OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

APR - 6 2010

The Honorable Carl Levin
Chairman, Committed on Armed Services
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

The enclosed report responds to the requirement in Section 727 of the National Defense Authorization Act for Fiscal Year 2010, for a study of the implementation of Title 10, United States Code, Section 1097c. The requirements on the relationship between TRICARE and employer-sponsored group health plans were effective on January 1, 2008. The proposed rule was published March 28, 2008.

The report reveals that we estimate an annual cost savings of $64.1 million without a discernable shift from TRICARE Standard to TRICARE Prime enrollment attributable to Section 1097c. In short, implementation of this statute represents an improvement in the cost-effectiveness of the TRICARE Program.

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

Sincerely,

Charles L. Rice, M.D.
President, Uniformed Services University of the Health Sciences
Performing the Duties of the Assistant Secretary of Defense (Health Affairs)

Enclosure:
As stated

cc:
The Honorable John McCain
Ranking Member

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1200

APR - 6 2010

HEALTH AFFAIRS

The Honorable James H. Webb
Chairman, Subcommittee on Personnel
Committee on Armed Services
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

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Enclosure:
As stated

cc:
The Honorable Lindsey O. Graham
Ranking Member

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1200

APR - 6 2010

HEALTH AFFAIRS

The Honorable Ike Skelton
Chairman, Committee on Armed Services
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

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Performing the Duties of the Assistant Secretary of Defense (Health Affairs)

Enclosure:
As stated

cc:
The Honorable Howard P. "Buck" McKeon
Ranking Member

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1200

APR - 6 2010

HEALTH AFFAIRS

The Honorable Susan Davis
Chairwoman, Subcommittee on Military Personnel
Committee on Armed Services
U.S. House of Representatives
Washington, DC 20515

Dear Madam Chairwoman:

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Enclosure:
As stated

cc:
The Honorable Joe Wilson
Ranking Member

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

APR - 6 2010

The Honorable Daniel K. Inouye
Chairman, Committee on Appropriations
United States Senate
Washington, DC 20510

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President, Uniformed Services University of the Health Sciences
Performing the Duties of the Assistant Secretary of Defense (Health Affairs)

Enclosure:
As stated

cc:
The Honorable Thad Cochran
Ranking Member

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1200

APR - 6 2010

HEALTH AFFAIRS

The Honorable Daniel K. Inouye
Chairman, Subcommittee on Defense
Committee on Appropriations
United States Senate
Washington, DC 20510

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Enclosure:
As stated

cc:
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Ranking Member

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1200

APR - 6 2010

HEALTH AFFAIRS

The Honorable David R. Obey
Chairman, Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

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President, Uniformed Services University of the Health Sciences
Performing the Duties of the Assistant Secretary of Defense (Health Affairs)

Enclosure:
As stated

cc:
The Honorable Jerry Lewis
Ranking Member

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1200

APR - 6 2010

HEALTH AFFAIRS

The Honorable Norm Dicks
Chairman, Subcommittee on Defense
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

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President, Uniformed Services University of the Health Sciences
Performing the Duties of the Assistant Secretary of Defense (Health Affairs)

Enclosure:
As stated

cc:
The Honorable C. W. Bill Young
Ranking Member

Report to Congress

ON THE RELATIONSHIP WITH EMPLOYER-SPONSORED GROUP HEALTH PLANS, SECTION 727, NATIONAL DEFENSE AUTHORIZATION ACT FISCAL YEAR 2010

Executive Summary

Section 727 of the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2010 requires the Department of Defense (DoD) to submit a report on the implementation of requirements on the relationship between the TRICARE program and employer-sponsored group health plans. Section 1097c of Title 10, United States Code (U.S.C), prohibits employers from offering TRICARE-eligible employees a financial incentive to use TRICARE rather than the employer's health plan. It became effective on January 1, 2008; and, based on our analysis, DoD projects a resultant annual cost savings of $64.1 million.

Cost Savings

Although the final rule fully implementing the statute is delayed, employers and beneficiaries are aware of the statutory provisions, and it appears that many employers have implemented the change. Since the change, the other health insurance (OHI) fields in the Defense Eligibility and Enrollment System (DEERS) indicate only a very slight increase in January 2008, for the number of beneficiaries with OHI. However, we believe that the impact is not detectable in direct measurement because there are other factors influencing both the data and beneficiaries' underlying choice.

Based on a DoD beneficiary survey conducted in October, 2007, three months before the employer restriction legislation was passed, four percent of beneficiaries who were using TRICARE and offered OHI were, in fact, paid to decline OHI. In the absence of such an employer payment, we found that 54 percent took the employer plan based on the survey, and the other 46 percent were TRICARE users. Applying the 54 percent to the four percent of beneficiaries using TRICARE who were offered an incentive to decline OHI, we estimate that 14,921 would cease using TRICARE upon elimination of the incentive. Based on the average military health system cost per beneficiary of $4293, we estimate an annual savings of $64.1 million.

Shift in Health Plans

We assessed the shift to TRICARE Prime from TRICARE Standard following implementation of Section 1097c. We also studied end-of-year enrollment values from 2001 to the end of 2009 to determine if TRICARE Standard beneficiaries shifted to TRICARE Prime. While TRICARE Prime enrollment continues to grow between 2 to 3 percent per year for all eligible beneficiaries, the change in the law does not appear to affect TRICARE Prime enrollment for non-Active Duty family members. The table below illustrates that the rate of non-Active Duty TRICARE Prime enrollment continues to grow slightly, but the rate of increase has slowed from FY 2006 to FY 2009.

TRICARE Prime Enrollment Trends for
Non-Active Duty (NDAA) Family Members Under Age 65

	FY 2006	FY 2007	FY 2008	FY 2009
NADD TRICARE Eligibles	3,171,854	3,149,098	3,151,376	3,158,865
Percent Increase		-0.7 %	0.1%	0.2 %
NADD TRICARE Prime Enrollment	1,396,942	1,452,738	1,505,928	1,554,548
Percent Increase		4.0%	3.7%	3.2%

Exceptions

We were tasked to describe exceptions to rules modeled after the Medicare Secondary Payer Program and the effect on Section 1097c. This will be addressed in the final rule modifying the Code of Federal Regulations fully implementing Section 1097c.

Employer Health Plans

We were tasked to assess the extent to where we collect data on employers providing different treatment of TRICARE-eligible employees versus non-TRICARE-eligible employees in the employer's health plan. Section 1097c clarifies relationships with employer-sponsored group health plans and ensures TRICARE beneficiaries are treated fairly. However, we do not collect data on employer-sponsored group health plans.

Outreach

Our outreach with respect to informing beneficiaries and employers of their respective rights and responsibilities is ongoing. We have issued press releases and placed information on the TRICARE Management Activity Web site. With publication of the final rule in the Federal Register, we will increase our outreach efforts. For example, we will issue press releases, update the TRICARE Web site, and provide information on the TRICARE Policy Manual.

Conclusion

Title 10, U.S.C, Section 1097c clarifies relationships with employer-sponsored group health plans and ensures TRICARE beneficiaries and U.S. taxpayers are treated fairly. Our analysis projects an annual cost savings of $64.1 million as a result of the legislation, with no discernable shift from TRICARE Standard to TRICARE Prime attributable to Section 1097c.