iEHR)/Defense Medical Information Exchange (DMIX).
- \$5.2 million is realigned to O&M for proper execution of operations support activities at the Pacific Based Joint Information Technology Center - Maui (PJITC-Maui).
- \$4.9 million in IO&T requirements associated with the military construction of the new US Army Medical Research Institute of Chemical Defense (USAMRICD) which is nearing completion.
- \$2.9 million in various smaller enhancements/realignments (these are net of increases and decreases).

Narrative Explanation of FY 2015 and FY 2016 Procurement Changes:

The DHP Procurement Program has a net increase of \$64.9 million between FY 2015 and FY 2016. This consists of \$8.2 million in price growth and increased program growth of \$56.7 million.

Program increases include:

- \$29.4 million to support the Composite Health Care System (CHCS) and Armed Forces Health Longitudinal Technology Application (AHLTA) sustainment activities required until the modernized electronic health record reaches full operational capability.
- \$22.8 million restoration of Budget Control Act (BCA) reductions for replacement and modernization of critical healthcare equipment.

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- \$10.0 million increase for AHLTA End User Devices (EUDs).
- \$7.5 million associated with the start of planned Health Artifact and Image Management Solution (HAIMS) refresh activities.
- \$5.4 million for infrastructure technology refresh supporting the Medical Community of Interest (MEDCOI).
- \$2.8 million associated with implementation of Enterprise Blood Management System - Donor module.

Program decreases include:

- \$16.0 million transfer to the Defense Information Systems Agency (DISA) to support the build-out of four (4) additional Non-Classified Internet Protocol Routers (NIPR) Joint Regional Security Stack (JRSS), upgrade to the Defense Information Systems Network (DISN), and the build-out of the Joint Management Suite (JMS).
- \$2.1 million for a one-time Procurement increase for Health Information Technology Portfolio Rationalization in FY 2015.
- \$1.7 million for Theater Medical Information Program - Joint (TMIP-J) Increment 2 obtaining a full deployment decision. Remaining Procurement will transition to the Operational Medicine project for train the trainer activities.
- \$1.4 million reduction associated with revised cost and schedule for iEHR/Defense Medical Information Exchange (DMIX).

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. Over the past year the DHP continues the transition to the Quadruple Aim that 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.

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- **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.

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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 2014 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 2014 with a score of 86% compared to the goal of 85%. 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. 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 2014 exceeded the goal of 57 percent for the fiscal year. 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.

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- **Inpatient Production Target** (MS-RWPs) - For the most recent reported monthly data for FY 2014, the MHS produced 215 thousand MS-RWPs against a target of 214 thousand MS-RWPs slightly above the target. These numbers are based on the records reported to date, and will increase slightly as all records are completed. 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 2014, the system produced 78 million relative value units versus a goal of 81 million relative value units. The MHS failed to achieve the goal for the year, but expects continued improvements in the coming years. Approximately 25 percent of the shortage is related to procedure weight changes affecting inappropriate weighting of workload for some non-credential providers that was corrected in FY2014, but included in the baseline and target when developed last year. Additionally, the MHS was unable to continue some contracts and may be experiencing some of the declined utilization from the implementation of Patient Medical Homes earlier than expected. 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 2014 is 2.6% vs goal of 2.8%. 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 2015 where the measure will continue to be reported.