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)
**DoD Health Benefits Forecast**

**1. REPORT DATE**
23 OCT 2008

**2. REPORT TYPE**

**3. DATES COVERED**
00-00-2008 to 00-00-2008

**4. TITLE AND SUBTITLE**
DoD Health Benefits Forecast

**5a. CONTRACT NUMBER**

**5b. GRANT NUMBER**

**5c. PROGRAM ELEMENT NUMBER**

**5d. PROJECT NUMBER**

**5e. TASK NUMBER**

**5f. WORK UNIT NUMBER**

**6. AUTHOR(S)**

**7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)**
Defense Business Board, Secretary of Defense, Washington, DC

**8. PERFORMING ORGANIZATION REPORT NUMBER**

**9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)**

**10. SPONSOR/MONITOR’S ACRONYM(S)**

**11. SPONSOR/MONITOR’S REPORT NUMBER(S)**

**12. DISTRIBUTION/AVAILABILITY STATEMENT**
Approved for public release; distribution unlimited

**13. SUPPLEMENTARY NOTES**

**14. ABSTRACT**

**15. SUBJECT TERMS**

**16. SECURITY CLASSIFICATION OF:**

<table>
<thead>
<tr>
<th>a. REPORT</th>
<th>b. ABSTRACT</th>
<th>c. THIS PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>unclassified</td>
<td>unclassified</td>
<td>unclassified</td>
</tr>
</tbody>
</table>

**17. LIMITATION OF ABSTRACT**
Same as Report (SAR)

**18. NUMBER OF PAGES**
14

**19. NAME OF RESPONSIBLE PERSON**

---

Standard Form 298 (Rev. 8-98)
Prepared by ANSI Std Z39-18
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
FY07 Unified Medical Program

Unified Medical Program
$39B

- Defense Health Program
  $28B
  - Direct Care
    $9B
    - In-Patient
      $6B
    - Pharmacy
      $2B
    - Dental
      $1B
  - Private Sector Care
    $11B
    - In-Patient
      $7B
    - Pharmacy
      $2B
    - Other Private Sector Care
      $2B

- DoD Medicare Eligible Retiree Health Care Fund
  $11B
  - Consolidated Health Support
  - Education and Training
  - Base Ops & Communications
  - Mgmt HQ and Other

Appropriation Totals ($B)
- O&M .............................. 20
- MilPers ............................ 6
- RDT&E, MilCon, Procurement ... 1

Numbers may not add due to rounding.

Source: PA&E
October 23, 2008
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)*
• NDAA 2004 Guard/Reserve TRICARE benefit

FY 2005 (initial cost $248, ≈$800 annual future year cost)
• NDAA 2005 Guard/Reserve TRICARE benefit

FY 2006 (annual cost $2)
• NDAA 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

*Estimated costs in FY 2004 millions of dollars
All other costs in current year dollars
Funded / Unfunded “carve out”

Source: OUSD/Health Affairs

October 23, 2008
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

October 23, 2008
Projected Growth through FY 2015 in the Unified Medical Budget
(No GWOT)

Increase over FY2000
$48.6B
179%

FY2000 Baseline
$17.4B

FY00 FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08 FY09 FY10 FY11 FY12 FY13 FY14 FY15

$0 $10,000 $20,000 $30,000 $40,000 $50,000 $60,000 $70,000

($M)

Source: OUSD/Health Affairs

October 23, 2008
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

October 23, 2008
BACKUP
Major Components of DoD Healthcare Budget
(FY 2008)

- O&M: $23.1B (51.9%, In-House and Private Sector Care; Other: Education, Training, Base Ops)
- MILPERs: $6.9B (15.4%)
- BRAC: $1.1B (2.5%)
- Procurement: $0.4B (0.8%)
- RDT&E: $0.5B (1.2%)
- Medicare Eligible Retiree Health Care Fund: $11.2B (25.1%)
- MILCON: $1.4B (3.1%)

Total FY 2008 Budget: $44.6 Billion

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

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.
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

Source: OUSD/Health Affairs

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.

October 23, 2008
DOD Health Care Spending has been Growing Faster than DOD’s Discretionary Budget Authority

Cumulative percent increase

- DOD Health Care
- DOD Total Discretionary Budget Authority

Source: GAO analysis of DOD data.

October 23, 2008
DOD Pharmacy Spending Grew Faster than Overall DOD Health Care Spending

Source: GAO analysis of DOD data.

October 23, 2008
FY07 Health Care Implied by DoD $93B

Department of the Treasury $20B
- Treasury Contribution to DoD Medicare Eligible Retiree Health Care Fund $17B

Department of Defense Health Care $42B
- Unified Medical Program $39B
- DoD Contributions to Civilian Health Care $4B (estimated)

Department of Veterans Affairs Health Care $31B
- Treasury Contribution to DoD Medicare Eligible Retiree Health Care Fund $17B
- Treasury Contribution To Retired DoD Civilian Health Care $3B

Defense Health Program $28B
- Direct Care $9B
- Private Sector Care $11B
- Other $8B

DoD Medicare Eligible Retiree Health Care Fund $11B

Source: PA&E

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.