Plan Would Save Billions in Health Care Costs

May 05, 2011
American Forces Press Service|by Army Sgt. 1st Class Michael J. Carden

WASHINGTON -- The Defense Department's proposal to reform the TRICARE health plan and the military health system would save at least $3.2 billion between 2012 and 2016, the Pentagon's chief financial officer told Congress May 4.

In testimony before the Senate Armed Services Committee's personnel subcommittee, Robert F. Hale said the initiatives would support President Barack Obama's debt-reduction plan, which calls for reducing the federal budget $4 trillion by 2023.

Obama's plan includes a reduction of $78 billion in the Defense Department's fiscal 2012 budget and an additional $400 billion in national security cuts through 2023.

Hale stressed that although $3.2 billion is only modest savings toward the president's overall goal, the savings are "substantial" within the Defense Department.

"The federal government as a whole would save money under this plan -- not a lot, but there are modest savings," he explained. "The department savings from this proposal would be very substantial. We're looking out over the whole career of an individual and setting aside money to pay for it, so you immediately see major effects."

The fiscal 2012 budget request calls for $52.5 billion to support the military health system's 9.6 million beneficiaries, which include retirees, active duty members and their families. The department's health care bill has more than tripled from $19 billion in 2001.

"We've got to find ways to maintain the quality of health care but slow the growth in cost," Hale said.

Meeting that challenge begins with streamlining operations at the health affairs headquarters, he said, which means cutting more than 700 civilian contractors from the TRICARE staff. The proposal also calls for reforms for beneficiaries, including a maximum $5 a month increase for working-age military retirees under 65, raising the co-payment for prescription drugs, and regulatory changes that would eliminate special subsidies for community hospitals that serve beneficiaries, Hale said.

Hale noted that TRICARE enrollment fees have not increased since Congress appropriated funds for the program in 1994. Families pay an estimated $460 annually for TRICARE Prime coverage, but had the fees been indexed today to meet the growth in per capita national health expenditure, those fees would now be more than $1,000 per family each year, he said.

Beginning in 2013, future enrollees would pay fees based on the national health expenditure if the proposal is enacted, Hale said, and that, he added, still would be significantly less than what beneficiaries would pay in the private sector for health insurance.

The proposals would save an estimated $430 million over the next five years and would stabilize cost sharing in TRICARE at a level much more favorable than what Congress envisioned in the 1990s, Hale said.

Reform proposals in pharmaceuticals include incentives for allowing the department to prescribe generic drugs and deliver prescriptions by mail, saving $2.5 billion by 2016, he added.

Hale told the panel that the rates the Defense Department pays to "sole community hospitals" that serve military beneficiaries are substantially higher than the rates it pays to other hospitals. Sole community hospitals are determined by Medicare rules that factor in distance from other hospitals, capacity and other criteria.

Federal law requires that the department adopt Medicare rates when practical, and combined with lower rates paid to sole community hospitals, the proposal would save the department $395 million through 2016, Hale said.

"We will phase in this change slowly, at least over a four-year period, in order to avoid adverse effects on care provided at these hospitals," he added.

Hale also discussed the department's proposal for equitable treatment for all Medicare-eligible military retirees. Under current law, he said, some Medicare-eligible enrollees are allowed to remain in the U.S. Family Health Plan, a TRICARE Prime option that provides care to active duty family members and all military retirees regardless of whether they participate in Medicare Part B, which covers doctor services, outpatient care and home health services that Part A does not.

The Defense Department, Hale added, seeks legislation that requires those who are part of the U.S. Family Health Plan to join Medicare, as all other retirees must. This, he added, will ensure that TRICARE does not pay claims that exceed Medicare rates when military retirees qualify for both programs.

“We will make these fee changes very gradually, very slowly, and ‘grandfathering’ all those who are currently over age 65 and in the Family Health Plan, so it will take place over a number of years,” Hale said. “I particularly ask the committee’s support for the provisions affecting the sole community hospitals and for legislation to permit changes to the U.S. Family Health Plan.”

The proposals are more than reasonable, Hale said, and strike a solid balance between bringing savings and maintaining quality health care for veterans and their families. None of the proposals would affect active duty troops, he emphasized.

“These proposals generate savings that will help us pay for needed training and equipping of the armed forces,” Hale said. “If we don’t get authority to do this, we’ll face major holes in the military budget, and it will be very hard to handle in difficult budgetary times. But most importantly, these proposals will lay the groundwork for a sustainable future of the military health care system.”