



TRANSITION TOPIC:

DOD HEALTH BENEFITS FORECAST

TASK: Highlight the perilous growth in Defense healthcare spending and alert the Secretary to the urgency of gaining agreement from the Department's uniformed leadership to aggressively pursue savings in Defense healthcare spending.

TASK GROUP:

Michael Bayer (Chair) Dov Zakheim

Kelly Van Niman (Executive Secretary)



Defense Business Board

ISSUE:

- Defense healthcare costs are “eating up” the Defense budget and represent an existential threat to the Department
- Only the Secretary can lead the Department and its uniformed leadership (Service Chiefs and Chairman Joint Chiefs of Staff) to a solution

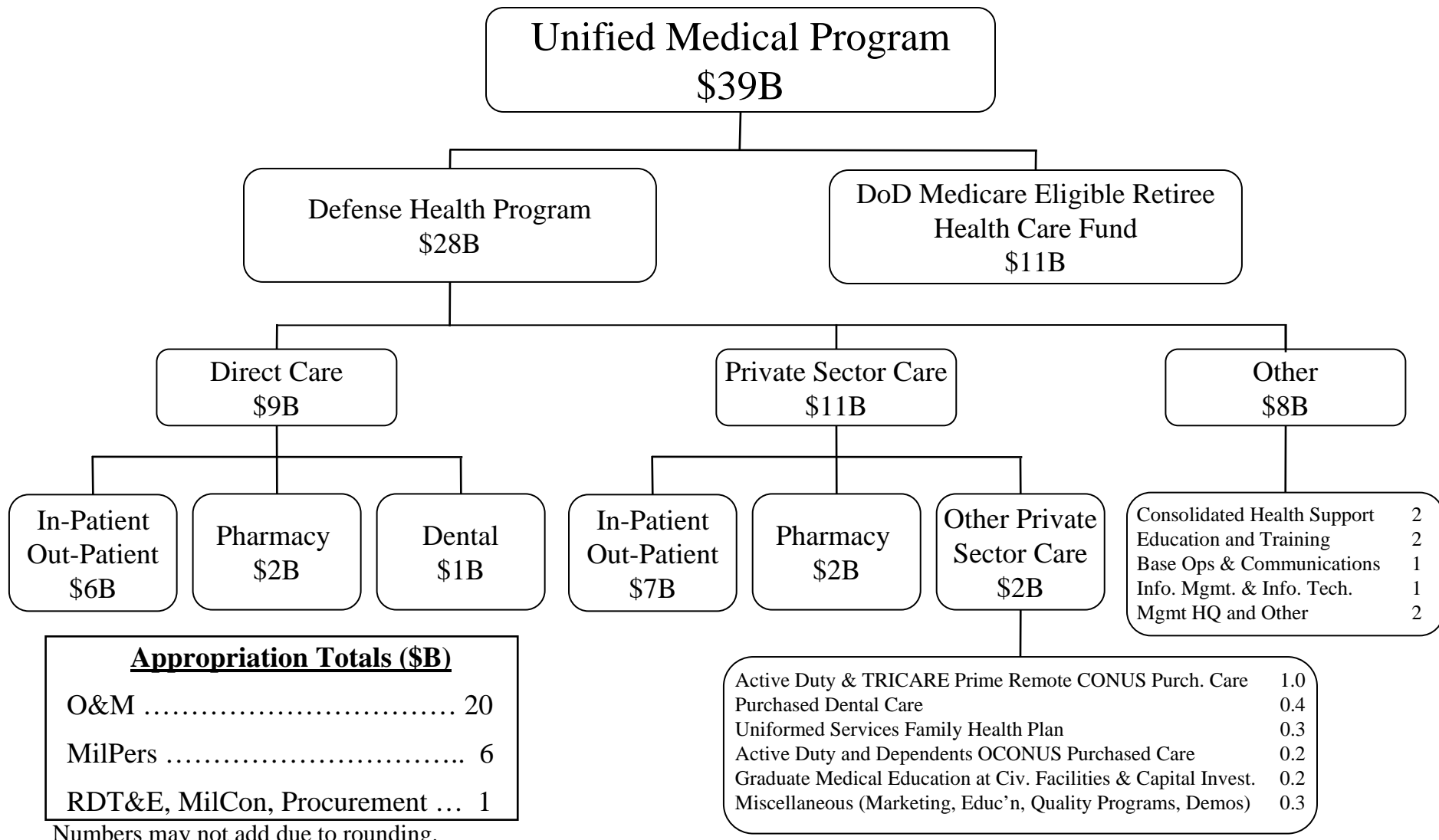
IMPORTANCE:

- Defense Health is a \$93 billion program – plus an additional \$488 billion in unfunded liability (FY 2007)
- Congressional mandates for increased healthcare benefits are likely to continue, which will force DoD to make tough funding trade-off decisions
- Overall Defense healthcare spending has grown \$25.1B billion from FY 2000 to FY 2008 (a 144% increase)
- Defense healthcare spending has grown faster than DoD discretionary spending since FY 2000
- Defense healthcare programs are facing an imminent head-on financial train wreck with other critical Defense acquisition and operational programs



Defense Business Board

FY07 Unified Medical Program



Appropriation Totals (\$B)

O&M	20
MilPers	6
RDT&E, MilCon, Procurement ...	1

Numbers may not add due to rounding.

Active Duty & TRICARE Prime Remote CONUS Purch. Care	1.0
Purchased Dental Care	0.4
Uniformed Services Family Health Plan	0.3
Active Duty and Dependents OCONUS Purchased Care	0.2
Graduate Medical Education at Civ. Facilities & Capital Invest.	0.2
Miscellaneous (Marketing, Educ'n, Quality Programs, Demos)	0.3



RECENT KEY BENEFIT LEGISLATION*

FY 2001 (annual cost \$492)*

- Co-payment elimination (\$220)
- Catastrophic cap reduction (\$91)
- TRICARE PRIME Remote ADFM (\$65)
- Medical/Dental benefit expansion (\$59)
- **Medical record privacy (\$30)**
- Custodial care (\$15)
- Chiropractic health care (\$12)

FY 2002 (annual cost \$4,969)*

- TRICARE for Life (\$4,903)
- NAS elimination (\$38)
- **Prosthetics and hearing aids (\$23)**
- **Transitional Health Care (\$5)**

FY 2003 (annual cost \$54)*

- **VA/DoD joint initiatives (\$30)**
- **TRICARE PRIME Remote ADFM expansion (\$24)**

FY 2004 (annual cost \$400)*

- **NDAAs 2004 Guard/Reserve TRICARE benefit**

FY 2005 (initial cost \$248, ≈\$800 annual future year cost)

- **NDAAs 2005 Guard/Reserve TRICARE benefit**

FY 2006 (annual cost \$2)

- **NDAAs 2006 Guard/Reserve TRICARE benefit**

FY 2007 (annual cost \$62)

- **Claims Processing Standardization (\$36M)**
- **Expanded Disease Management (\$26M)**

FY 2008 (annual cost \$11)

- **TRICARE portion of Wounded Warrior Benefits**

Source: OUSD/Health Affairs

**Estimated costs in FY 2004 millions of dollars*

All other costs in current year dollars

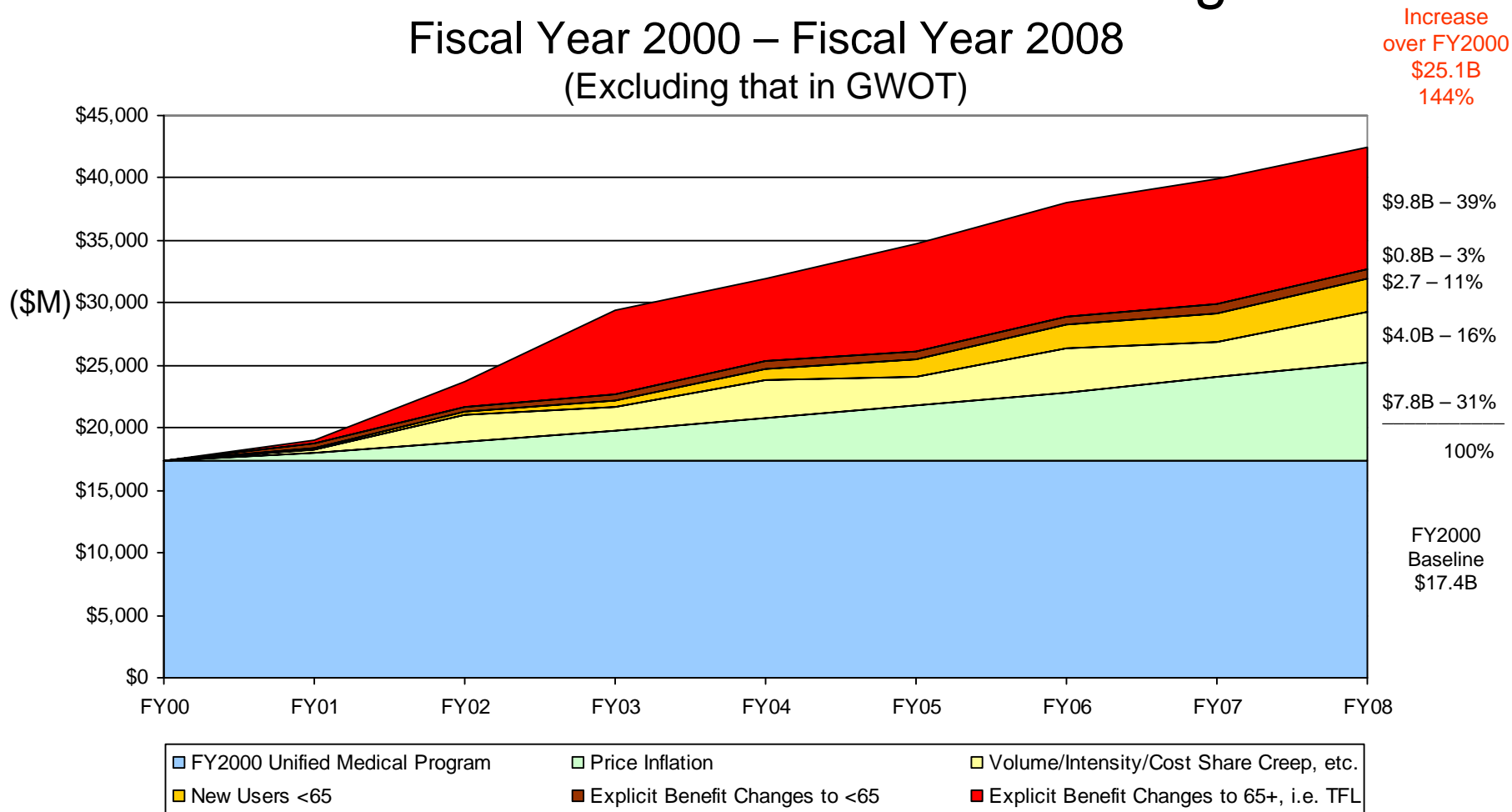
*Funded / **Unfunded** "carve out"*



Growth in the Unified Medical Budget

Fiscal Year 2000 – Fiscal Year 2008

(Excluding that in GWOT)



Source: OUSD/Health Affairs

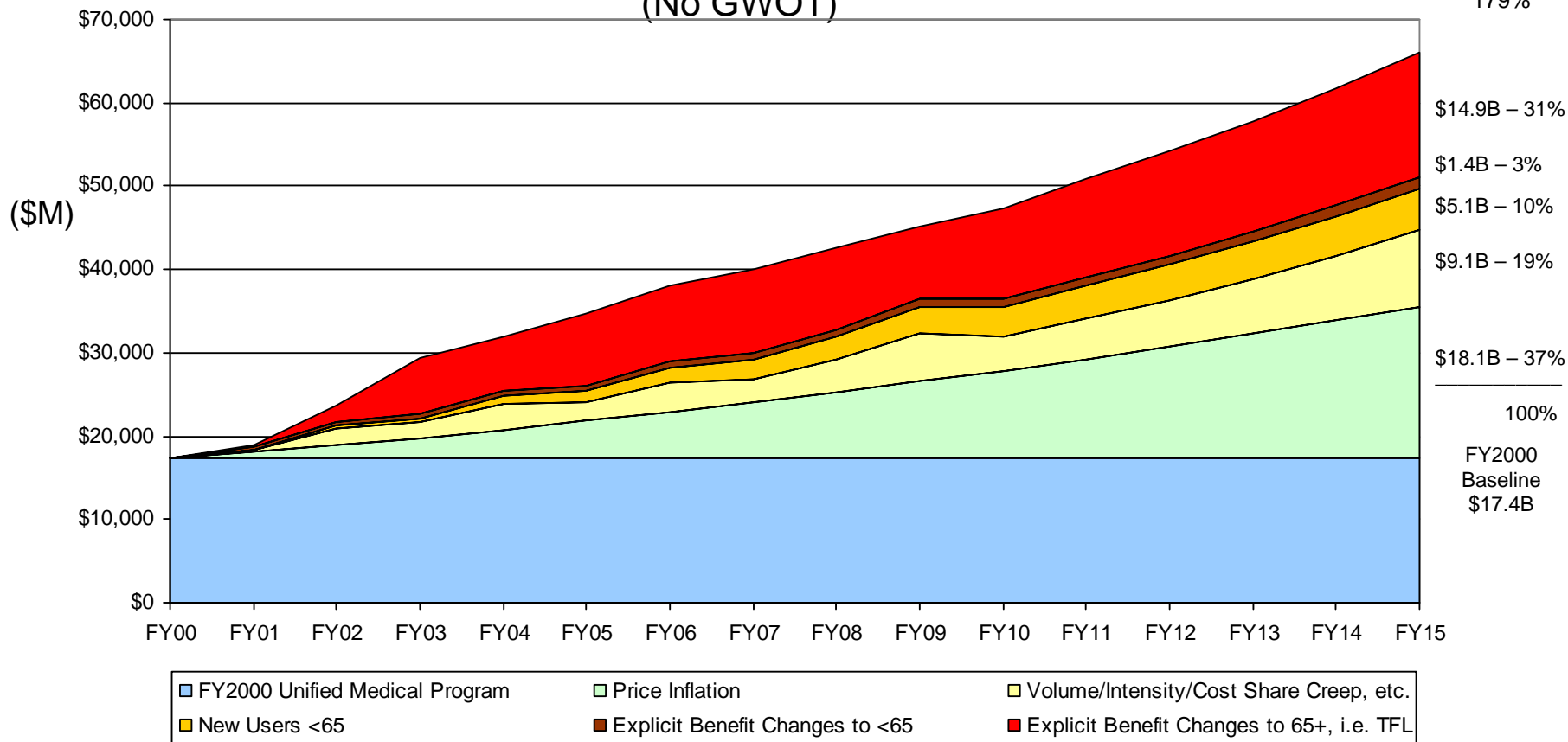
Note: FY08 GWOT medical spending totaled \$1.137B



Projected Growth through FY 2015 in the Unified Medical Budget

(No GWOT)

Increase over FY2000
\$48.6B
179%



Source: OUSD/Health Affairs



DISCUSSION:

- Overall Defense healthcare spending has grown 144% from FY 2000 to FY 2008 (\$17.4 billion to \$42.5 billion) (does not include GWOT and Supplementals)
 - Retiree spending has grown 39% from FY 2000 to FY 2008
 - 64.8% of healthcare expenditures in FY 2008 were for retirees
 - Pharmacy spending has been growing faster than overall Defense healthcare spending
 - DoD's unfunded liability for TRICARE-for-Life increased \$22 billion from FY 2006 to FY 2007 – it stood at \$488 billion in FY 2007
- \$11 billion of Defense healthcare spending in FY 2008 was the result of increases in benefits mandated by Congress since FY 2000
- Over the Future Years Defense Program (FYDP) Defense healthcare spending is forecasted to grow to around \$66 billion by FY 2015



RECOMMENDATIONS

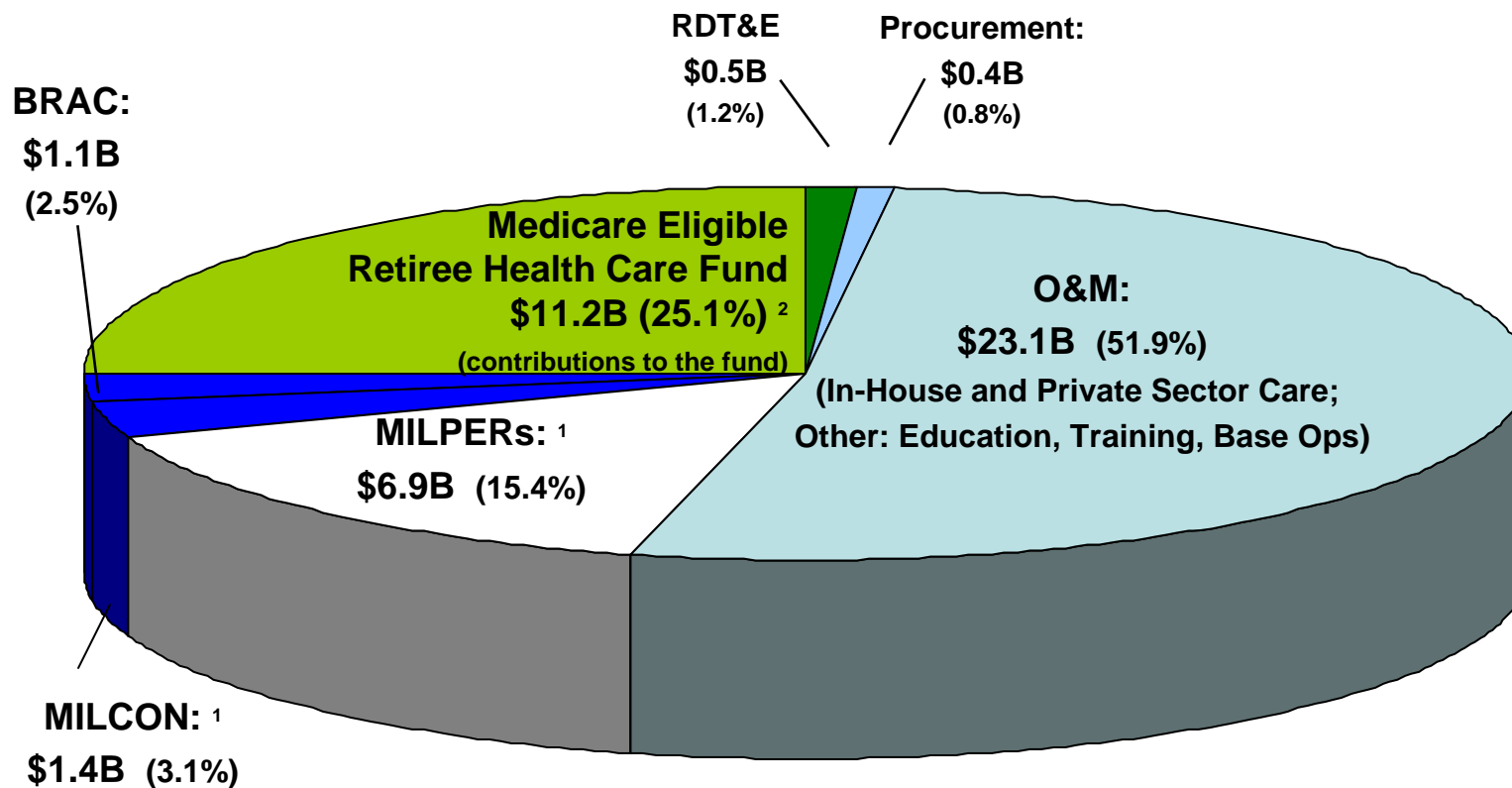
1. **Lead the Effort** – Only the Secretary can lead the Department to address this perilous threat
2. **Build a Team** – The Secretary must convene his senior military and civilian leadership to reduce Defense healthcare spending
 - This is an issue that can only be solved with the active support and engagement of the Chairman, Joint Chiefs of Staff and Service Chiefs
3. **Identify High Pay-Off Items** – The Secretary's team must focus on areas of highest potential savings
 - Especially in the areas of retiree spending and pharmacy
4. **Work with Congress** - Any changes to the trajectory of expenses will require the support of the Congress, as many of the fastest rising programs are mandated
 - Utilize a bi-partisan commission (similar to the National Bi-partisan Commission on Healthcare) to address DoD's rapidly increasing healthcare expenditures



BACKUP



Major Components of DoD Healthcare Budget (FY 2008)



1. Funding for Military Personnel assigned to DoD health care facilities comes directly from Service MILPERs Budgets
2. DoD also received approximately \$6.5 billion in receipts from the Medicare Eligible Retiree Health Care Fund for current year health care costs for Medicare eligible retirees, retiree family members and survivors.

Total FY 2008 Budget: \$44.6 Billion

Note: Includes FY08 \$1.137B GWOT and \$1B Supplemental



Cost Growth Drivers Impacting Defense Health Program

- **Increased benefits mandated by Congress:**

- 42% (\$10.6B) of FY00-08 growth
- Note: from FY00-08, 61% of the program's Cost Growth above inflation was due to these mandated benefits
- Includes TFL Benefit
- Assumes no increase in benefits after FY 2008

- **Increase in cost per *unit/visit*:**

- 37% of FY00-15 growth
- Labor and technology cost increases
- Private sector also increasing

- **Increase in *utilization/intensity* per user:**

- 19% of FY00-15 growth
- Advances in technology (ability to do more)
- Protocol changes
- Private sector also increasing

- **Increase in users:**

- 10% of FY00-15 growth
- Percent of non Medicare eligible retirees and dependents that use TRICARE is increasing
- Real costs to the beneficiaries are decreasing
- Beneficiary survey results: quality of and satisfaction with TRICARE health care provision are increasing
- Level of benefits is increasing

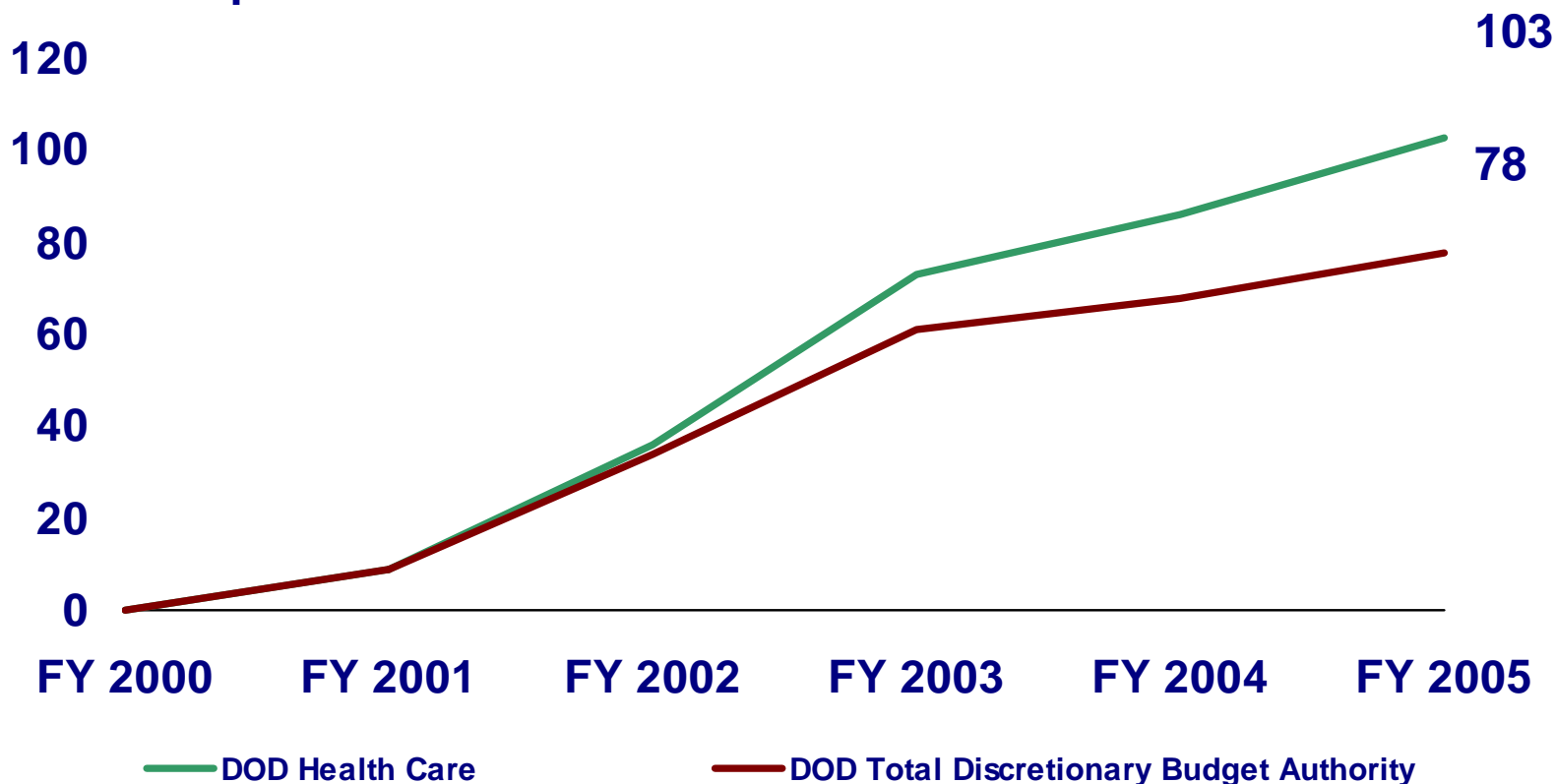
Note: GWOT supplemental spending is expected to be \$1.1B in FY09. Will cover TRICARE benefits for Guard and Reserve and their families; pre/post deployment assessments; medical backfill for reservists who are deployed; some Wounded Warrior and Active Duty casual care.

Source: OUSD/Health Affairs



DOD Health Care Spending has been Growing Faster than DOD's Discretionary Budget Authority

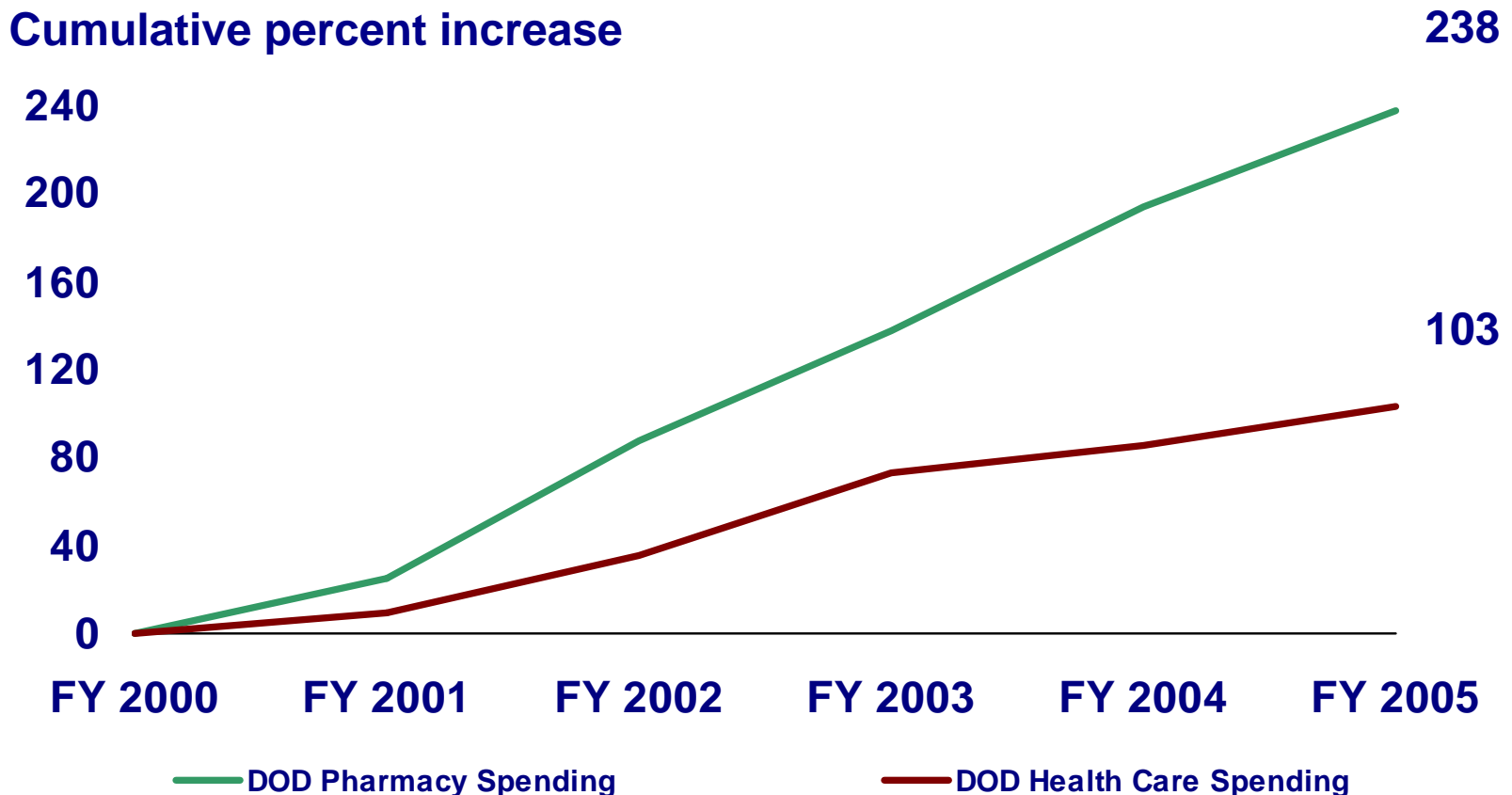
Cumulative percent increase



Source: GAO analysis of DOD data.



DOD Pharmacy Spending Grew Faster than Overall DOD Health Care Spending



Source: GAO analysis of DOD data.



**FY07
Health Care Implied by DoD
\$93B**

**Department of the Treasury
\$20B**

**Department of Defense
Health Care
\$42B**

**Department of Veterans Affairs
Health Care
\$31B**

**Treasury Contribution
to DoD Medicare
Eligible Retiree
Health Care Fund¹
\$17B**

**Treasury Contribution
To Retired DoD
Civilian Health Care
\$3B**

**Unified
Medical Program
\$39B**

**DoD Contributions to
Civilian Health Care
\$4B (estimated)**

**Defense Health Program
\$28B**

**DoD Medicare Eligible
Retiree Health Care Fund
\$11B**

**Direct Care
\$9B**

**Private
Sector Care
\$11B**

**Other
\$8B**

¹ The Treasury contribution to the DoD Medicare Eligible Retiree Health Care Fund is a 50-year annual payment to liquidate the \$488 billion TRICARE-For-Life unfunded liability.
All costs are in FY07 dollars
Numbers may not add due to rounding.