



# Department of Defense INSTRUCTION

NUMBER 6070.2

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ASD(HA)

SUBJECT: Department of Defense Medicare Eligible Retiree Health Care Fund  
Operations

- References:
- (a) Chapter 56 of title 10, United States Code
  - (b) [DoD Directive 6070.1](#), "Department of Defense Medicare Eligible Retiree Health Care Fund," July 17, 2002
  - (c) [DoD Directive 5105.4](#), "Department of Defense Federal Advisory Committee Management Program," September 5, 1989
  - (d) TRICARE/CHAMPUS Automated Data Processing Manual 6010.50-M (ADP), May 1999 (available at [www.tricare.osd.mil/tricaremanuals/](http://www.tricare.osd.mil/tricaremanuals/))
  - (e) [DoD 6010.13-M](#), "Medical Expense and Performance Reporting System for Fixed Military Medical and Dental Treatment Facilities," November 21, 2000
  - (f) Assistant Secretary of Defense (Health Affairs) Memorandum, "Data Quality Management Control (DQMC) Program," November 29, 2000

## 1. PURPOSE

This Instruction implements references (a) and (b) for management and operations of the Department of Defense Medicare Eligible Retiree Health Care Fund (hereafter referred to as "the Fund").

## 2. APPLICABILITY AND SCOPE

2.1. This Instruction applies to the Office of the Secretary of Defense, the Military Departments, the Chairman of the Joint Chiefs of Staff, the Combatant Commands, the Office of the Inspector General of the Department of Defense, Defense Agencies, DoD Field Activities, and all other organizational entities within the Department of Defense (hereafter referred to collectively as "the DoD Components").

2.2. The provisions of this Instruction may also become applicable to the United States Coast Guard, the Commissioned Corps of the Public Health Service, and the National Oceanic and Atmospheric Administration when the Secretaries of the Departments of Transportation, Health and Human Services, and Commerce enter into agreements with the Secretary of Defense for the Uniformed Services under their respective jurisdictions to participate in the Fund, in accordance with reference (a).

### 3. POLICY

It is DoD policy that funding for health care programs for Medicare eligible beneficiaries designated by reference (a) shall be accordance with the provisions of that reference.

### 4. RESPONSIBILITIES

4.1. The following DoD Components shall follow the procedures described in section 5. of this Instruction:

4.1.1. The Assistant Secretary of Defense for Health Affairs and the TRICARE Management Activity.

4.1.2. The Under Secretary of Defense (Comptroller) and the Director, Defense Finance and Accounting Service.

4.1.3. The Office of the Actuary.

4.1.4. The Secretaries of the Military Departments.

4.2. The DoD Medicare Eligible Retiree Health Care Board of Actuaries (hereafter referred to as "the Board") shall:

4.2.1. Function in accordance with references (a) and (c).

4.2.2. Follow the procedures described in section 5. of this Instruction.

### 5. PROCEDURES

5.1. Annual Unfunded Actuarial Liability Amortization Payment

5.1.1. The Defense Finance and Accounting Service (DFAS) shall:

5.1.1.1. Coordinate with the Department of the Treasury (hereafter referred to as "the Treasury") to ensure receipt of the annual amortized unfunded consolidated actuarial liability payment by means of a Financial Management Service warrant in accordance with the schedule established by the Board on the first day of each fiscal year until the liability is fully funded.

5.1.1.2. Deposit the annual unfunded consolidated actuarial liability amortization payment into the Fund receipt account entitled "Federal Contributions, DoD Medicare Eligible Retiree Health Care Fund" (account number 97 X 5472.003), and provide a copy of the completed Standard Form 1081, "Voucher and Schedule of Withdrawals and Credits," for this transaction to DFAS-Indianapolis.

5.1.1.3. Notify the Under Secretary of Defense (Comptroller) (USD(C)), the Office of the Actuary (OOA) under the Office of the Undersecretary of Defense (Personnel and Readiness) (USD(P&R)), and the Director, TRICARE Management Activity (TMA) under the Assistant Secretary of Defense (Health Affairs) (ASD(HA)) when these payments have been deposited.

5.1.2. Prior to the beginning of each fiscal year, the OOA shall prepare a letter for the Secretary of Defense's signature to the Secretary of the Treasury that certifies the amount due the Fund for the annual unfunded actuarial liability amortization payment for that year, in accordance with the schedule established by the Board, until the liability is fully funded.

5.2. Annual Actuarial Normal Cost Contribution Amounts

5.2.1. The OOA shall provide to the USD(C), the Military Departments, DFAS, and TMA the Board's annual estimates of the total required annual actuarial normal cost contributions as well as the monthly per-capita normal rates for full-time and part-time personnel. Subject to review and approval by the Board, the ASD(HA) shall provide the National Security Division, Office of Management and Budget, with annual estimates of normal cost per capita rates and total annual normal cost contribution amounts by not later than 1 June for the fiscal year beginning the following October, as well as preliminary estimates of these amounts for the succeeding fiscal year.

5.2.2. The Secretaries of the Military Departments shall:

5.2.2.1. Calculate, on a monthly basis, the required normal cost contribution for their Service, by multiplying the monthly per-capita rates (full-time and

part-time) provided by the OOA times the reported end strength for the most recently reported month.

5.2.2.2. Using the Intra-Governmental Payment and Collection (IPAC) system, transfer the resulting calculated amount from the Military Personnel accounts or other applicable accounts to the Fund by not later than 10:00 AM Eastern Time on the last working day prior to the fifth business day from the end of each month.

5.2.2.3. Notify DFAS of the amounts transferred each month as described in the subparagraph 5.2.2.2.

5.2.3. DFAS shall:

5.2.3.1. Deposit the amounts received as described in subparagraph 5.2.2.2. into the Fund receipt account entitled "Employing Agency Contributions, DoD Medicare Eligible Retiree Health Care Fund" (account number 97 X 5472.001).

5.2.3.2. Notify the USD(C), the OOA, and TMA when these payments have been deposited.

### 5.3. Health Care Purchased From Non-DoD Providers

5.3.1. Procedures for withdrawals from the Fund to pay for health care purchased from non-DoD providers are as follows:

#### 5.3.1.1. TRICARE For Life (TFL-Non-Rx)

5.3.1.1.1. TMA shall withdraw from the Fund by daily IPAC the TFL-non-Rx claims (purchased health care) costs based upon the daily transactions attributable to the TFL program for eligible beneficiaries.

5.3.1.1.2. TMA shall withdraw from the Fund the claims processing costs for TFL-non-Rx claims for each regional contract option period by IPAC twice per year, based upon the commitment of funds and not less than 30 days prior to the start of the option period. TMA shall notify DFAS of the required amount one working week prior to the transfer date to ensure sufficient funds are available.

#### 5.3.1.2. TRICARE Senior Pharmacy (TSRx)

5.3.1.2.1. TMA shall withdraw from the Fund by daily IPAC the TSRx claims costs based upon the daily transactions attributable to the TSRx program for eligible beneficiaries.

5.3.1.2.2. TMA shall withdraw from the Fund the claims processing costs for TSRx for each contract option period by IPAC twice per year, based upon the commitment of funds prior to the start of the option period. TMA shall notify DFAS of the required amount one working week prior to the transfer date to ensure sufficient funds are available.

5.3.1.3. TRICARE Mail Order Pharmacy (TMOP)

5.3.1.3.1. TMA shall withdraw from the Fund by monthly IPAC the Government expenditure for drugs attributable to the TMOP program for eligible beneficiaries.

5.3.1.3.2. TMA shall withdraw from the Fund the processing costs for the TMOP contract option period by IPAC upon the commitment of funds prior to the start of the option period.

5.3.1.4. The Uniformed Services Family Health Plan (USFHP). TMA shall withdraw from the Fund the estimated obligation amount based on the contract-specific capitation rates for Medicare-eligible retirees, retiree family members, and survivors enrolled for each USFHP hospital contract option period by IPAC twice per year, upon the commitment of funds prior to the start of the option period.

5.3.2. Validation

5.3.2.1. TFL-Non-Rx, TSRx, and TMOP Claims

5.3.2.1.1. Daily claims shall be validated by the voucher edit procedures required by reference (d) to ensure that only costs attributable to Medicare-eligible beneficiaries as designated by reference (a) have been included in payments drawn from the Fund.

5.3.2.1.2. At the end of each month, claims processing costs shall be reconciled against the monthly distribution estimate and any over and/or under charged amounts shall be applied to the estimated requirement for the following month. During the month of September, as fiscal year-end approaches, more frequent reconciliation between charged accounts and available funds shall occur and processing shall continue up to a predetermined cut-off date established by TMA in coordination with DFAS.

5.3.2.2. USFHP Contract Option Period Payments

5.3.2.2.1. Each USFHP hospital's reported enrollment (provided by the Defense Contracting Command-Washington) shall be used to reconcile contracted enrollment estimates for Medicare-eligible beneficiaries as designated by reference (a).

5.3.2.2.2. At the end of each option period, total charges shall be reconciled against the estimate and any over and/or under charged amounts shall be applied to the estimated requirement for the following option period.

5.3.2.3. TMA shall provide annual (or more frequently, if required) purchased care reconciliation results to the OOA for use by the Board in determining future Fund requirements.

### 5.3.3. Accounting Procedures

#### 5.3.3.1. Funding Authorization Document (FAD) Requirements

5.3.3.1.1. At the beginning of each Fiscal Year, a new FAD for the TRICARE For Life purchased care expenditure limit code (0130.18C9) shall be provided to the TMA Contract Resource Management Division (CRM).

5.3.3.1.2. This FAD shall include the statement "the TMA CRM Budget Officer or Designee has the authority to commit and make available to obligate funds equal to the authorized expenditures required for eligible beneficiaries when those funds shall be drawn from the DoD Medicare Eligible Retiree Health Care Fund."

#### 5.3.3.2. DFAS Estimates

5.3.3.2.1. By agreement with DFAS, a schedule of estimated payments for IPAC transactions shall be provided in advance of all contract modifications, in advance for each month's estimated daily claims, and the day prior to each payment processing in IPAC.

5.3.3.2.2. DFAS shall use these estimates to ensure sufficient funds are available for payment from the Fund for daily transactions.

### 5.4. Payments For Health Care Provided In Military Treatment Facilities (MTFs)

5.4.1. TMA shall annually develop prospective payment amounts for care estimated to be provided in MTFs to Medicare-eligible beneficiaries as designated by reference (a).

5.4.1.1. The prospective payment amounts shall be calculated for each MTF and shall include both Military Personnel (MILPERS) and Defense Health Program (DHP) Operations and Maintenance (O&M) costs. TMA shall provide a monthly memo to DFAS with the payment amounts by Service for "MTF MILPERS" and "MTF O&M" that shall be reported on the Statement of Transactions (FMS 224) by DFAS. Copies of the FMS 224 shall be sent to the appropriate Directorates in the OUSD(C). Distribution of funds shall be made in accordance with subparagraph 5.4.1.3.

5.4.1.2. The prospective payment amounts shall be based on costs 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 cost data are recorded as MILPERS and DHP O&M components of costs per individual patient encounter. These amounts shall be inflated to the year of execution using standard OMB inflation rates applicable to those years. MEPRS data is recorded and maintained by the Military Departments in accordance with reference (e).

5.4.1.2.1. TMA shall develop, in coordination with the Military Departments and USD(C), MTF-specific rates for prospective payment calculation. These MTF-specific rates are the average dollar cost per workload unit (Relative Weighted Product, Ambulatory Patient Group weight or prescription, as described in the following subparagraphs) for each MTF; these costs are based on the most recent year for which data is available and inflated to the execution year using standard OMB inflation rates applicable to those years. These rates shall be separated into MILPERS and DHP O&M rates and shall be developed for:

5.4.1.2.1.1. Inpatient care -- cost per Relative Weighted Product (RWP). An 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. 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 RWPs for that MTF multiplied by the MTF-specific rate per RWP for the year of execution.

5.4.1.2.1.2. Outpatient care -- cost per Ambulatory Patient Group (APG) weight. An APG is a case-mix classification tool used to measure resource consumption for outpatient visits. APG weights are generated as the result of completed CHCS Standard Ambulatory Data Records (SADRs). The prospective payment amount for outpatient care for each MTF shall be the product of the estimated

APG weights for that MTF multiplied by the MTF-specific rate per APG weight for the year of execution.

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

5.4.1.2.1.3.1. "Ingredient costs" are prices for pharmacy ingredients purchased from vendors. The prospective payment amount for Fiscal Year 2003 shall be calculated using Fiscal Year 2000 MTF-specific total ingredient costs from MEPRS inflated to Fiscal Year 2003. Prospective payment amounts for subsequent years shall be based on the most recent completed year of data from the Pharmacy Data Transaction Service (PDTS).

5.4.1.2.1.3.2. "Non-ingredient costs" are all other costs associated with MTF Outpatient Pharmacy operations (military and civilian labor, supplies, etc.). These rates shall be 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 shall be the product of the MTF-specific non-ingredient rates multiplied by the estimated number of prescriptions that shall be filled for that year.

5.4.1.3. USD(C) shall distribute MTF prospective payment amounts based on the calculated annual total program amount to the Military Departments for MILPERS costs and to TMA for DHP O&M costs; TMA shall in turn distribute these funds to the Military Departments for execution. USD(C) shall include financial authority in the DHP Expense Operating Budget to finance the annual financial plan requirement of the prospective payment.

5.4.2. Execution Review. When the year of execution is completed and the associated workload and cost data are available, TMA shall conduct an execution review in coordination with USD(C) and the Military Departments. A comparison of prospective payment amounts to actual workload shall be accomplished as follows:

5.4.2.1. Inpatient care -- the product of the number of RWPs accomplished for eligible beneficiaries during the fiscal year multiplied by the MTF-specific rates per RWP for that year. The RWP data source shall be the Military Health System Data Repository (MDR).

5.4.2.2. Outpatient care -- the product of the number of APG weights accomplished for eligible beneficiaries during the fiscal year multiplied by the MTF-specific rates per APG weight for that year. The APG weight data source shall be the MDR.

5.4.2.3. MTF Outpatient Pharmacy

5.4.2.3.1. The source for ingredient costs for prescriptions filled for eligible beneficiaries during the fiscal year shall be the MDR using data fed from PDTS.

5.4.2.3.2. Non-ingredient costs shall be the product of the number of prescriptions filled for eligible beneficiaries during the fiscal year multiplied by the MTF-specific non-ingredient rates for that year. The data source for the number of prescriptions filled shall be the MDR using data fed from PDTS.

5.4.2.4. Results of the execution review shall:

5.4.2.4.1. Be reported to the OOA for use by the Board in determining future Fund requirements.

5.4.2.4.2. Be used during subsequent Program/Budget reviews to determine future MTF prospective payment amounts.

5.4.2.4.3. Be used to determine whether any additional transfers from the Fund or transfers back to the Fund are appropriate, consistent with references (a) and (b) and this Instruction.

5.5. Administrative Costs. Costs of Defense contracts directly attributable to the administration of the health care programs for beneficiaries whose care is funded by the Fund are chargeable to the Fund. An example is the processing costs for health care claims described in paragraph 5.3. of this Instruction.

5.6. Management Controls

5.6.1. SIDR, SADR, and MEPRS data shall be prepared, reviewed, and validated in accordance with reference (f).

5.6.2. The Defense Manpower Data Center (DMDC) within the DoD Human Resources Activity under the USD(P&R) receives a monthly data feed from the Centers for Medicare and Medicaid Services (CMS) that provides Medicare eligibility data. These data are merged into the Defense Enrollment Eligibility Reporting System

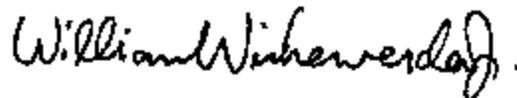
(DEERS) to provide both DoD and Medicare eligibility status. Individual patient eligibility data shall be verified for each patient encounter using DEERS, and subsequently stored in the encounter record by the capture system (CHCS or claims processor). If a source system does not perform this check and recoding, the records from that system shall be verified centrally through merges to the DEERS extracts.

5.6.3. TMA shall provide MTF-specific management reports in one of the Military Health System Data Marts (M-2) to provide automated feedback to MTFs on the status of reported workload for eligible beneficiaries and the associated Fund payments for that workload, using the MTF-specific rates and PDTS ingredient cost data described in paragraph 5.4. of this Instruction.

5.7. Review of This Instruction. Not less than annually, the Director, TMA shall review this Instruction to ensure that it reflects current law, DoD policies and sound financial management practices, and forward any recommended changes to the ASD(HA) for consideration.

## 6. EFFECTIVE DATE

This Instruction is effective October 1, 2002.



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