

**Defense Health Program  
Fiscal Year (FY) 2020 President's Budget  
Operation and Maintenance  
Private Sector Care**

**I. Description of Operations Financed:**

This Budget Activity Group provides for all medical and dental care plus pharmaceuticals received by Military Health System (MHS)-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 (TOP), the Supplemental Care Program, TRICARE Mail Order Pharmacy (TMOP), the National Retail Pharmacy, TRICARE Reserve Select (TRS), which is a premium based program for reservists and their family members, and various support activities.

**Pharmaceuticals - Purchased Health Care:** Includes expenses for the pharmaceutical costs associated with contractual pharmacy services providing authorized benefits to eligible beneficiaries via the TRICARE Mail Order Pharmacy (TMOP). Excludes manpower authorizations and all administrative costs of the Defense Health Agency to include regional offices and Defense Supply Center-Philadelphia's management of the TMOP. Other pharmacy elements include Base Realignment and Closure (BRAC) Medicare Pharmacy, Military Medical Support Office (MMSO) pharmacy costs and retail pharmacy costs.

**National Retail Pharmacy -** Includes expenses for the pharmaceutical costs associated with contractual pharmacy services providing authorized benefits to eligible beneficiaries via the TRICARE Retail Pharmacy Program. The TRICARE Retail Pharmacy Program provides network pharmaceutical prescription benefits for eligible beneficiaries from private sector retail pharmacies. Excludes all administrative costs for the management of the TRICARE Retail Pharmacy Program and all costs expensed under TRICARE Mail Order Pharmacy (TMOP).

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**I. Description of Operations Financed (cont.)**

**TRICARE Managed Care Support Contracts (MCSC)** - Includes expenses for the at-risk health care costs specifically for providing benefits identified in Title 32 United States Code of Federal Regulations 199 and measurable to the following for areas serviced by TRICARE Managed Care Support Contracts: healthcare authorized under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) for the following beneficiaries: (a) retired military personnel and (b) for spouses and dependent children of active duty, retired, or deceased military personnel in civilian facilities and by private practitioners. Also includes costs for the Extended Care Health Option (ECHO) for disabled dependents of active duty personnel covered under the Program for Persons with Disabilities (PPPWD) Act. Includes healthcare costs for those programs that are considered at-risk to the TRICARE Managed Care Support Contracts, and external and internal resource sharing agreements when paid by the TRICARE Managed Care Support contractors. In addition, it includes underwritten costs for health care both for those beneficiaries enrolled with the contractors as well as those who are unenrolled. Underwritten costs for private sector care provided to Military Treatment Facility (MTF) enrollees are accounted for in program element (PE) 0807738. Excludes manpower authorizations and all administrative costs of the executive agents (Defense Health Agency) associated with the management of TRICARE Managed Care Support Contracts. Excludes claims processed by the TRICARE Overseas Contract (PE 0807749) and any not-at-risk/non-underwritten costs associated with the Managed Care Support Contracts (Supplemental Care-Health Care, PE 0807743 and Miscellaneous Purchased Health Care, PE 0807751).

**Military Treatment Facility (MTF) Enrollees Purchased Care** - Includes expenses for the underwritten costs for health care specifically for providing benefits for the MTF Prime enrollees as authorized under the Civilian Health and Medical Program of the Uniformed

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**I. Description of Operations Financed (cont.)**

Services (CHAMPUS). Excludes health care provided under the Supplemental Care Program and expensed in PE 0807743.

**Dental Purchased Care** - Includes expenses associated with the government paid portion of insurance premiums specifically for providing dental benefits in civilian facilities and by private practitioners for the beneficiaries who are enrolled in the TRICARE Dental Program. Beneficiaries eligible for enrollment are: (a) active duty family members (b) retired military personnel and family members (c) select reservist or individual ready reservist (IRR) and dependent family members. Also, includes administrative, management, and health care costs associated with these dental services. Excludes services and costs expensed in the Supplemental Care - Dental Care (PE 087745) and direct health care system (Dental Care - CONUS, PE 807715 and Dental Care - OCONUS, PE 807915).

**Uniformed Services Family Health Program (USFHP)** - Includes costs based on annual capitation rates for providing benefits authorized through contracts with designated civilian hospitals in selected markets to beneficiaries enrolled to the program. Beneficiaries eligible for enrollment into USFHP include active duty family members, retirees and their family members and survivors who live within the specially designated geographic area.

**Supplemental Care - Health Care** - Includes costs for providing the TRICARE Prime benefit to active duty service members and other designated eligible patients who receive health care services in the civilian sector or non-defense facilities either referred or non-referred from the Military Treatment Facility, emergent care and authorized non-emergent care. Includes members in travel status, Navy/Marine Corps service members enrolled to deployable units and referred by the unit primary care manager, eligible Reserve Component personnel, ROTC students, cadets/midshipmen, and eligible foreign military.

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This program also covers health care sought in the civilian sector due to active duty assignments in remote locations. The types of claims include health care under TRICARE Prime Remote, MTF referred care, emergency care, and authorized non-emergency/non-referred care. Includes the costs of sharing agreements that are not paid by the managed care support contractors. Excludes all costs associated with dental care expensed in Dental - Purchased Care and Dental - Supplemental Care.

**Supplemental Care - Dental** - Includes costs for a dental benefit for uniform dental care and administrative costs for active duty members including eligible mobilized select reserves or individual ready reserves (IRR), receiving services in the civilian sector to include Department of Veterans Affairs' facilities. This program also covers dental care sought in the civilian sector due to active duty assignments in remote locations. 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 which provide services to the Military Health System and Medicare. These facilities operate under the Diagnosis Related Group (DRG system) of payment providing federal inpatient services under TRICARE and Medicare.

**TRICARE Overseas Program (TOP)**- Includes costs specifically for delivery of Military Health System Prime benefits in civilian facilities by private practitioners to eligible active duty and active duty family member beneficiaries in the TRICARE Overseas Program (TOP) and foreign claims for non-active duty beneficiaries including Medicare eligibles (when Medicare Part B is purchased). Coverage includes Europe, the Pacific region, Latin America, Asia, Africa, Canada, and areas covered through TOP-Remote per the contract.

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The scope of health care includes medical, dental, inpatient care, laboratory work, health care testing, and other health care services equivalent to the DoD TRICARE program. Benefits are exclusively pass-through costs. Excluded from the benefits program is custodial care claims, special and emergent care claims and Alaska claims. Also includes overseas health care provided under the Supplemental Care program. Excludes demonstrations, congressional mandates and other health care expensed in Miscellaneous Purchased Health Care, PE 0807751.

**Miscellaneous Purchased Health Care** - Includes costs specifically for providing benefits identified in Title 32 of the Code of Federal Regulations Part 199 (32 CFR 199) authorized under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) for the following beneficiaries: (a) retired military personnel and (b) spouses and dependent children of active duty, retired, or deceased military personnel in civilian facilities and by private practitioners. Also includes costs for special education and institutional care in civilian facilities for disabled dependents of active duty personnel covered under the Program for Persons with Disabilities (PPWD) Act. Includes administrative, management, and health care costs for Custodial Care, Special and Emergent Care Claims, Alaska Claims, Expanded Cancer, TRICARE/Medicare dual eligible beneficiaries program (e.g., TRICARE Dual Eligible Fiscal Intermediary Contract - TDEFIC) transition assistance programs and TRICARE Reserve Select (TRS).

**Miscellaneous Support Activities** - Includes the miscellaneous administrative costs and support contract expenses for various programs, demonstrations and other congressionally mandated programs or actions not directly providing health care. Programs financed include: the TRICARE Quality Monitoring Program (TQMP), marketing and education functions, printing, background checks, Defense Manpower Data Center/Defense Enrollment Eligibility Reporting System (DMDC/DEERS) support, long term Other Health Insurance (OHI)

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discovery, travel, case management, surveys, and many other small cost administrative support items.

**II. Force Structure Summary:**

Approximately 9.6 million Military Health System beneficiaries are eligible to receive care under the private sector care programs, including approximately 2.5 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). Effective January 1, 2018, the TRICARE benefit structure transitioned to a simpler system by providing beneficiaries two care alternatives. Tricare Prime remained unaltered, while Tricare Standard and Extra were replaced by Tricare Select, the new Preferred Provider Option (PPO).

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**III. Financial Summary (\$ in thousands)**

	FY 2019						
	FY 2018	Budget	<u>Congressional Action</u>			Current	FY 2020
			<u>Actuals</u>	<u>Request</u>	<u>Amount</u>		
<b>A. <u>BA Subactivities</u></b>							
1. Pharmaceuticals Purchased Health Care	768,912	958,925	-93,000	-9.7	865,925	810,254	829,460
2. National Retail Pharmacy	851,742	878,946	0	0.0	878,946	912,006	931,018
3. Managed Care Support Contracts	6,176,560	6,188,070	-489,000	-7.9	5,699,070	6,036,766	6,178,513
4. MTF Enrollee Purchased Care	2,771,233	2,922,151	0	0.0	2,922,151	2,798,313	2,894,375
5. Dental Purchased Care	284,408	358,865	0	0.0	358,865	288,990	297,540
6. Uniformed Services Family Health Program	554,947	561,386	0	0.0	561,386	588,063	622,340
7. Supplemental Care - Health Care	1,203,399	1,373,075	0	0.0	1,373,075	1,331,418	1,397,552
8. Supplemental Care - Dental	80,548	89,789	0	0.0	89,789	68,071	70,371
9. Continuing Health Education/Capitalization	325,911	396,307	0	0.0	396,307	372,360	378,198
10. Overseas Purchased Health Care	328,630	320,386	0	0.0	320,386	337,921	349,768
11. Miscellaneous Purchased Health Care	960,028	925,250	0	0.0	925,250	921,357	955,363
12. Miscellaneous Support Activities	170,813	130,585	0	0.0	130,585	133,728	136,508
<b>Total</b>	<b>14,477,131</b>	<b>15,103,735</b>	<b>-582,000</b>	<b>-3.9</b>	<b>14,521,735</b>	<b>14,599,247</b>	<b>15,041,006</b>

1. FY 2018 actuals include \$331,968K for OCO.
2. FY 2018 actuals do not include Department of Defense Medicare-Eligible Retiree Health Care Fund (MERHCF) of \$7,864,237K (O&M Only).
3. FY 2018 actuals do not include \$200,783K funds executed in FY 2017/FY 2018 Carry Over.

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4. FY 2019 current estimate excludes \$277,066K for OCO.
5. FY 2019 current estimate do not include Department of Defense Medicare-Eligible Retiree Health Care Fund (MERHCF) of \$8,480,784K (O&M Only).
6. FY 2020 estimate excludes \$287,487K for OCO.
7. FY 2020 estimate do not include Department of Defense Medicare-Eligible Retiree Health Care Fund (MERHCF) of \$8,860,678K (O&M Only).



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**III. Financial Summary (\$ in thousands)**

<b>B. <u>Reconciliation Summary</u></b>	<b>Change</b>	<b>Change</b>
	<b><u>FY 2019/FY 2019</u></b>	<b><u>FY 2019/FY 2020</u></b>
<b>Baseline Funding</b>	<b>15,103,735</b>	<b>14,599,247</b>
Congressional Adjustments (Distributed)	-582,000	
Congressional Adjustments (Undistributed)		
Adjustments to Meet Congressional Intent		
Congressional Adjustments (General Provisions)		
<b>Subtotal Appropriated Amount</b>	<b>14,521,735</b>	
Fact-of-Life Changes (2019 to 2019 Only)		
<b>Subtotal Baseline Funding</b>	<b>14,521,735</b>	
Supplemental	277,066	
Reprogrammings		
Price Changes		574,980
Functional Transfers		
Program Changes		-133,221
<b>Current Estimate</b>	<b>14,798,801</b>	<b>15,041,006</b>
Less: Wartime Supplemental	-277,066	
<b>Normalized Current Estimate</b>	<b>14,521,735</b>	

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<b>C. <u>Reconciliation of Increases and Decreases</u></b>	<b><u>Amount</u></b>	<b><u>Totals</u></b>
<b>FY 2019 President's Budget Request (Amended, if applicable)</b>		<b>15,103,735</b>
1. Congressional Adjustments		-582,000
a. Distributed Adjustments		
1) Historical Under Execution Private Sector Care	-169,000	
2) Pharmacy Excess Growth	-93,000	
3) Undistributed Adjustment Private Sector Care	-320,000	
b. Undistributed Adjustments		
c. Adjustments to Meet Congressional Intent		
d. General Provisions		
<b>FY 2019 Appropriated Amount</b>		<b>14,521,735</b>
2. OCO and Other Supplemental Enacted		277,066
a. OCO and Other Supplemental Requested		
1) OCO Supplemental	277,066	
3. Fact-of-Life Changes		
<b>FY 2019 Baseline Funding</b>		<b>14,798,801</b>
4. Reprogrammings (Requiring 1415 Actions)		
<b>Revised FY 2019 Estimate</b>		<b>14,798,801</b>
5. Less: OCO and Other Supplemental Appropriations and Reprogrammings (Items 2 and 4)		-277,066
<b>FY 2019 Normalized Current Estimate</b>		<b>14,521,735</b>
6. Price Change		574,980
7. Functional Transfers		
8. Program Increases		12,636
a. Annualization of New FY 2019 Program		
b. One-Time FY 2020 Increases		
c. Program Growth in FY 2020		
1) a. Uniformed Services Family Health Program (USFHP) Increase in Uniformed Services Family Health Program (USFHP) due to growth in enrollment of beneficiaries	12,636	

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<b>C. <u>Reconciliation of Increases and Decreases</u></b>	<b><u>Amount</u></b>	<b><u>Totals</u></b>
under age 65. The main driver of this growth is that plans are actively marketing and attracting enrollees and expanding their service areas. Increase also driven by higher capitation rate linked to this plan. The FY 2019 USFHP baseline funding is \$561,386K.		
9. Program Decreases		-145,857
a. Annualization of FY 2019 Program Decreases		
b. One-Time FY 2019 Increases		
c. Program Decreases in FY 2020		
1) a. Reduced Healthcare Requirement:	-77,352	
Program decrease driven by recent administrative and health benefit reforms. Changes include:		
-\$30 million reduction for estimated savings associated with the phased in adoption of Centers for Medicare and Medicaid (CMS) reimbursement rates for Long Term Care Hospitals and Inpatient Rehabilitation Facilities providing care to TRICARE beneficiaries.		
-\$29.9 million incremental reduction associated with the continued incremental savings (\$536 million in FY 2020 versus \$506 million in FY 2019) to the managed care support contract (MCSC) administrative fee structure. The new contract (referred to as "T-2017"), was effective on January 1, 2018 and incorporated into the FY 2019 President's Budget submission collapsed the previous three regions into two (East and West) regions. In addition, the administrative fees which were previously collected		

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<b>C. <u>Reconciliation of Increases and Decreases</u></b>	<b><u>Amount</u></b>	<b><u>Totals</u></b>
and retained by the contractor are now kept by the government.		
<p>-\$17.4 million incremental reduction above the FY 2019 initial implementation (-\$299 million) of the Interim Final Rule (IFR) which generates savings based on updated retiree copayments under the TRICARE Prime and Select Health Plans.</p>		
2) b. Reduced Pharmacy Requirement: Pharmacy decrease based on program changes in the TRICARE Pharmacy benefit. Decrease due to implementation of increased co-pays for mail order and retail pharmacy based on adjustments made as part of the compensation reform approved in the National Defense Authorization Act for 2018. The FY 2019 Private Sector Care Pharmacy Program funding is \$1,722,260K.	-26,095	
3) c. Adjustment for Anticipated Pharmacy Program Refunds: Program decrease in pharmacy driven by increase in anticipated pharmacy refunds from \$387 million in FY 2019 and \$405 million in FY 2020. Current estimate assumes that refunds will equal approximately 32 percent of the retail pharmacy spend, excluding administrative costs. The FY 2019 Pharmacy baseline funding is \$1,722,260K.	-17,179	
4) d. Private Sector Care Program Decrease: Private Sector Care Program decrease driven by a decrease in the total number of non-Active Duty	-17,068	

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<b>C. <u>Reconciliation of Increases and Decreases</u></b>	<b><u>Amount</u></b>	<b><u>Totals</u></b>
beneficiaries from FY 2019 to FY 2020.		
5) e. Continuing Health Education/Capitalization of Assets:	-8,163	
Program reduction in the Continuing Education/Capitalization of Assets (CHE/CAP) Program incorporating the average of FY 2016 to FY 2018 actuals as the basis for FY 2020 program request. The FY 2019 CHE/CAP baseline funding is \$372,360K.		
<b>FY 2020 Budget Request</b>		<b>14,963,494</b>

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

	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2018-2019</b>	<b>FY 2019-2020</b>
	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Change</u>	<u>Change</u>
<b>Private Sector Care Enrollment:</b>					
Private Sector Prime Enrollees	1,092,455	1,078,253	1,064,236	-14,202	-14,017
Uniformed Services Family Health Plan	92,979	95,210	97,496	2,231	2,285
TRICARE Dental Program Enrollment	679,213	665,629	652,316	-13,584	-13,313
<b>Private Sector Care System</b>					
<b>Workload:</b>					
	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Change</u>	<u>Change</u>
Outpatient-Visits	35,670,308	35,313,605	34,960,469	-356,703	-353,136
Outpatient-Weighted (Relative Value Units, RVUs)	141,440,541	141,299,100	141,157,801	-141,441	-141,299
Inpatient-Admissions	332,271	328,319	325,036	-3,952	-3,283
Inpatient-Weighted (Relative Weighted Products, RWP)	308,413	289,600	271,934	-18,813	-17,666
<b>Prescriptions:</b>					
Pharmacy-Retail	20,862,358	20,528,560	20,200,103	-333,798	-328,457
Pharmacy-Mail Order	6,038,149	5,736,242	5,449,429	-301,907	-286,812
Pharmacy-Total PSC	26,900,507	26,264,802	25,649,533	-635,705	-615,269

*NOTES: a) All data excludes MERHCF and Dual Eligibles (TDEF). (b) New contract (Jan 2018) has two regions and overseas. The benefit changed from: Prime, Standard, Extra and TRICARE Overseas to Prime, Select and Overseas, (c) Declines in RET and RET FM eligible beneficiaries are driving enrollment and workload down. Changes to FY 20 (based on FY 17-18 actuals): Enrollment -2.0%; Outpatient (Encounters) -1%, Outpatient (RVUs) -1.1%; Inpatient (admissions) -3.4%, Inpatient (RWP)-6.1%; Pharmacy Retail -1.6%, Pharmacy Mail Order = -13.2% (used an abbreviated rate due to one time adjustments) (d) Units of measure: Outpatient workload = Total RVUs; Inpatient workload used RWP-DRGs, included all Major Diagnostic Codes (e.g., surgical, mental health, internal medicine, etc.). (e) workload is all workload provided in Private Sector locations regardless of patient's enrollment status, (f) enrollment is to PSC providers not to the Military Treatment Facilities.*

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V. Personnel Summary

N/A

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**VI. OP 32 Line Items as Applicable (Dollars in thousands):**

<u>OP 32 Line</u>	<u>FY 2018</u> <u>Actuals</u>	<u>Change</u> <u>FY 2018/FY 2019</u>		<u>FY 2019</u> <u>Estimate</u>	<u>Change</u> <u>FY 2019/FY 2020</u>		<u>FY 2020</u> <u>Estimate</u>
		<u>Price</u>	<u>Program</u>		<u>Price</u>	<u>Program</u>	
308 Travel of Persons	473	9	40	522	10	-43	489
<b>399 TOTAL TRAVEL</b>	<b>473</b>	<b>9</b>	<b>40</b>	<b>522</b>	<b>10</b>	<b>-43</b>	<b>489</b>
647 DISA Enterprise Computing Centers	9,787	-587	-5,252	3,948	-395	6,566	10,119
<b>699 TOTAL DWCF PURCHASES</b>	<b>9,787</b>	<b>-587</b>	<b>-5,252</b>	<b>3,948</b>	<b>-395</b>	<b>6,566</b>	<b>10,119</b>
920 Supplies & Materials (Non-Fund)	7	0	-7	0	0	7	7
921 Printing & Reproduction	5,377	97	492	5,966	119	-526	5,559
924 Pharmaceutical Drugs	1,553,818	59,045	109,397	1,722,260	74,918	-36,700	1,760,478
925 Equipment Purchases (Non-Fund)	3,598	65	-3,663	0	0	3,720	3,720
932 Mgt Prof Support Svcs	51,896	934	-39,494	13,336	267	42,063	55,666
933 Studies, Analysis & Eval	5,005	90	-3,139	1,956	39	3,180	5,175
934 Engineering & Tech Svcs	1,942	35	-1,977	0	0	0	0
959 Other Costs (Insurance Claims/Indmnties)	3	0	-3	0	0	3	3
960 Other Costs (Interest and Dividends)	1,066	19	-1,085	0	0	0	0
986 Medical Care Contracts	12,756,105	484,732	-451,563	12,789,274	498,782	-129,162	13,158,894
987 Other Intra-Govt Purch	72,307	1,302	-46,944	26,665	533	-2,583	24,615
989 Other Services	2,648	48	433	3,129	63	-454	2,738
990 IT Contract Support Services	13,099	236	18,856	32,191	644	-19,292	13,543
<b>999 TOTAL OTHER PURCHASES</b>	<b>14,466,871</b>	<b>546,603</b>	<b>-418,697</b>	<b>14,594,777</b>	<b>575,365</b>	<b>-139,744</b>	<b>15,030,398</b>
<b>Total</b>	<b>14,477,131</b>	<b>546,025</b>	<b>-423,909</b>	<b>14,599,247</b>	<b>574,980</b>	<b>-133,221</b>	<b>15,041,006</b>

1. Pharmacy - Price based on 4.35% inflation based on National Health Expenditures (NHE) normalized for Defense Health Program (DHP) categories and accounting for historical inflation under-execution.

2. Healthcare - Price growth based on 3.68% inflation based on NHE normalized for DHP categories and accounting for historical inflation under-execution.

3. Dental - Price growth based on 2.88% inflation based on NHE normalized for DHP categories and accounting for historical inflation under-execution.

4. Administrative Costs - Priced growth based on 2% inflation.