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Analysis of Alternatives for Changing Military Health Care

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What Is TRICARE?

The Military Health System (MHS) and TRICARE

- TRICARE is the program through which MHS provides health care
- About 9 million people are eligible to use the TRICARE benefit
 - 1.5 million service members
 - 1.8 million family members of those currently serving
 - 5.4 million military retirees and their families (about 2.1 million are Medicare-eligible, the rest generally younger)
- Care is provided by a combination of military treatment facilities (MTFs) and private civilian providers
 - Seeing military providers generally costs nothing
 - Seeing private providers generally requires copayments or coinsurance
 - DoD awards regional contracts to manage the private component

More on the TRICARE Benefit

TRICARE plans include:

- An HMO-like option (called Prime) with an annual fee:
 - \$0 (for active-duty families)
 - \$289 (for single retirees) or \$578 (for retiree families)*
 - HMO enrollees get priority in MTF appointments

- A PPO option (called Select)
 - No enrollment fee for most (this will change in 2021)
 - But users pay a deductible and copayments or coinsurance for care
 - Seeing in-network providers involves lower out-of-pocket costs than going out of network
 - Treatment at MTFs only when space is available

* Fees will be higher for future retirees who enter service after 2017

What Are Some Concerns About the Military Health System?

Some Policymakers Have Expressed Concerns About Readiness and Cost

Concern	Description
<p>Does the system ensure that providers are adequately trained to treat personnel during peacetime and wartime? (Defined as operational readiness.)</p>	<ul style="list-style-type: none"> ▪ Military providers have little opportunity to practice skills needed for deployment. ▪ Volume of care at some facilities is too low to ensure provider proficiency.
<p>Can DoD address rising health care costs?</p>	<ul style="list-style-type: none"> ▪ Medical force is larger than needed for deployments. ▪ Costs of ensuring operational readiness are hard to track. ▪ No mechanism exists for ensuring an efficient direct care system. ▪ Beneficiaries' use of TRICARE is increasing.

What Alternatives Did CBO Examine?

Alternatives That Might Address Concerns About the Military Health System

Approaches to Ensuring Readiness and Lowering Costs

	Approach 1: Focus the Direct Care System on Operational Readiness	Approach 2: Pay Fixed Amounts per Person to TRICARE Contractors	Approach 3: Change How Military Departments Pay for Health Care in MTFs
Concerns About Operational Readiness			
MTF providers have little opportunity to practice skills needed for deployment	X		
Volume of care at some U.S.-based MTFs is too low to ensure medical proficiency	X		
Concerns About DoD's Rising Health Care Costs			
Medical force is larger than needed for combat	X		X
Costs of ensuring operational readiness are not apparent	X		X
No mechanism exists for ensuring an efficient direct care system	X	X	X
Beneficiaries' use of TRICARE is increasing		X	

Alternatives That Might Address Concerns About the Military Health System

Options for Which CBO Estimated the Effects on Costs

	Option 1: Increase Cost Sharing for Most Beneficiaries Who Use TRICARE	Option 2: Replace TRICARE With a Choice of Commercial Insurance Plans for Most Beneficiaries
Concerns About Operational Readiness		
MTF providers have little opportunity to practice skills needed for deployment		
Volume of care at some U.S.-based MTFs is too low to ensure medical proficiency		X
Concerns About DoD's Rising Health Care Costs		
Medical force is larger than needed for combat		
Costs of ensuring operational readiness are not apparent		X
No mechanism exists for ensuring an efficient direct care system	X	X
Beneficiaries' use of TRICARE is increasing	X	X

Potential Approaches to Restructure TRICARE

Approach	Description
Focus the Direct Care System on Operational Readiness	MTFs would primarily provide care to service members and train military providers. Most others would receive care outside those facilities.
Pay a Fixed Amount per Person to TRICARE Contractors	DoD would pay a capitated rate but allow contractors greater flexibility in structuring provider networks, reimbursing providers and determining patients' cost sharing.
Change How the Military Departments Pay for Health Care in MTFs	MTFs would receive a fixed amount per person or receive payments through a working capital fund.

The budgetary effects would be determined by details not reflected here. CBO did not estimate the costs of implementing these approaches.

For Which Options
Did CBO Estimate
Effects on Cost?

Specific Options to Restructure TRICARE

Option	Description
1. Increase Cost Sharing for Most Beneficiaries Who Use TRICARE	Restructure cost sharing to encourage more efficient (and less expensive) consumption of health care services by beneficiaries
2. Replace TRICARE With a Choice Of Commercial Insurance Plans for Most Beneficiaries	<ul style="list-style-type: none"><li data-bbox="989 668 1638 853">▪ Proposed by the Military Compensation and Retirement Modernization Commission (MCRMC)<li data-bbox="989 905 1750 1043">▪ Most beneficiaries not on active duty could choose from a variety of commercial insurance plans<li data-bbox="989 1086 1731 1225">▪ MTFs would be included in provider networks and reimbursed for care (like private providers)

Estimated Budgetary Effects of Option 1: Increase Cost Sharing for Most Beneficiaries Under TRICARE

Billions of 2017 Dollars

	<u>2021</u>	<u>2026</u>	<u>2031</u>
Changes in Discretionary Budget Authority			
Department of Defense	-1.6	-2.3	-3.2
VHA, FEHB program, and other uniformed services	0.1	0.2	0.3
Net Impact on Discretionary Budget Authority	-1.5	-2.1	-2.9
Other Budgetary Effects			
Change in mandatory outlays	*	*	*
Change in revenues	-0.3	-0.3	-0.4

These estimates are based on the TRICARE program as of October 2017.

FEHB = Federal Employees Health Benefits; VHA = Veterans Health Administration; * = between -\$50 million and \$50 million.

Estimated Budgetary Effects of Option 2: Replace TRICARE With Private Insurance

Billions of 2017 Dollars

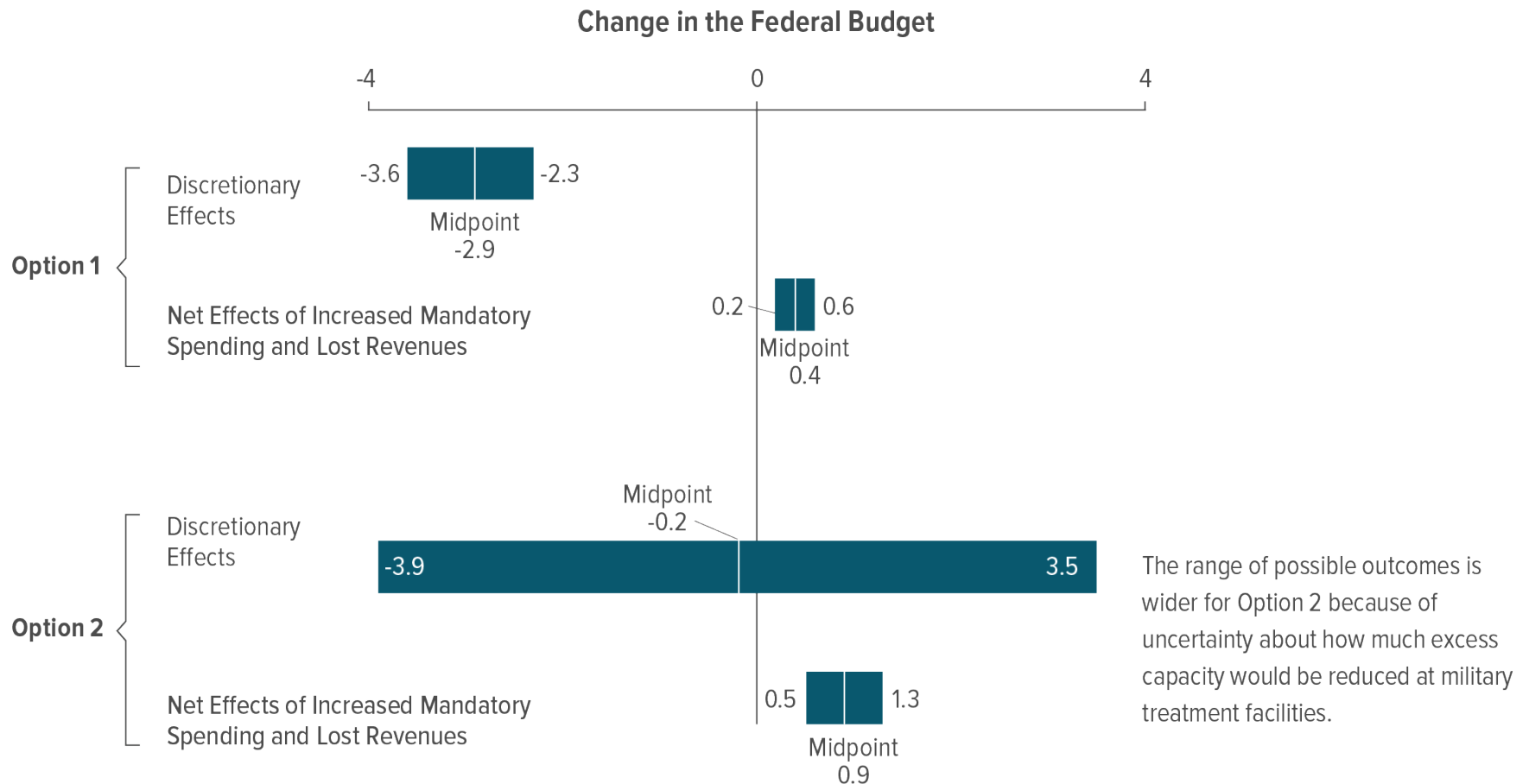
	2021	2026	2031
Changes in Discretionary Budget Authority			
Department of Defense	2.7	1.3	-0.4
VHA, FEHB program, and other uniformed services	0.2	0.2	0.2
Net Impact on Discretionary Budget Authority	3.0	1.5	-0.2
Other Budgetary Effects			
Change in mandatory outlays	*	*	*
Change in Revenues	-0.6	-0.8	-0.9

These estimates are based on the TRICARE program as of October 2017.

FEHB = Federal Employees Health Benefits; VHA = Veterans Health Administration; * = between -\$50 million and \$50 million.

Likely Ranges of Possible Savings or Costs in 2031 Under the Two Options Examined by CBO

Billions of 2017 Dollars



Estimated Cost of Health Care for an Average Family Using TRICARE in 2031

2017 Dollars

	<u>Working-Age Retirees and Their Families</u>			<u>Families of Active-Duty Personnel</u>		
	<u>Current Program</u>	<u>Option 1</u>	<u>Option 2</u>	<u>Current Program</u>	<u>Option 1</u>	<u>Option 2</u>
Health Care Costs						
Paid by the government	24,100	21,900	21,000	24,300	24,200	14,800
Paid by each family	1,900	3,300	7,500	300	300	7,900
Total cost per family	<u>26,000</u>	<u>25,300</u>	<u>28,500</u>	<u>24,600</u>	<u>24,500</u>	<u>22,700</u>
Costs Paid by the Government						
Health care costs for each family	24,100	21,900	21,000	24,300	24,200	14,800
Allowance paid to each family	n.a.	n.a.	n.a.	n.a.	n.a.	7,900
Additional subsidy to retain capacity at MTFs	n.a.	200	2,500	n.a.	0	4,400
Total cost per family	<u>24,100</u>	<u>22,100</u>	<u>23,500</u>	<u>24,300</u>	<u>24,200</u>	<u>27,100</u>
Costs Paid by Each Family						
Health care costs paid out of pocket	1,900	3,300	7,500	300	300	7,900
Allowance received from the government	n.a.	n.a.	n.a.	n.a.	n.a.	-7,900
Total cost per family	<u>1,900</u>	<u>3,300</u>	<u>7,500</u>	<u>300</u>	<u>300</u>	<u>0</u>

These estimates are based on the TRICARE program as of October 2017.

n.a. = not applicable.