THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

JAN 23 2008

The Honorable Carl Levin
Chairman, Committee on Armed Services
United States Senate
Washington, DC 20510–2202

Dear Mr. Chairman:

This letter is in response to reporting requests contained in Senate Report 110-077, published on June 5, 2007, which called on the Secretary of Defense to report to the Congressional defense committees on two Department of Defense initiatives. First, the Secretary of Defense was directed to reevaluate a previous decision to eliminate more than 900 Navy medical billets during fiscal year (FY) 2008 through 2012 and provide a report no later than July 1, 2007 on the results of that evaluation. Second, the Secretary of Defense was directed to reassess the validity of the proposed efficiency wedge and any other decrement in funding for FY 2008 and to provide a report by June 30, 2007 on plans to fund military treatment facilities in FY 2008.

Please forgive my delayed response in submitting this report. Analyzing these issues has taken some time to finish. As we complete our work, we are mindful that the quality of care we render to our Service members and their families must be our first objective.

To address significant Military Health System programming and budgeting issues in the FY 2008 Program Review, a Medical Issue Team was formed comprised of representatives from the Military Services (including the Medical Departments); Assistant Secretary of Defense (Health Affairs); Office of the Under Secretary of Defense (Comptroller); Under Secretary of Defense (Personnel and Readiness); and Director, Program, Analysis and Evaluation. The Medical Issue Team evaluated Navy medical end strength reductions to ensure they were appropriate, executable, and in the best interest of the Department of Defense. Their analysis confirmed the Navy Active Duty medical positions identified for elimination were based on the Navy's personnel force sizing and shaping decisions. Navy medical end strength reductions are targeted to begin in FY 2008 with a reduction of 489 end strength and are an attempt to efficiently match the size of the medical force to readiness and health care mission requirements. The decision to reduce end strength is re-evaluated each year through the programming and budgeting process. Any validated changes in Navy Active Duty medical end strength in years

subsequent to FY 2008 will be included in the President's Budget submissions in subsequent years.

The FY 2008 efficiency wedge was partially restored by Congress via Public Law 110-116, the Department of Defense Appropriations Act, 2008. This legislation restores $379 million of the $486.3 million FY 2008 efficiency wedge. Military treatment facilities are encouraged to earn back the balance of FY 2008 assumed efficiencies by increasing workload or achieving the efficiencies by reducing costs. To support this, the Department has implemented a prospective payment system for care delivered in military treatment facilities. The prospective payment system will resource increased workload with additional funds that may freely be reallocated from the private sector care budget activity group without restriction.

We believe we operate a high-quality health care system, and continually strive to improve our performance. Thank you for your continued support of the Military Health System. Similar letters are being sent to the Chairmen and Ranking Minority Members of the other Congressional Defense Committees.

Sir
I am working
with the
Surgeons General to
develop a pay-for-
performance system that will
~~to avoid~~ make this a
moot issue.

Sincerely,

S. Ward Casscells, MD

cc:
The Honorable John McCain
Ranking Member