THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

FEB 22 2007

The Honorable Carl Levin
Chairman, Committee on Armed Services
United States Senate
Washington, DC 20510-6050

Dear Mr. Chairman:

This letter responds to a request in House Conference Report 109-359 to provide a report to the Appropriations Committees on the movement of dollars within the fiscal year 2006 private sector care budget activity group.

I am pleased to report to you that during the recently completed fiscal year 2006, the private sector care budget activity group functioned extremely well. The financial resources provided in the Defense Health Program's private sector care budget activity group facilitated the delivery of high quality health care to a beneficiary population of over 9 million individuals. These resources not only supported the acquisition of care for active duty, their dependents, and our military retirees via the private sector, but also provided the opportunity for the Department to address emergent critical requirements in the direct care system.

In addition to successfully meeting the Department's statutory health care delivery responsibilities, in fiscal year 2006 we gained invaluable experience with respect to the continued advancement of the Department's health care cost projection methodologies. With fiscal year 2006 representing the first fully operational year of the new managed care support contracts and the new Reserve health benefit, data collected and experience gained have significantly contributed to the refinement of the estimation of the year-of-execution dynamics for the new contracts and benefits.

The table provided below displays the program element level data for the private sector budget activity group for fiscal year 2006. It includes the funded program, the actual fiscal year 2006 execution, and the associated movement between program elements.

Defense Health Program Appropriation			
FY 2006 Private Sector Care Budget Activity Group			
(Dollars in Millions)			
Program Element	Funded Program	Actual Execution	PE Movement
TRICARE Mail Order Pharmacy (TMOP)	$180.3	$182.1	$1.7
Retail Pharmacy	$1,522.5	$1,589.3	$66.8
Managed Care Support	$4,712.0	$4,295.0	-$417.0
Military Treatment Facility (MTF) Enrollee	$1,639.3	$1,841.6	$202.3
Dental	$249.9	$239.6	-$10.3
Uniformed Services Family Health Plan (USFHP)	$275.5	$264.9	-$10.7
Supplemental Care	$736.7	$723.5	-$13.3
Military Medical Support Office (MMSO) Dental	$117.5	$79.0	-$38.5
Continuing Health Education/Capitalization (CHE/CAP)	$184.9	$197.1	$12.2
Overseas Purchased Care	$205.0	$208.9	$4.0
Miscellaneous Purchased Care	$268.1	$65.8	-$202.2
Miscellaneous Support Act	$18.6	$32.9	$14.3
Total	$10,110.3	$9,719.7	-$390.6

As with many private health care organizations, the Department experienced some moderation in the dramatic health care cost growth experienced during fiscal years 2000-2005. In addition to this moderation, three other major factors contributed to the program element realignments and the eventual private sector care surplus in fiscal year 2006. Those factors include the migration of costs associated with >65 years of age dual eligible beneficiaries from the Defense Health Program Appropriation to the Medicare Eligible Retiree Health Care Fund (MERHCF), the less than projected "take rate" for the new Reserve Health Benefit, and the reduction in year-of-execution contract modifications.

The $390 million surplus, which represents about three percent of the total funded private sector care budget activity group, allowed the Department to address several critical requirements. Approximately $104 million of the surplus was diverted to the direct care system to support infrastructure maintenance and a variety of other critical direct care requirements. The remaining balance of $286 million will be carried forward,

utilizing the two percent carry over authority included in the fiscal year 2006 appropriations language, to support anticipated shortfalls in the fiscal year 2007 private sector care budget activity group.

At this time, I would like express my concern with the discussion surrounding the fiscal year 2007 budget request to reduce or eliminate the Defense Health Program carry over authority. The carry over authority represents a valuable tool with respect to managing and reacting to changes in the very dynamic environment in which the Military Health System operates. I request your assistance in preserving the 2 percent carry over authority in appropriations for Fiscal Year 2007.

I am firmly committed to providing a cost effective, world class health benefit to the Department's eligible beneficiaries. I am equally committed to aggressively managing the inherent variability associated with the delivery of such a robust health benefit to a large and diverse beneficiary population. The experience gained in fiscal year 2006 will undoubtedly contribute to attaining these goals.

Thank you for your continued support of the Military Health System.

Sincerely,

William Winkenwerder, Jr., MD

cc:
The Honorable John McCain
Ranking Member