

**VOLUME 12, CHAPTER 16: “MILITARY PERSONNEL ENTITLEMENT PROGRAMS”**

**SUMMARY OF MAJOR CHANGES**

All changes are denoted by [blue font](#).

Substantive revisions are denoted by an asterisk (\*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by [bold, italic, blue, and underlined font](#).

The previous version dated [January 2012](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Updated hyperlinks and format.	Revision
All	Renumbered paragraphs.	Revision
All	Revised for clarity of Medicare-Eligible Retiree Health Care Fund (MERHCF) processes and expanded their details.	Revision
160403.A.1., a., b., c., 2., & 3.	Accrued Benefits pertaining to unfunded FRF Funds.	Deletion
160408	Incorporated changes for accounting of MERHCF outlays.	Revision
1605	Added a Definitions section for clarification of specific terms used in this chapter.	Addition
1606	Added a References section to identify authoritative sources used in this chapter.	Addition

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## CHAPTER 16

MILITARY PERSONNEL ENTITLEMENT PROGRAMS

## 1601 GENERAL

## 160101. Overview

Entitlements Programs are legally established benefits available to any person or unit of government meeting eligibility requirements established by law. Authorizations for entitlements constitute a binding obligation on the part of the Federal Government, and eligible recipients may have legal recourse if the obligation is not fulfilled. Legislation authorizing entitlements does not necessarily include a corresponding appropriation of funds, thus subsequent enactment of appropriations may necessary.

## 160102. Purpose

This chapter is the policy for the accounting and related transactions for two entitlement programs established for Department of Defense (DoD) military personnel:

- A. [Military Retirement Fund \(MRF\) and](#)
- B. [Medicare-Eligible Retiree Health Care Fund \(MERHCF\)](#)

## 1602 GENERAL ACCOUNTING POLICY FOR ENTITLEMENT PROGRAMS

160201. [Payment of Benefits](#)

Entitlement programs are divided into three categories according to the events that give rise to benefit payments: payments based on individual eligibility, payments required by law, and reimbursable events. These categories are accounted for as follows:

A. [Individual Eligibility](#). When the program is administered by a federal agency, entitlement benefits based on individuals meeting eligibility requirements of a program must be recorded as a liability and an expense when the eligibility requirements are met (as determined by program officials). The recorded liability and expense must cover all expected payments for the current period of eligibility. Payments to recipients reduce the recorded liability.

B. [Compliance With Statutory Laws](#). When payments are authorized (through appropriation and allotment of funds) for disbursement pursuant to legal requirements with no specific action required of the recipients, a liability and expense must be recorded when the appropriated funds are allotted to the applicable program. The recorded liability and expense must cover the total amount to be disbursed. As payments are made, the liability must be reduced.

C. [Reimbursable Events](#). When payments are based on the occurrence of a specific event for which costs are reimbursable under an entitlement program, a liability must be recorded when the event occurs. If the reimbursement is based on end-of-period reports from program administrators, an estimated amount must be accrued at the end of a reporting period.

#### 160202. Identifiable Refunds

When the expense for payments made under an entitlement program exceeds the appropriation (permissible for certain programs under special statutory authority), the source of the related funds must be clearly identified. If the funds were borrowed, the appropriate liability account must be established.

#### 160203. Suspension of Payments

When substantiated doubt exists on the continued entitlement of a military retiree or annuitant to receive benefit payments and payments on an account are suspended, the Defense Finance and Accounting Service (DFAS-IN) must cease obligating on the subject account for retired pay, retainer pay, or annuitant benefits. Previously obligated amounts must be deobligated to the extent of recoveries on previous payments or amounts held in a suspense account. Although this procedure is directed primarily at suspected death status accounts, it applies equally to other situations that may terminate entitlement. Examples of other situations include (but are not limited to) employment by a foreign government, renouncing U.S. citizenship, remarriage of a surviving spouse, and certain student annuitants dropping out of school.

### 1603 ACCOUNTING POLICY FOR THE ACCRUAL AND INVESTMENT OF RETIRED MILITARY PAY

#### 160301. Retired Pay Entitlements

Retired military pay is a pension program established by Title 10, United States Code (U.S.C.) Chapter 74 ([10 U.S.C. 74](#)) is administered by the Secretary of the Treasury. The MRF shall be used for the accumulation of funds in order to finance on an actuarially sound basis, liabilities of the DoD under military retirement and survivor benefit programs. As such, the program fits under the category of entitlement authority as defined by [2 U.S.C. 622\(9\)](#).

#### 160302. MRF Assets

In accordance with 10 U.S.C. 74, §1462., The Assets of Fund, payments are made to the DoD MRF, which contains the following assets:

A. [Amounts paid into the Retirement Fund from the Military Personnel, Reserve Personnel and National Guard Personnel appropriations representing future retirement and survivor benefits being accrued by members performing current service.](#)

B. [Amounts paid into the Retirement Fund from the Treasury as an unfunded liability and Concurrent Receipt normal cost payment.](#)

C. Interest earnings on investments in government securities made by Treasury and the payment of the par values of these securities at maturity.

160303. Unfunded MRF Liabilities

Determinations of funding amounts for the current portion of retired military benefits and amounts required to liquidate the unfunded portion of the MRF are discussed in the remainder of this section.

A. Amounts payable to the MRF necessary to fund present and future benefits payable to military retirees and their survivors must be based on actuarial funding determinations by the DoD Office of the Actuary (DoD OACT), using methods and economic assumptions (including the inflation, interest, and salary rates) approved by the DoD Board of Actuaries and in accordance with [10 U.S.C 1465](#). DoD Components must include sufficient funds to be transferred to the MRF, as determined by the DoD OACT, in their Military Personnel appropriation budgets.

B. The annual amount required to liquidate the unfunded liability of the MRF must be calculated by the DoD OACT, in accordance with methods and assumptions approved by the DoD Board of Actuaries.

C. Amounts to be transferred to the MRF for retired pay accrual must be obligated by the DoD Components at the same time military retired pay is obligated, as required in Volume 4 Chapter 16 (See Military Retirement Trust Fund).

D. Entitlements for military retired pay and surviving annuities are described in Volume 7B, Chapter 29. Payments of authorized and accrued benefits must be made from the MRF, a trust fund established under Public Law 98-94, in accordance with [10 U.S.C. 1463](#).

E. Calculations of funding amounts for the current portion of retired military benefits must be performed centrally by the Military Departments for Active Reserve, and National Guard military personnel. The calculations must employ retired military pay accrual percentages published annually by the Office of the Secretary of Defense (OSD) and must be applied to the total base pay amount calculated. The term "base pay" means outlays for basic pay. This information is found at <http://comptroller.defense.gov>, and click on the DoD reimbursable rates in the quick links section. The Military Departments also must obligate and disburse amounts calculated for the retired pay accrual in the applicable military pay Active Duty Reserve, and National Guard accounts and deposit the funds to the MRF receipt account 97X8097.001 - Employing Agency Contribution, DoD MRF.

160304. Investment of MRF Cash Balances

The Investment Fund Manager, DFAS, is responsible for investing cash balances of the MRF not needed to cover current retirement payments. Investments are limited to Market-Based U.S. Government Special Securities issued by the Department of the Treasury (see [10 U.S.C. 74, §1467](#)).

160305. Calculation of Retired Pay Benefits

Retired pay benefits must be calculated (see [Volume 7B, Chapter 3](#)) and paid by DFAS.

160306. Reimbursements of Retired Military Pay

All reimbursements made to DoD Components in accordance with the guidance contained in [Volume 11A, Chapter 6](#) for retired military pay must be credited to the applicable military personnel appropriation account.

160307. Accounting for MRF Obligations and Accruals

Using DoD Board of Actuarial approved relevant actuarially percentages for obligations and accruals, military pay active duty accounts and Reserve and National Guard personnel accounts must be accounted for as follows:

A. Amounts equating to an actuarially determined percentage of basic pay must be obligated each month for subsequent payment to the MRF.

B. Accounting for the direct program must be at the budget sub-activity level presently prescribed in [Volume 2A, Chapter 2](#). Accounting for the reimbursable program may use a simplified structure to include basic pay, retired pay accrual, and other.

C. The amount accrued for retired pay must be obligated each month. At the end of the month, amounts obligated for retired pay accrual must be disbursed. If information on the total entitlement and total expenditures is not available at the end of the month, estimates may be used and appropriate adjustments made when the actual amounts become known.

D. Release of funds must be consistent with budgetary authority. An undelivered order entry must be made at the beginning of each month to accrue the estimated MRF obligations to the members. Before the end of each month, the actual obligations must be recorded and an accrued expenditure (paid or unpaid, as applicable) established. The corresponding disbursement of funds must agree with the reported outlay and amount obligated.

E. All military pay accounting systems must provide for the recording of obligations for basic pay separate from other kinds of pay and allowances. However, the liquidation of obligations for pay and allowances may be on a gross basis. If the actual amount of basic pay disbursed is not known at the end of the month, an estimated retired pay obligation to be liquidated and disbursed to the MRF may be developed by a formula such as: multiplying the estimated basic pay by the retired pay accrual percentage (provided by the DoD OACT).

F. Disbursements for retired pay benefits accruals must be deposited, via the Intra-government Payment and Collection (IPAC) System, at the end of each month to trust fund receipt account 97X8097.001 - Employing Agency Contribution, DoD MRF. The associated disbursement and collection transactions must be supported using a Standard Form 1081, "Voucher and Schedule of Withdrawals and Credits." The SF 1081 must be properly certified

prior to submission to the DFAS Trust Fund Accounting and Reporting (TFAR) division. The disbursing officer making the payment also must process the collection, forward a copy of the completed SF 1081 to DFAS, TFAR, and report both the disbursement and collection transactions on the monthly Financial Management Service (FMS) Form 1220, "Statement of Transactions." The DFAS copy of the SF 1081, with all supporting documentation, must be transmitted electronically, immediately upon completion of the transactions, so that the deposit may be recorded in the MRF as soon as possible and the funds invested.

**160308.** Accounting for MRF Appropriations

The permanent indefinite appropriations, 97\_0040, "Payments to Military Retirement Fund, Defense," and 97\_0041, "Concurrent Receipt Accrual Payments to the Military Retirement Fund, Defense," are accounted for as follows:

A. At least 3 weeks before the end of the fiscal year, the Secretary of Defense must provide the Secretary of the Treasury with a certification of the amounts, as determined using methods and assumptions approved by the DoD Board of Actuaries that should be deposited to these accounts for the ensuing fiscal year (copies of Actuary documents can be found at references (j), (k) and (l)). The certification must include the amounts needed to fund the amortization of the original unfunded liability for military retirement, any other unfunded liability resulting from benefit structure changes and actuarial gains or losses, and the portion of the accrual charge to be funded by the Department of the Treasury. A copy of the certification must be sent directly to:

Department of the Treasury  
Bureau of Fiscal Services  
Budget Reports Division Appropriation Analysis Team  
Room 5D22-PGMCII  
3700 East-West Highway  
Hyattsville, MD 20782

B. Upon receipt of the certification, the Treasury Department provides the FMS Form 6200, "Department of the Treasury Appropriation Warrant," for the amount certified. The Warrant must be dated October 1 and provided to DFAS on or before that date so that the funds are available for immediate investment in the new fiscal year.

C. On October 1, DFAS is required to: (1) record the FMS 6200 to 97\_0040 – Payments to MRF, Defense; (2) disburse the entire amount from 97\_0040; and (3) deposit it to trust fund receipt account 97X8097.003 - Federal Contribution, DoD MRF.

D. The DoD MRF is classified as a trust fund and makes use of both receipt and expenditure accounts since it is not designated as a trust revolving fund.

1. Deposits are made to the following trust fund receipt accounts as applicable:

a. 97X8097.001 - Employing Agency Contribution, Department of Defense Military Retirement Fund. Payments from DoD Military Departments for accrual of future retired pay benefits and transfers of deposits made by Judges of the U.S. Court of Military Appeals, including interest, from the Civil Service Retirement and Disability Fund – 24X8135 and the payment from the indefinite appropriation for the normal costs contribution – 97\_0041.

b. 97X8097.002 - Earnings on Investments, Department of Defense Military Retirement Fund. Payment of interest by Treasury on Fund investments in U.S. securities.

c. 97X8097.003 - Federal Contribution, Department of Defense Military Retirement Fund. Payments from the permanent indefinite appropriation for the unfunded liability – 97\_0040.

d. (62) 97X8097 - Disbursements-Unamortized Premium and Discount, Department of Defense Military Retirement Fund. Purchase of premium, interest, and discount.

e. (72) 97X8097 - Receipts-Unamortized Premium and Discount, Department of Defense Military Retirement Fund. Write-off and amortization of premium and discount and collection of interest purchased.

2. The treasury account symbol for the trust fund expenditure account is 97X8097. Amounts deposited to the receipt accounts identified in subparagraph 160308.D.1 are available immediately to the trust fund expenditure account for investment or payment of retired pay benefits.

a. Account 97X8097 must incorporate the same budget activity structure as the account “Retired Pay, Defense.” Accounting must be at least at the budget activity level, and lower level accounts must be established as necessary to meet reporting requirements.

b. Since account 97X8097 is an OSD account, DFAS is responsible for its overall accounting and reporting.

c. Acting for the Secretary of Defense, DFAS must allocate a portion of 97X8097 to each Military Department in order to fund payments of retirement benefits.

d. Annuity payments to retired Judges of the U.S. Court of Military Appeals must be charged to 97X8097.

#### 160309. MRF Financial Reporting Requirements

A. DoD Components must report in their Statement of Operations the amount of Federal contributions (including accrued amounts), if any, made to the pension plans(s) on



behalf of their employees. The agency contribution must not include amounts withheld from employee's compensation for submission to the plan(s).

B. DoD Components which administer programs that provide annuity benefits to eligible participants must recognize, for reporting purposes, an actuarial (accrued) liability for the program. Determination of the liability must be in accordance with applicable FASAB standards (e.g., SFFAS 5 and SFFAS 33).

1. For the year in which the actuarial (accrued) liability is first recorded, the initial amount of the liability must be reported as an accounting change, i.e., a charge to equity and an accrued liability. Thereafter, changes in the liability each year must be charged or credited to expense.

2. Footnotes to the financial statements must disclose the nature and amount of required agency contributions, if any. The footnotes also must disclose the agency responsible for reporting the pension plan's unfunded liability. The following is an example of the footnote can be found in Reference ([m](#)).

3. Financial information for pension plans must be reported in the annual financial statements of administering agencies.

4. The notes to the financial statements must include a description of the methods and significant assumptions used in computing the actuarial present value of future program benefits. Additionally, if the actuarial liability computed in accordance with these standards is different from the actuarial liability computed for funding purposes, the footnotes must include an adequate explanation of the basis for any significant differences between the two liabilities.

C. DFAS is responsible for preparing MRF reports in accordance with Volume 6A.

1. Standard Form (SF) 133, Report on Budget Execution. DFAS must submit the SF 133 for all MRF expenditure accounts.

2. ACCT RPT (M) 1002, Appropriation Status by Fiscal Year Program and Subaccounts. DFAS must submit this report for the MRF expenditure account prepared in accordance with Volume 6A, Chapter 4.

3. Other Reports. DFAS must follow the instructions in Volume 6A as applicable. In addition, the Military Departments must comply with the monthly reporting requirements contained in Volume 6A.

D. Status of Funds. The DFAS must prepare a Status of Funds and forward it to the Deputy Comptroller, Program/Budget, on the fifteenth workday of the following month. The DFAS must report actual data for current fiscal year through the previous fiscal month.

## 1604 ACCOUNTING POLICY FOR THE ACCRUAL, INVESTMENT, AND TRANSFERS OF THE MEDICARE-ELIGIBLE RETIREE HEALTH CARE FUND (MERHCF)

### 160401. Purpose

Established by the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, Public Law 106-398, as amended, the MERHCF pays the qualifying health care service costs of all uniformed service retiree health care programs for the benefit of members or former members of a participating service who are entitled to retired or retainer pay and are Medicare eligible, their dependents who are Medicare eligible, and survivors who are Medicare eligible in accordance with Reference (a) and DoD policy established in DoD Instruction 6070.02 (Reference (c)).

### 160402. Medicare-eligible Retiree Health Care Entitlements

The DoD MERHCF is an OSD Special Fund and is considered an entitlement authority as defined in 2 U.S.C. 622(9). The DoD MERHCF, administered by the Secretary of the Treasury, must be used for the accumulation of funds in order to finance, on an actuarially sound basis, liabilities of DoD under uniformed services health care programs for specific Medicare-eligible beneficiaries, as designated by Sections through 1117 of Title 10, United States Code (Reference (a)).

### 160403. Proponent for MERHCF

DFAS, acting for the Secretary of Defense, is responsible for the accounting and reporting of this OSD Special Fund. [Other primary responsibilities related to the MERHCF are assigned in DoD Instruction \(DoDI\) 6070.02 \(Reference \(c\)\).](#)

### 160404. MERHCF Accounts

The DoD MERHCF (account 97X5472) is classified as a Special Fund and uses both receipt and expenditure accounts. The symbol 97X5472 is the special fund expenditure account. [Amounts deposited to the MERHCF receipt accounts are available immediately to the special fund expenditure account for investment, payment of benefits and administrative costs.](#) Transfers from 97X5472 must be reported as expenditures. Transfers received by the appropriate program accounts must be reported as offsetting collections and as expenditures when expenses are paid. Acting for the Secretary of Defense, DFAS must make amounts available from 97X5472 in order to fund all qualifying expenses. All credits (deposits) and charges (payments) to ALC 97200010 for account 97X5472 made through the IPAC system must be reported to Treasury using the Governmentwide Accounting (GWA) system. .

A. Deposit Accounts. Deposits are made to the following special fund receipt accounts, as applicable:

1. 97X5472.001 – Non-DoD Employing Agency Contributions, DoD MERHCF. Payments from participating uniformed services for accrual of future health benefits.

2. 97X5472.002 – Earnings on Investments, DoD MERHCF. Payment of interest by Treasury on Fund investments in U.S. public debt securities.

3. 97X5472.003 – Federal Contributions, DoD MERHCF. Payments from the permanent indefinite appropriation for the unfunded liability – 97X0850.

4. 97X5472.004 – Refunds Received, DoD MERHCF. Refund of amounts previously transferred from the Fund, which are determined to be not necessary for the purposes transferred.

5. 97X5472.005 DoD Employee Contributions, DOD Retiree Health Care Fund DOD MERHCF Payments from Military Services.

B. Investment Accounts. The following accounts are used exclusively for investment transactions in U.S. securities, as applicable:

1. (62) 97X5472 – Disbursements, Unamortized Premium and Discount. Purchase of premium, discount (CR) and interest.

2. (72) 97X5472 – Receipts, Unamortized Premium and Discount. Write-off and amortization of premium and discount and collection of interest purchased.

3. (88) 97X5472 – Investment in U.S. Securities (par). The par value of purchases of U.S. securities.

4. (98) 97X5472 – Redemption of U.S. Securities (par). The par value of redemptions prior to maturity and the par value of matured U.S. securities.

160405. DoD Medicare Eligible Retiree Health Care Fund Assets

A. Contributions. Amounts are contributed to MERHCF by the DoD, other uniformed services (Coast Guard, National Oceanic and Atmospheric Administration, and U.S. Public Health Service), and the Department of the Treasury. These amounts must be based on determinations by the DoD Office of the Actuary (OACT) under methods and assumptions approved by the DoD MERHCF Board in accordance with the provisions of Reference (a) and Reference (c) as follows:

1. DoD. Amounts are paid into MERHCF from the Military Personnel, Reserve Personnel and National Guard Personnel appropriations to fund future benefits payable from MERHCF attributable to Military Service rendered in the current fiscal year.

2. Other Uniformed Services. Amounts paid into MERHCF from other uniformed services

B. Unfunded Actuarial Liability Payment. Amounts paid into MERHCF from a permanent indefinite general fund appropriation, 97X0850, to fund future benefits payable from MERHCF attributable to service rendered prior to October 1, 2002 (i.e., the unfunded actuarial liability) as well as all actuarial gains and losses.

C. Investment Income. Income on the invested portion of MERHCF.

D. Return of Prospective Payment Transfers. Amounts returned to MERHCF that were previously transferred to fund the payment of expenses.

160406. Accounting for MERHCF [Revenues](#)

Amounts earned on investments are recorded by DFAS in accordance with the provisions of Reference (a), Reference (c) and applicable accounting principles. DFAS deposits the amounts received for investment income into the MERHCF receipt account entitled "Earnings on Investments, DoD MERHCF" (account number 97 X 5472.002). Amounts contributed to MERHCF by the DoD, other uniformed services, and Department of the Treasury must be based on determinations by the DoD Office of the Actuary (OACT) under methods and assumptions approved by the DoD MERHCF Board in accordance with the provisions of Reference (a) and Reference (c):

A. Annual Certification Letter and Apportionment.

1. Prior to the beginning of each fiscal year, the Secretary of Defense issues a letter certifying the amortization payment (the initial unfunded actuarial liability plus amortization of actuarial gains and losses) and the normal cost contributions (the accrued cost associated with the current year's military service) on behalf of DoD. The normal cost contributions are determined in accordance with [Reference \(a\) and \(c\)](#).

2. The certifying letter must request the Department of the Treasury to issue warrants to the DoD MERHCF payment account (97X0850) at the start of the fiscal year for the amortization payment and to the ten MERHCF contribution accounts for the normal cost accrual contributions. A copy of the letter must be sent directly to:

Department of the Treasury  
Bureau of Fiscal Services  
Budget Reports Division Appropriation Analysis Team  
Room 5D22-PGMCII  
3700 East-West Highway  
Hyattsville, MD 20782

3. The Office of the Undersecretary of Defense (Comptroller) (OUSD(C)) submits an apportionment request to the Office of Management and Budget (OMB) for the ten MERHCF contribution accounts. The MERHCF contribution accounts to one of the ten military personnel accounts (Active, Reserve, and National Guard).

B. Accounting for the Amortization of the Unfunded Actuarial Liability.

1. Upon receipt of the certification, the Department of the Treasury provides the FMS 6200, "Appropriations Warrant" for the certified amortization amount. The warrant must be dated October 1 and provided to DFAS on or before that date so that the funds are available for immediate investment in the new fiscal year.

2. On October 1, DFAS must record the FMS 6200, disburse the entire amortization amount from 97X0850, and deposit it to special fund receipt account 97X5472.003 – Federal Contributions, DoD MERHCF and notify the DoD OACT, the USD(C), and the Director, DHA when the payments are deposited.

C. Accounting for Military Pay Contributions.

1. On the first duty day of October, Treasury issues warrants to the ten MERHCF normal cost contribution accounts. The Military Services will transmit payment to MERHCF, via facsimile or email, using an SF 1081 as supporting documentation for the IPAC.

2. To ensure the timely payment of funds and prevent a possible loss of interest to MERHCF, the Military Services must pre-coordinate their payments with the DFAS TFAR prior to the issuance of warrants by Department of the Treasury and must prepare the SF 1081 to transmit payment based on the amounts certified by the Deputy Secretary of Defense.

3. DFAS deposits the amounts received for the normal cost contribution amounts into the MERHCF receipt account entitled "Employing Agency Contributions, DoD Medicare Eligible Retiree Health Care Fund" (account number 97 X 5472.001) and notifies the USD(C), the DoD OACT, and DHA when these payments have been deposited.

D. Accounting for Other Uniformed Services Contributions.

1. The normal cost contribution payments to MERHCF for participating uniformed services must be computed and deposited in a manner similar to that described for the Military Services in subparagraph 160405.C using the rates provided by DoD OACT in accordance with the provisions of References (a) and (c).

2. Payments to the MERHCF will be made at the beginning of the fiscal year to ALC 97200010 through the IPAC system. DFAS must credit the special fund account 97X5472.001 - "Non-DoD Employing Agency Contributions, Department of Defense Medicare-Eligible Retiree Health Care Fund." Documentation supporting the deposits must be transmitted electronically to DFAS prior to or immediately upon completion of the transaction.

## 160407. Investment of MERHCF Cash Balances

The Investment Fund Manager, DFAS, is responsible for investing cash balances of MERHCF not required to meet current withdrawals. Investments are limited to Market-Based U.S. Government Special Securities issued by the Department of the Treasury and are made in accordance with the provisions of Reference (a). The income on such investments must be credited to receipt account 97X5472.002 – Earnings on Investments, DoD Medicare-Eligible Retiree Health Care Fund and form a part of MERHCF. The reporting instructions for accounts invested in Department of the Treasury securities contained in the Treasury Financial Manual (1TFM 2-4300) do not pertain to the DoD MERHCF (97X5472). The reporting procedures for this Fund were agreed to by Treasury’s FMS and Bureau of the Public Debt, OMB, and DoD. These agreed-upon procedures were formalized by DoD and Treasury in 1993, and DFAS must maintain documentation of the agreement.

## \*160408. Accounting for MERHCF Outlays

A. DFAS must make amounts available from the special fund, account 97X5472, for payment of qualifying expenses in accordance with the provisions of Reference (a) and Reference (c):

1. Amounts transferred from MERHCF shall be merged with and available for the same purposes and for the same time period as the appropriation to which transferred in accordance with the provisions of Reference (a).

2. Funds may be returned to the MERHCF within two years in accordance with the provisions of Reference (a).

3. The Defense Health Agency (DHA) determines annual prospective payments / transfer amounts from MERHCF in accordance with Reference (a), Reference (c), and the following accounting and financial management processes for two categories of health care expenses: Purchased Care and Direct Care.

B. Purchased Care. Health care purchased from non-DoD providers is paid through the Operation and Maintenance (O&M) accounts within the MERHCF under the DHA Contract Resource Management (DHA-CRM) limit code (97X5472.18D9). For Purchased Care, the DHA-CRM must provide an estimated annual expense program to DFAS and the Director, DHA, at least one month prior to the start of each fiscal year. These estimates are used by DFAS for management of the investment portfolio and effective cash management and forecasting and are used by the Director, DHA in the development of the annual distribution plan. Accounting and financial management processes for using MERHCF funds for payment of pharmacy claims and health care purchased from non-DoD providers are as follows:

1. A Funding Authorization Document (FAD) will be issued to DHA-CRM for MERHCF funding in the amount(s) approved on the annual/quarterly distribution plan.

2. DHA-CRM uses this MERHCF funding for modifications to contracts for administrative payments and for pass through costs for healthcare and pharmacy claims attributable to Medicare eligible beneficiaries.

a. The TRICARE Dual Eligible Fiscal Intermediary Contract (TDEFIC), TRICARE Overseas Program (TOP), and TRICARE Pharmacy Program (TPHARM – Mail Order and Retail) contracts process individual healthcare claims and administrative costs including per claim administrative payments and monthly costs. These contracts utilize TRICARE Encounter Data (TED) to process healthcare and pharmacy claims as well as the claim rate associated with the claims.

b. Uniformed Services Family Health Plan (USFHP) contracts have capitated rates by contract based upon enrollments at each USFHP hospital. Modifications to the contracts are done at least once a year to initiate a new option period and to set aside funds for the new fiscal year. Each modification for MERHCF funding is an estimate of enrollments of Medicare-eligible retirees, retiree family members, and survivors for the period of time covered by the modification (i.e. one year, one month, etc.).

c. Marketing and Education contract supports the healthcare and pharmacy contracts with marketing and educational materials. Modifications to the contracts are done at least once a year to initiate a new option period.

3. DHA-CRM makes payments based on contract requirements and the appropriate funding source.

4. Validation of claims processed against MERHCF:

a. TED related health care and pharmacy claims and administrative payments are validated through a series of edits in TED and in DHA-CRM's accounting system. Edits include validation of funding source based on claim details contained in the TED records. This ensures that only costs attributable to Medicare-eligible beneficiaries have been included in payments drawn from the Fund.

b. Modifications to contracts are not processed without the availability of MERHCF funding on the FAD. Payments are reconciled against available funding on the modifications when payments are made.

5. DFAS and DHA-CRM Reporting Procedures:

a. Estimated payments and collections using MERHCF funds will be reported to DFAS, as needed, by agreement with DFAS. Payments and collections include those made through all Treasury systems used by DHA-CRM.

b. At the end of every month, DHA-CRM will report to DFAS a final reconciliation of payments and collections that used MERHCF funds for the month.

c. At the end of every month, DHA-CRM will report the amounts of open accounts payable and open accounts receivable using MERHCF funds for use in Federal financial statement reporting.

C. Direct Care. Direct care is health care services provided to Medicare eligible beneficiaries directly in Military Treatment Facilities (MTFs) of the DHA Service Medical Activities (SMA) of the Army, Navy and Air Force and the DHA National Capital Region Medical Directorate (NCR MD).

1. Defense Health Program (DHP) O&M Transfers. Direct care qualifying expenses are paid through the Defense Health Program (DHP) O&M account (0130188\*/18P\*) for the SMAs and the NCR MD. MERHCF transfers for benefit outlays are reported in GWA by ALC 97200010 as an increase to the Defense Health Program account 97 CY 0130 for the current fiscal year and as an increase to the expenditure account 97X5472. This must be completed by DFAS on the first work day of each quarter and reported to Treasury. Copies of the SF1081 recording the transfer must be sent by DFAS to the appropriate Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) Directorate, who must distribute the funds to DHA via a Funding Authorization Document.

2. Military Pay Reimbursements. Direct care funding amounts for Military Personnel (MILPERS) accounts of the Army, Navy and Air Force for health care provided to Medicare eligible beneficiaries in MTFs by active duty Service personnel are processed via IPAC and reported in the same manner as other IPAC transactions. This must be completed by DFAS on the first work day of each quarter. Copies of the SF 1081 (or SF 1151) supporting these transactions must be sent to the appropriate OUSD(C) Directorates and DFAS sites that account for the funds.

D. Direct Care Annual Prospective Payment Development. The Director, DHA annually develops prospective payment amounts for the estimated costs of providing health care services projected to be provided in MTFs to Medicare-eligible beneficiaries as authorized by Reference (a) and in accordance with Reference (b). The annual projected expenses are transferred in quarterly increments in accordance with a distribution plan provided by DHA to DFAS approximately one month prior to the start of each fiscal year. The annual distribution plan to DFAS contains quarterly payment amounts by Uniform Service, and for the NCR MD as appropriate, for the Service MILPERS payments and the DHP O&M payments and transfers. The DHP O&M projected payment includes civilian pay expense.

1. Expense Allocation. The DHA bases prospective payment amounts on expenses reported by the MTF's Medical Expense and Performance Reporting System (MEPRS) and patient encounter data for the most recent fiscal year for which data is complete at the time the calculations are prepared. MEPRS expense data are recorded as MILPERS and DHP O&M components of costs per individual patient encounter to develop a workload Level of Effort" (LOE) for each Service and the NCR MD for that fiscal year. After the LOE and cost allocations for each SMA and the NCR MD are adjusted and reconciled with the distributions previously made for that fiscal year, the LOE rate amounts and cost allocations



by service are inflated to the coming fiscal year's equivalent for execution using standard OMB inflation rates applicable to the Medical industry and issued in OSD inflation guidance.

2. Workload Rate Development. DHA develops the MTF-specific rates for the prospective payment calculation. These MTF-specific rates are the average dollar expense per workload unit for each MTF as described in the following subparagraphs for Medicare Severity-Relative Weighted Product (MS-RWP), Composite Weights, or Outpatient Pharmacy prescriptions. These rates are separated into MILPERS and DHP O&M rates and shall be developed for the following categories of health care services:

a. Inpatient care -- cost per MS-RWP. An MS-RWP is a DoD measure of workload that represents the relative resource consumption of a patient's hospitalization as compared to that of other inpatients. MS-RWPs are generated as the result of completed Composite Health Care System (CHCS) Standard Inpatient Data Records (SIDRs). The prospective payment amount for inpatient care for eligible beneficiaries for each MTF shall be the product of the estimated MS-RWPs for that MTF multiplied by the MTF-specific rate per MS-RWP for the year of execution. The MS-RWP data source shall be the Military Health System Data Repository (MDR).

b. Outpatient care -- cost per Composite Weights. Composite weights are a combination of Ambulatory Payment Classification (APC) weights and relative value units (RVUs). The Composite Weight is an ambulatory workload measure of encounters adjusted for case complexity as measured by combining provider aggregate RVU with APC aggregate weight after standardizing to an APC-based unit. Composite Weight components (APCs and RVUs) are generated from Comprehensive Ambulatory Provider Encounter Records (CAPERs). The prospective payment amount for outpatient care for each MTF shall be the product of the estimated composite weights for that MTF multiplied by the MTF-specific rate per composite weight for the year of execution. The CAPERs data source shall be the MDR.

c. MTF Outpatient Pharmacy. MTF Outpatient Pharmacy prospective payments shall be calculated for two separate cost components:

(1) Ingredient costs. Ingredient costs are prices paid for pharmacy ingredients (drugs) purchased from vendors. The prospective payment amount is based on qualifying MEPRS pharmacy "ingredient" expenses allocated to beneficiary categories (DoD and other Uniformed Services) on the basis of Pharmacy Data Transaction Service (PDTs) drug costs.

(2) Non-ingredient costs. Non-ingredient costs are all other costs associated with MTF Outpatient Pharmacy operations as allocated in MEPRS. These rates are based on MEPRS costs per prescription for the most recent fiscal year for which data is complete at the time the calculations are prepared, inflated to the year of execution. Prospective payment amounts are based on qualifying MEPRS pharmacy "non-ingredient" expenses allocated to beneficiary categories (DoD and other Uniformed Services) on the basis of PDTs prescription counts (volume) for Military Pay and non-ingredient O&M. The data source for the number of prescriptions filled shall be the MDR using data fed from PDTs.

3. Management Controls on Data Used to Develop Prospective Payment Amounts. Management controls on data used to develop prospective payment amounts include, but are not limited to, the following:

a. The MEPRS data and the MS-RWP, SIDR, and CAPER records shall be prepared, reviewed, and validated in accordance with DoD Manual 6010.13 (Reference (c)) and DoD Instruction 6040.40 (Reference (d)).

b. MEPRS data shall be recorded and maintained by the Military Departments in accordance with DoD Manual 6010.13-M (Reference (f)).

c. The Defense Manpower Data Center within the Defense Human Resources Activity under the Under Secretary of Defense for Personnel and Readiness (USD (P&R)) receives a monthly data feed from the Centers for Medicare and Medicaid Services that provides Medicare eligibility data. These data are merged with data in the Defense Enrollment Eligibility Reporting System (DEERS) to provide both DoD and Medicare eligibility status. Individual patient eligibility data shall be verified for each patient encounter using DEERS, and subsequently stored in the encounter record by the capture system (Composite Health Care System or claims processor). If a source system does not perform this check and recoding, the records from that system shall be verified centrally through merge and comparison to the DEERS extracts.

4. Execution Reviews.

a. Comparison of the MTF LOE to the Prospective Payment Amount. After the year of execution is complete and the associated expenses and workload data are available, DHA conducts an execution review in coordination with USD(C), SMAs and the NCR MD to determine the direct care MTF level of effort (LOE) for that fiscal year and the allocated actual expense to estimate the cost of caring for the Medicare eligible beneficiaries during that period. The prospective payment amounts for that fiscal year that were paid to each SMA and the NCR MD are compared to the allocated expenses and actual workload LOE calculated for the same time period.

b. Reconciliation and Execution Review. Results of the execution review (LOE calculation) are:

(1) Reported to the DoD Office of the Actuary (DoD OACT) for use in determining future Fund requirements under the oversight of the Medicare Eligible Retiree Health Care Board of Actuaries (MERHCF Board).

(2) Used during subsequent Program and Budget Reviews with OSD to determine impacts, if any, to future MTF prospective payment amounts.

(3) Used to determine whether any additional transfers from the Fund or transfers back to the Fund are appropriate for Direct Care payments. Prospective payment amounts (full or partial) determined to be not necessary (in excess of

reconciled expenses), may be returned to the MERHCF within two years after the end of the obligation year that funds were originally transferred in accordance with Reference (a). Returns to the MERHCF should be processed to the appropriate MERHCF account listed in subparagraph 160403 A.

(4) Used as a starting point for developing the coming fiscal year's prospective payment amounts. The workload units and expense allocation used in the execution review is described in subparagraph 160407 C.

160409. MERHCF Financial Reporting Requirements

A. Permanent Indefinite Appropriation 97X0850 – Payment to DoD MERHCF. The DFAS is responsible for preparing the reports for this account in accordance with Volume 6A.

B. SF 133, Report on Budget Execution. DFAS must submit a monthly SF 133 that includes all MERHCF accounts.

C. Federal Financial Statements. The DFAS must prepare all MERHCF Federal financial statements as required by OMB Circular A-136 to support the DoD Agency-wide financial statement process. The MERHCF Federal financial statements must recognize a liability for the present value of future Medicare-Eligible Retiree Health Care benefits for eligible participants. For the year in which the liability is first recorded, the initial amount of the liability must be reported as an accounting change (i.e., a change to equity and an accrued liability). Thereafter, changes in the liability each year must be charged to expense.

D. Status of Funds. The DFAS must prepare a Status of Funds and forward it to the Deputy Comptroller, Program/Budget, on the fifteenth workday of the following month. The DFAS must report actual data for current fiscal year through the previous fiscal month.

**\*1605 DEFINITIONS**

The following terms and their definitions apply to this chapter.

**COST.**

The price or cash value of the resources used to produce a program, project, or activity (OMB Circular A-11 (Reference (b))).

**FEDERAL FINANCIAL STATEMENTS.**

Principal financial statements and reporting information applicable to the MERHCF include the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, notes to financial statements and required supplementary information (RSI) as required by the Office of Management and Budget, Financial Reporting Requirements, August 3, 2012, at [the OMB web page and click the PDF link](#). Other principal financial statements and information (not applicable to the MERHCF) include the Statement of Custodial Activity, Statement of Social Insurance, and Statement of Changes in Social Insurance Amounts, and required supplementary stewardship information (RSSI).

**MEDICARE ELIGIBLE.**

With respect to any person, means entitled to benefits under part A of title XVIII of the Social Security Act (Title 42 of United States Code 1395c et seq) (Reference (a)).

**MILITARY TREATMENT FACILITIES.**

A medical facility (hospital or clinic) operated by one or more of the Uniformed Services (Reference (g)).

**NORMAL COST CONTRIBUTION.**

Amounts paid into the Fund from the Military Personnel, Reserve Personnel and National Guard Personnel appropriations to fund future benefits payable from the Fund, attributable to military service rendered in the current fiscal year. Contribution amounts are based on the normal cost per capita rates (developed by the DoD OACT) multiplied by the expected average force strength (in the President's Budget) for that fiscal year. (DoD OACT website Reference (i)).

**PER CAPITA NORMAL COST RATES.**

Average per Uniformed Service member actuarial rate developed by the DoD OACT (Reference (i)).

**REFUND.**

The return of excess payments to or by the Government (Reference (f) retired or retainer pay. The gross entitlement for a member based on conditions of the retirement law, pay grade, years of service for basic pay, years of service for percentage multiplier, percentage of disability, if applicable, and date of retirement (transfer) DoDI 7770.01, (Reference (e)).

UNIFORMED SERVICES RETIREE HEALTH CARE PROGRAMS.

The provisions of this title or any other provision of law creating an entitlement to or eligibility for health care (services) for a member or former member of a participating uniformed service who is entitled to retired or retainer pay and an eligible dependent under such program (Reference (a)).

## \*1606 REFERENCES

- (a) (10 U.S.C. 74) Sections 1111 through 1117 of Title 10, United States Code
- (b) OMB Circular A-11, Section 20, "Terms and Concepts," 2012
- (c) DoD Instruction 6070.02, "Department of Defense Medicare Eligible Retiree Health Care Fund Operations," current edition.
- (d) DoD Instruction 6040.40, "Military Health System Data Quality Management Control Procedures," current edition
- (e) DoD Instruction 7770.01, "Reporting Requirements for Retired Military Pay File Extracts," February 8, 2013
- (f) DoD Manual 6010.13-M, "Medical Expense and Performance Reporting System for Fixed Military Medical and Dental Treatment Facilities," current edition.
- (g) Joint Publication 1-02, "Department of Defense Dictionary of Military and Associated Terms," current edition
- (h) Actuarial Standards Board Website of definitions
- (i) DoD Office of the Actuary Website providing actuarial expertise on all matters relating to military compensation and benefits.
- (j) 2012 MERHCF Board Letter (DoD)
- (k) Signed Normal Cost Percentage Letter 2015
- (l) Signed Unfunded Liability Letter 2012
- (m) Sample of 3Q13 MERHCF Note 17