Defense Health Program
Fiscal Year (FY) 2021 President's Budget
Operation and Maintenance
Introductory Statement

($ in Millions)

Appropriation Summary:	FY 2019[1] Actuals	Price Growth	Program Growth	FY 2020[2] Estimate	Price Growth	Program Growth	FY 2021[3] Estimate
Operation & Maintenance[4]	31,506.4	1,046.2	-452.7	32,099.9	923.8	-1,674.2	31,349.6
RDT&E	2,153.4	38.7	113.9	2,306.1	14.6	-1,597.8	722.9
Procurement	520.5	11.9	-86.0	446.4	12.7	158.9	617.9
Total, DHP	**34,180.3**	**1,096.8**	**-424.8**	**34,852.4**	**951.1**	**-3,113.1**	**32,690.4**
MERHCF Receipts	10,653.1			10,679.5			11,061.4
Total Health Care Costs	**44,833.4**			**45,531.9**			**43,751.8**

[1/] FY 2019 actuals includes $349.421 million for OCO and excludes funds transferred to VA for Lovell FHCC and the Joint Incentive Fund ($128 million).

[2/] FY 2020 estimate excludes $347.746 million for OCO, and includes both $126.865 million for transfer to VA for Lovell FHCC and $15 million for transfer to Joint Incentive Fund. FY 2019 O&M Actual amount includes adjustment of +$9.213 for Foreign Currency and FY 2020 O&M Estimate includes adjustment of -$3.559 for Foreign Currency.

[3/] FY 2021 request excludes $365.098 million for OCO and includes $130.404 million for transfer to VA for Lovell FHCC and $15 million for transfer to Joint Incentive Fund.

[4/] Reflects DoD Medicare-Eligible Retiree Health Care Fund (MERHCF) O&M transfer Receipts for FY 2019, FY 2020 and FY 2021 that support 2.5 million Medicare-eligible retirees and their family members.

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Description of Operations Financed:

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. The Military Health System (MHS) provides care in government owned and operated medical treatment facilities focused on sustaining readiness of the medical force and the medical readiness of deployable forces. Additionally, the MHS purchases more than 65 percent of the total care provided for beneficiaries through tailored contracts, such as Managed Care Support Contracts responsible for the administration of the TRICARE benefit. 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.

Directed in the National Defense Authorization Act (NDAA) for Fiscal Years 2017 and 2019, the MHS is undergoing its most significant transformation in decades. The reforms set forth in the NDAA change the structure of the health care benefit and the management of the MHS. Centralization for the management and administration of the Military Treatment Facilities (MTFs) under the Defense Health Agency (DHA) transform the MHS into an integrated readiness and health system, eliminate redundancies, and create a common high quality experience for our beneficiaries. The FY 2021 Budget demonstrates continued efforts focused on aligning resources to the Department's readiness priorities and internal business process improvements and structural changes to find greater efficiencies, such as further integrating the military health system; continuing the deployment of MHS GENESIS – DoD's new electronic health record; implementing the health benefit reforms authorized by Congress; modernizing clinical and business processes; and, streamlining internal operations.

The FY 2021 President's Budget reflects the Department's continued efforts to re-scope the military medical end strength portfolio. The manner in which we ensure both a medically ready force and a ready medical force has evolved significantly over the past decade. As such, the Department is driving a corresponding reform effort to evolve its approach to how it allocates and

clinically diversifies the medical military end strength. The FY 2020 Budget presented the Department's estimate of the military medical manpower required to the National Defense Strategy and the FY 2021 President's Budget request incorporates a phased conversion of military end-strength based on mitigations strategies and market analysis. In some cases, the care will remain in the MTFs and be provided by civilian or contract staff and, where feasible, some care will be transitioned to a local network provider. As efforts are ongoing, the Department will continue to evaluate the impacts of the force structure changes and adjust its plans accordingly throughout the transition period. This agile and phased approach helps the Department to ensure all beneficiaries continue to receive safe, high quality care and while it pursues a more orderly implementation of these transitions in the military medical force structure.

In accordance with the FY 2021 Secretary of Defense Memo, Department of Defense Reform Focus in 2020, the Defense Health Program has transferred the Service Medical Readiness activities which occur outside of the Military Treatment Facility to the Military Departments. This transfer allows the medical force structure to meet the operational requirements in support of the National Defense Strategy and support the Congressionally-mandated reforms to the Military Health System. The transfer Medical Readiness programs have been identified as functions that would be more effectively and efficiently run by the Military Departments and support development of a Ready Medical Force and will not have an adverse impact to the delivery of healthcare in the Military Treatment Facilities.

In early 2017, the Defense Health Agency (DHA) began preparing to assume responsibility for the administration and management of Military Treatment Facilities (MTFs) and Dental Treatment Facilities (DTFs) worldwide. The assumption of these responsibilities commenced on October 1, 2018 with the transition of 31 facilities scattered throughout the south eastern portion of the United States. All other MTFs/DTFs in the United States transitioned in October 2019 to DHA oversight and management with support from the Military Departments as the DHA continues to build its management system's capacity. The Military Department support is scheduled to end in October 2020 and will be transitioned on a conditions-based approach to ensure that healthcare delivery and readiness is not impacted. The second phase, executing in FY 2021, will transition

additional MTFs located overseas to the management control of the DHA with a target of DHA having full control of all MTFs and Dental treatment facilities by October 2022.

Private Sector Care continues to be a vital part of the Military Health System in FY 2021 and represents roughly half of the Operations and Maintenance requirement. Over the period of FY 2012 to FY 2018, both private health insurance premiums and National Health Expenditures per capita rose 25% (or 3.7% annually). The Private Sector Care budget should have continued to rise but the Department, with concurrence from Congress, instituted a series of initiatives that bent the cost curve. A combination of benefit changes, payment savings initiatives, contract changes, and population reductions masked underlying increases in health care costs which would have been $3.5 billion higher than actual execution. The vast majority of the increase seen in FY 2019 was related to normal price inflation, an increase in beneficiaries, new benefits (e.g., urgent care with no referral), and a small increase in utilization of some services. These trends continue in FY 2020. As multiple reform efforts continue within the Military Health System, Private Sector Care will continue to represent an important part of the overall health system in FY 2021.

The DoD and the Department of Veteran's Affairs continues to progress in the establishment of the unified Electronic Health Record. In FY 2021, DoD continues funding the clinical application, HealtheIntent, which provides a platform for population health and analytic tools, and offers a seamless longitudinal record between the DoD and VA that will grant providers and beneficiaries access to the detailed medical history.

The FY 2021 budget continues the deployment of MHS GENESIS, the Department's Electronic Health Record. The FY 2021 expansion to Wave PENDLETON, Wave SAN DIEGO, Wave BLISS, Wave CARSON, and Wave TRIPLER is based on the DoD Healthcare Management System Modernization Program (DHMSM) Program Executive Office's (PEO) updated deployment schedule and incorporates lessons learned from initial deployments in the Pacific Northwest and Wave TRAVIS. In addition the following waves will begin pre-deployment activities in FY2021, Wave SAAMC, Wave LACKLAND, Wave WRIGHT-PATTERSON, and Wave DRUM. Additional enhancements to MHS GENESIS will provide expanded analytics and data modeling; decision-support, integrated patient level accounting and billing functionality, and advanced prognostic competencies.

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The DHP appropriation funds the Research, Development, Test and Evaluation (RDT&E) program developed in response to the needs of the National Defense Strategy and Joint Capabilities Integration and Development System (JCIDS). The goal is to advance the state of medical science in those areas of most pressing need and relevance to today's battlefield experience and emerging threats. The objectives are to discover and explore innovative approaches to protect, support, and advance the health and welfare of military personnel and individuals eligible for care in the MHS; to accelerate the transition of medical technologies into deployed products; and to accelerate the translation of advances in knowledge into new standards of care for injury prevention, treatment of casualties, rehabilitation, and training systems that can be applied in theater or in military medical treatment 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 reparable items; and MHS information technology (IT) requirements.

Narrative Explanation of FY 2020 and FY 2021 Operation and Maintenance (O&M) Changes:

The DHP O&M funding reflects an overall decrease of $750.4 million between FY 2020 and FY 2021, consisting of $923.8 million in price growth and a net program decrease of $1,674.2 million. Program **increases** include:

- $334.6 million required to fund civilian full-time equivalents (FTEs) enabling the department to redirect uniformed manpower toward more direct warfighting functions while continuing to meet healthcare standards for timely access for beneficiaries
- $124.5 million increase for Military Treatment Facilities (MTFs) Information Management/Information Technology (IM/IT) and Defense Health Agency IT Infrastructure ongoing operating costs ensuring continued operations of 23 critical clinical, readiness, and business IM/IT systems, and provides for needed hardware/software enhancements necessary for ongoing patient care and IM/IT infrastructure sustainment

- $122.4 million supports ready Medical Force, education and training for Medical Center of Excellence, Hospital Corpsman Strength and Conditioning Training, Hospital Trauma Training, and Holistic Health a Fitness programs
- $63.4 million supports 637 Army civilian full-time equivalents used to support healthcare delivery requirements in the areas of Pain Management, Traumatic Brain Injury, and Soldier Center Medical Home (SCMH); funding is needed in order to properly align program to requirements as an effort to meet civilian staffing requirements
- $37.9 million supports increased funding to Defense Healthcare Management System Modernization (DHMSM) program element to continue initial operating capabilities of the deployment of the MHS GENESIS Electronic Health Record (EHR) and requirements for Cerner Clinical Application Services (CAS)
- $32.8 million supports a robust currency platform at the 99th Medical Group, Nellis Air Force Base, Nevada, allowing all assigned Active Duty Medics to treat trauma patients and obtain skills and experience needed for deployment readiness
- $31.3 million for Natural Disaster Recovery to restore medical facilities for damages related to the consequences of Hurricanes Michael and Florence and flooding and earthquakes occurring in Fiscal Year 2019
- $30.7 million required to fund embedded mental health and physical therapist providers in support of the National Defense Strategy priorities to restore readiness and create a more resilient force
- $21.4 million to improve oversight of resources and effectiveness of audit readiness program and increased operational requirements for single accounting system phased implementation within the Military Health System (MHS)
- $17.6 million supports the transfer of the Office of General Counsel, Operation Live Well-Healthy Base Initiative (OLW), USSOCOM Embedded Behavioral Health, and Veterinary Service Information Management System (VSIMS) transfers to the Defense Health Agency (DHA)
- $17.2 million continues incremental funding to develop and sustain field operation medical capabilities for Joint Operational Medicine Information System (JOMIS) and continues funding Information Technology (IT) contract services to implement cost effective Legacy Data Repository platform

- $10.1 million required to fund the incremental increase for the expansion of the Military Health System (MHS) Virtual Health Program, which synchronizes, standardizes, and coordinates virtual medical services across the Department of Defense that support remote, clinical, operational and garrison forces

Program **decreases** include:

- $1,831.9 million transfer of Air Force, Army, and Navy Readiness funding from Defense Health Agency (DHA) to the Service Military Departments (MILDEPs) in accordance with the FY 2021 Secretary of Defense Memo, Department of Defense Reform Focus in 2020. This transfer allows the medical force structure to meet the operational capabilities in support of the National Defense Strategy and support the Congressionally-mandated reforms to the Military Health System
- $196.9 million reduces funding for the Desktop to Datacenter (D2D) program to the appropriate operating costs levels to resource the design, build, testing, installation, fielding, upgrades and sustainment of information technology (IT) supporting the DoD's ability to provide and maintain infrastructure and enterprise support services for Military Health System (MHS) centrally managed IT systems in all managed health care regions worldwide
- $166.2 million continues the implementation of the Military Health System organizational reforms required by the National Defense Authorization Acts of FY 2017 and FY 2019 focused on efforts to reduce redundant and unnecessary headquarters overhead while building a structure that drives improved outcomes for readiness, health, quality and cost
- $108.5 million realigns Theater Medical Information Program-Joint (TMIP-J) and Joint Operational Medicine Information Systems (JOIMS) funds from Information Management/Information Technology to establish the Software & Digital Technology Budget Activity in the Research, Development, Test & Evaluation (RDT&E) appropriation allowing software capability delivery to be funded as a single budget line item, with no separation between RDT&E, production and sustainment
- $44.4 million supports reduced requirements based on incorporation of the FY 2019 actual execution into the FY 2021 budget estimate for contract requirements; incorporating this analysis into budgetary projections combined with better pricing methodologies, and a review of

historical deobligation trends resulted in improved requirement identification and resource management

- $39.5 million decrease in resources for facilities operations and facilities restoration and modernization funding places investment focus on patient care facilities; reducing project change orders through improving upfront planning of facility projects and seek opportunities to reduce overall footprint with no impact to beneficiary utilization at MHS healthcare facilities
- $36.3 million reduces funding associated with USD(P&R)'s implementation of a proposal to downsize 50 Medical Treatment Facilities
- $25.6 million supports reduced pharmaceutical requirements in order to better align actual budget execution and the incremental reduction to pharmacy requirements for revisions to the Co-Pay tables for various drug categories offered under TRICARE Pharmacy benefits structure
- $24.2 million incorporates program changes based on projected change in population mix for Active Duty, Active Duty Family Member, Retiree and Retiree Family Member
- $22.7 million supports reduced civilian pay to account for one fewer paid day in FY 2021 (261 paid days) than in FY 2020 (262 paid days)
- $7.2 million decreases Cybersecurity program element funding to the appropriate operating costs levels to resource the design, build, fielding, development, refresh and sustainment of information technology supporting the DoD's ability to maintain an appropriate level of confidentiality, integrity, authentication, non-repudiation and network availability
- $6.7 million supports continued improvements of metering of utility services combined and reduces rental costs for discontinued occupancy in leased spaces
- $6.7 million transfer of Army and Air Force from Defense Health Agency (DHA) to the Service Military Departments (MILDEPs) to correctly align resources for positions transferred in FY2019 Program Decision Memorandum and Military Health System reform initiatives
- $1.3 million supports reduced funding based upon a projected decrease in workload the Department of Defense share for the James A. Lovell Health Care Center Department of Defense-Department of Veterans Affairs Medical Facility Joint Demonstration Fund.

Continuing in FY 2021, the Department projects that up to $130.4 million should transfer to the Joint DoD -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 Center in the country by the total integration of the North Chicago VA Medical Center and the Navy Health Clinic Great Lakes, IL.

Continuing in FY 2021, the Department will transfer $15 million to the DoD-VA Health Care Joint Incentive Fund (JIF). Authority for the JIF is 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.

Narrative Explanation of FY 2020 and FY 2021 Research Development Test & Evaluation (RDT&E) Changes:

The DHP RDT&E Program reflects a net decrease of $1,583.2 million between FY 2020 and FY 2021. This includes a price growth of $14.6 million and a program decrease of $1,597.8 million.

Program **increases** include:

- $160.4 million increase associated with the realignment of the Joint Operational Medicine Information Systems (JOMIS)and Theater Medical Information Program – Joint (TMIP-J) funding from O&M, Procurement and RDT&E separate funding lines to establish the singular Software & Digital Technology Budget Activity within the Research, Development, Test & Evaluation (RDT&E) appropriation. The creation of the new Software & Digital Technology appropriations allows software capability delivery to be funded as a single budget line item, with no separation between RDT&E, production and sustainment.

Program **decreases** include:

- $1,573.8 million in FY 2020 one-time Congressional adjustments to include congressional special interest items and rescissions to DoD Healthcare Management System Modernization (DHMSM) and to JOMIS.

- $67.2 million decrease associated with the decrease and transfer of the Army RDT&E Programs from the DHP to the Army Line for readiness activities.
- $49.3 million decrease based on the realignment of the Joint Operational Medicine Information Systems (JOMIS) PE (PE 0605045DHA) to establish the Software & Digital Technology Budget Activity PE (PE 0608045DHA). The creation of the new Software & Digital Technology project allows software capability delivery to be funded as a single budget line item, with no separation between RDT&E, production and sustainment.
- $20.0 million decrease to the DoD Healthcare Management System Modernization (DHMSM) Program as the life cycle management and acquisition schedule ramps down. Activities supporting test planning and configuration effort support are reaching final stages and starting to shift towards supporting procurement and O&M.
- $16.1 million decrease associated with scaling back joint Guidance for Development of the Force efforts in various medical technology development areas to include military operational medicine, military infectious diseases, and combat casualty care.
- $14.5 million decrease associated with the elimination of the In-house Laboratory Independent Research (ILIR) program and scaled back efforts in cardiac research, pain research, health services research, precision medicine, and research in transforming technology for the warfighter.
- $14.5 million decrease to the MHS Financial Acquisition (GFEBS) program as deployment requirements for the Navy go down and shift towards the operation and maintenance. This program may increase in later years pending potential GFEBS deployment to AF and acceleration in existing acquisitions.
- $2.0 million decrease in miscellaneous adjustments.
- $0.8 million decrease associated with the realignment of funding from RDT&E to O&M in support of the Veterinary Services Information Management System (VSIMS).

Narrative Explanation of FY 2020 and FY 2021 Procurement Changes:

The DHP Procurement Program has a net increase of $174.2 million between FY 2020 and FY 2021. This includes price growth of $12.7 million and a net program increase of $158.9 million.

Program **increases** include:

- $176.8 million increase to DoD Healthcare Management System Modernization (DHMSM) for the planned purchase of commercial software licenses and multiple deployments of the modernized Electronic Health Record (EHR) to the military treatment facilities (MTFs). Deployment activities include site visits, localized configuration, and on-site deployment support during fielding Waves 1 through 6.
- $3.9 million increase to the Initial Outfitting & Transition (IO&T) program to meet military construction projects' schedules for equipment outfitting in accordance procurement thresholds
- $2.7 million increase in support of Health Artifact and Image Management Solution (HAIMS) licensing, training and transition costs associated with moving software to OpenText to achieve maintenance cost savings.
- $1.4 million increase for Defense Medical Logistics-Enterprise Solution (DML-ES) hardware upgrade and storage purchases planned for FY 2021.

Program **decreases** include:

- $17.8 million decrease in reduced radiology equipment modernization requirements for FY 2021
- $3.5 million decrease for MHS Desktop to Datacenter (D2D) due to planned completion of Medical Community of Interest (MEDCOI) Gateway technical refreshes in FY 2020, as well as completion of preparatory work providing the appropriate equipment to transition and migrate all Army, Navy, and Air Force primary sites to the DHA Cyber Security Service Provider in FY 2020
- $2.6 million decrease based on the realignment of the Joint Operational Medicine Information Systems (JOMIS) procurement funds to establish the Software & Digital Technology Budget Activity in the Research, Development, Test & Evaluation (RDT&E) appropriation. The creation of the new Software & Digital Technology appropriations allows software capability delivery to be funded as a single budget line item, with no separation between RDT&E, production and sustainment.
- $2.0 million decrease for the Military Health System (MHS) Virtual Health Program (VHP) due to a one-time add in FY 2019 to support hardware for additional locations, expanded storage

capacity, and potential cloud computing expansion for enhanced capacity in order to comply with NDAA 2017, Section 718 as well as combatant commanders' requirements

President's Management Plan – Performance Metrics Requirements:

The Military Health System (MHS) continues to refine existing performance measures and develop specific criteria to determine and measure outputs/outcomes as compared with initial goals. The Quadruple Aim provides a focused and balanced approach to overall performance. This approach includes not only production but outcome measures related to medical readiness, a healthy population, positive patient experiences and the responsible management of health care costs.

- **Individual Medical Readiness** – This measure provides operational commanders, Military Department leaders and primary care managers use this measure 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 Component and Reserve Component) prior to deployment.

- **Beneficiary Satisfaction with Health Plan** – Satisfaction is measured using a standard survey instrument comparable to those used by civilian plans. The goal is to improve MHS beneficiary overall satisfaction with TRICARE to a level at or above benchmark satisfaction with civilian plans utilizing the Consumer Assessment of Healthcare Providers and Systems survey. Increasing satisfaction with the Health Plan indicates that actions being taken are improving the overall functioning of the health plan from the beneficiary perspective.

- **Medical Cost Per Member Per Year** – This measure focuses on the annual overall cost growth for the Prime enrollees and includes all costs related to health care delivered to enrollees. The objective is to keep the rate of cost growth for the TRICARE Prime enrollees to a level at or below the increases for the Civilian health care plans 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 2019 performance measures related to the Quadruple Aim, and two output measures related to production plan targets. The overall success of each measured is discussed below:

- **Individual Medical Readiness** – The Military Health System achieved the goal for the Total Force Medical Readiness as of FY 2019 4th quarter reporting with a score of 86.7 percent compared to the goal of 85 percent. This represents the fifth year in a row that the MHS has surpassed the performance goal for the measure.

- **Beneficiary Satisfaction with Health Plan** – Satisfaction with Health Care Plan performance for FY 2019 was 62%, which exceeded the goal of 57 percent based on CAHPS for the fiscal year. Satisfaction levels met or exceeded the goal for all beneficiary categories and enrollment status. This has been a continuous process to maintain and improve performance to levels comparable with the civilian sector, and performance must be maintained. Major

performance drivers for this measure are related to claims processing timeliness, interaction during health care encounter, and access to health care.

- **NOTE: Due to the deployment of MHS GENESIS, sites in the Puget Sound Enhanced Multi-Service Market Area are excluded from the following three measures and the goals have been adjusted accordingly for the two production measures related to Inpatient and Outpatient Care.**

- **Medical Cost Per Member Per Year – Annual Cost Growth** – The Year to Date performance estimate for FY 2019 is 2.2 percent vs goal of 4.5 percent. While final claims data is still completing, the system currently is achieving the goal during the fiscal year. Overall the growth rate is well below historical levels, and may increase as medical claims data are finalized.

- **Inpatient Production Target** (MS-RWPs) – Based on workload reported through the 4th fiscal quarter of FY 2019, the MHS produced 167 thousand MS-RWPs, slightly below the annual adjusted target of 172 thousand MS-RWPs. These numbers are based on the records reported to date, and should increase slightly as all records are completed.

- **Outpatient Production Target** (RVUs) – Based on workload reported through the 4th fiscal quarter of FY 2019, the MHS produced 73.4 million relative value units which is below the annual adjusted goal of 75.2 million. Provider and support staff shortages throughout the Services are a significant reason for the decrease, with the San Diego market workload decreasing 4%. Additionally, decreases of MTF Prime enrollment also occurred, that reduces the number of individuals normally seen at the MTFs.