

## Target: Tricare

### *Pentagon looks to raise fees, push working-age retirees away and alter the pharmacy program*

By Andrew Tilghman, Army Times

Uncle Sam wants you — to pay more for military medical care.

The Pentagon is pushing hard to raise out-of-pocket fees to help cut its health care costs, which have soared 163 percent over the past decade. And that call is getting a warmer reception on Capitol Hill, where many new lawmakers are eager to slash federal spending.

For years, benefits for troops and retirees were politically off-limits as defense budgets grew; lawmakers dreaded the prospect of cutting benefits while troops were fighting two wars.

But with the nation deep in debt and taxpayers demanding spending cuts, many lawmakers are openly talking of tightening the defense budget.

More than ever, the Pentagon fears that unchecked health spending — ballooning from \$19 billion in 2001 to \$50 billion this year — will overwhelm the defense budget and force leaders to slash aircraft carriers, fighter wings and infantry battalions.

“There is going to be a lot of pressure to find ways to be more efficient in military health care,” said Narahari Sastry, who heads the defense health branch of the White House’s Office of Management and Budget.

At least initially, some of that pressure will focus on the fees that several million retirees pay for the Defense Department’s Tricare health coverage. Tricare fees have not changed since that program was created 15 years ago, despite massive growth in overall defense health care costs.

Defense Secretary Robert Gates, who has strong bipartisan support in Washington, is leading the charge. He aims to shave some \$7 billion from DoD’s health care costs over the next five years; precisely how remains unclear, but he’ll need Congress’ approval for any fee increases.

His deputy recently visited Capitol Hill with a preview of the plans slated for public release this month.

“We believe it is time to lift the 15-year freeze on Tricare enrollment fees for working-age retirees,” Deputy Defense Secretary William Lynn told Congress in January.

Lynn also said the Pentagon wants to make “adjustments to pharmacy co-pays and implement other management efficiencies.” The political battle will pit DoD and Capitol Hill supporters against veterans groups and their millions of members.

The mere mention of proposed Tricare out-of-pocket fee hike angers many military members and retirees, who say that benefit was part of the contract when they entered service and which they earned through decades of service to their nation.

“This is what affects them most directly,” said Mike Saunders, deputy legislative director for The Retired Enlisted Association in Washington. “They wonder if they are going to be able to afford their prescriptions, are they going to be able to see their doctor?”

High on Gates’ agenda will be persuading Congress to permit “modest” increases in Tricare fees for working-age retirees — those under age 65 and not yet eligible for Medicare coverage.

Increases in out-of-pocket enrollment fees, deductibles and co-payments are on the table, but there is no agreement on the size of increases or how widely they may eventually apply.

In recent years, Pentagon officials have proposed abruptly doubling or tripling fees and then indexing subsequent annual adjustments to medical inflation. But past efforts to sell Congress on that idea have stalled, in part, because powerful military and veterans associations insist on far smaller increases that would be linked to annual pay raises or retiree cost-of-living adjustments.

The distinction is critical. For example, Tricare fees, if linked to medical inflation, would have risen 3.4 percent this year — but only 1.4 percent had they been tied to the military's annual raise in basic pay. And fees would have remained flat if linked to retired pay because, for the second year in a row, there is no cost-of-living adjustment for retirees.

Fee increases almost passed the legislative gauntlet in 2008, when veterans groups were close to an agreement on a limited hike linked to the retiree cost-of-living adjustment. The deal fell through when then-presidential candidate Sen. John McCain, R-Ariz., announced he would not support any Tricare fee increases.

“Once McCain said he opposed a fee hike, the groups that were ready to agree hardened their position,” said one lobbyist involved in the negotiations.

This year, he said, most groups would accept modest increases linked to the retiree cost-of-living adjustment formula or tied to a deal on a military pay raise.

But that is merely nibbling at the edges of a far bigger problem, experts said. At current spending rates, defense officials project that military health care costs will rise by another \$16 billion, or about 30 percent, in the next five years, to \$67 billion in 2016. In the long run, the changes being discussed by DoD and Congress this year will shave only a fraction of those total costs.

That means bigger changes will have to come at some point.

“I don't think any of the current proposals is going to fix the problem,” said one former government official who has tracked Tricare policy for years.

Some day — maybe soon — the military may have to reconsider the entire retirement package that was set in place in the 1970s, when the all-volunteer force was born and full pensions were common in the private sector, the official said.

“Over time, there [has] to be some addressing of the whole retirement benefits package, and I think health care will be a big component of that,” he said.

One cost-saving idea aims to discourage active-duty family members from using Tricare by offering them a \$500 annual tax-free cash payment.

If the family has other health insurance, they could keep the \$500 tax-free allowance; if they use Tricare Prime, the \$500 could be used to offset co-payments, according to a proposal included in a Congressional Budget Office report on cost-cutting options.

The idea is that even if they stayed with Tricare, many people would prefer to pocket the cash. If they go to the doctor less often, use of military health care is still reduced — along with DoD's costs to provide it.

Studies have shown that beneficiaries in Tricare Prime — the military's version of a managed-care health maintenance organization — have usage rates 58 percent higher for inpatient care and

38 percent higher for outpatient care than civilians of the same sex and similar age with private-sector coverage.

Over 10 years, the proposed \$500 annual medical allowance would cost about \$1.3 billion, but the Pentagon would save about \$7.9 billion in medical expenses, government estimates show.

Other proposals aim to reduce Tricare use among working-age retirees with other health care options through their civilian jobs. That describes about 54 percent of working-age retirees, many of whom stick with Tricare for its lower fees and co-pays.

One radical idea came out of a 2010 Pentagon study and has been endorsed by groups such as the Sustainable Defense Task Force, a panel of defense experts chartered by Rep. Barney Frank, D-Mass., and other lawmakers to recommend ways to reduce defense spending.

The idea, which would save an estimated \$60 billion over 10 years, would base out-of-pocket costs on post-service income; retirees with high-paying jobs would pay more for military health care than those who don't work, for example. Higher-income retirees would pay a maximum of 6½ times the rate for low-income retirees.

Even more radical are ideas to deny Tricare coverage to anyone who has access to employer-provided health benefits; to make retirees pay a penalty for using military benefits; and to make employers pay the government for a portion of Tricare's costs.

In recent reports, both the National Commission on Fiscal Responsibility and Reform and the Bipartisan Policy Center's Debt Reduction Task Force suggested ways to get military retirees to use employer-provided health benefits in order to cut Pentagon health costs.

Steve Strobbridge of the Military Officers Association of America called this a "job killer," noting that some employers prefer to hire military retirees because they come with their own health care benefits, which lower the employer's costs. If retirees didn't have or chose not to use Tricare, they could lose an employment advantage, Strobbridge said.

For active-duty families, near-term Tricare changes could come in the military's pharmacy program. Gates is likely to propose altering co-payments for drug prescriptions to encourage Tricare beneficiaries to increase use of a nationwide mail-order service that is significantly cheaper for the military than neighborhood retail pharmacies.

That's not a new idea, but Congress has blocked it in the past because of complaints from beneficiaries that it would reduce their flexibility in filling short-notice prescriptions.

But defense officials say there is more opportunity to boost use of the mail-order pharmacy for routine, nonemergency drugs.

That is among the Pentagon's top priorities.

"There's a lot of money in the pharmacy," Rear Adm. Christine Hunter, Tricare Management Activity deputy director, said at a recent military health conference. "We are anxious to ... move patients from retail to mail order where that makes sense for them, for us and for the department."

Retirees age 65 and older who are covered by the Tricare for Life program may have to pay more at some point. Today, they pay only the premiums for outpatient care under Medicare Part B.

The Congressional Budget Office has suggested that the Pentagon could save \$33 billion by establishing a \$525 annual deductible for older retirees and then limiting payments to 50 percent

of costs for the next \$4,725 in covered services. That proposal also suggested military treatment facilities charge for treating older retirees.

Out-of-pocket expenses would be capped at about \$2,888 a year, at least for the first year, under that CBO proposal.

*Staff writer Rick Maze contributed to this story.*

### **Budget pain years in the making**

In the broad perspective, the military's medical system suffers from many of the same problems afflicting the civilian system: an aging population, soaring prescription drug prices and advanced technology that fuels the cost of testing and treatment.

The Pentagon created part of the problem itself by failing to introduce any indexing mechanism to adjust Tricare fees each year when that program was introduced in 1995.

Congress greatly increased the pressure on the military medical budget by introducing Tricare for Life in 2001. Previously, retirees left the military system and switched to Medicare coverage when they turned 65. But Tricare for Life allows them to keep military health coverage beyond that age to cover any costs Medicare might not pay for.

Blocked by Congress in their efforts to raise Tricare fees, Defense Department officials have sought savings within the military health system itself, with a renewed focus on more preventive care, greater efficiency and less bureaucracy.

"Veterans groups will tell you that [the military health system] should cut costs before they come to the beneficiaries to raise fees. Frankly, I think they both have to be pursued simultaneously," said S. Ward Casscells, former assistant defense secretary for health affairs from 2007 to 2009.

Scaling back costs could mean trying to reduce expensive testing procedures that are not always necessary, he said. For example, requests for MRIs for people with back problems might not be needed if doctors conduct more careful interviews and exams, Casscells said.

Some mental health problems that doctors typically treat with drugs can be handled better and more cheaply with therapy, and some surgeries might be avoided with more focus on preventive care, he said.

But he cautioned that it is unrealistic to expect the military health system to ever be as efficient as the private sector.

"We will never be as cost-effective as an HMO like Kaiser Permanente because we have to maintain readiness to go into harm's way at a moment's notice," he said. "Readiness has a cost ... that is worth paying."

### **Family coverage**

Families with Tricare pay far less for their health insurance than the average civilian covered through employer-subsidized policies.

### **Annual deductible**

\*Average for civilian worker with family coverage: \$2,000-\$4000

\*Active-duty members, retirees under 65 and their families with Tricare Prime: none

\*Active-duty families with Tricare Standard: \$100 for E-4 and below, \$300 for E-5 and above

\*Retirees under 65 and families with Tricare Standard: \$300

**Annual premiums/enrollment fees**

\*Average for civilian worker with family coverage: \$3,997

\*Active-duty families with Tricare Prime: none

\*Retirees under 65 and families with Tricare Prime: \$460

**Percentage of coverage paid by beneficiary**

\*By active-duty service members: 0 percent

\*By retirees under 65: less than 12 percent

\*By civilian workers: 30 percent, on average

*SOURCE: Tricare, GAO, Kaiser Family Foundation 2010 survey*