THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

JUN 11 2007

The Honorable Ben Nelson
Chairman, Subcommittee on Personnel
Committee on Armed Services
United States Senate
Washington, DC 20510-6050

Dear Mr. Chairman:

Section 715 of the National Defense Authorization Act for Fiscal Year 2007 requires the Department of Defense (DoD) to study the feasibility of allowing families of Reserve Component members called or ordered to Active Duty in support of a contingency operation to continue coverage under their civilian health care program, with DoD reimbursing their health plan premium costs. We focused on only these families with special health care needs, as suggested by the statutory language.

We conclude it is appropriate to reimburse individual Reservists, who have family members with special health care needs, for their actual premium cost to continue coverage under their family's civilian health plan with a cash payment, which would save DoD approximately $29 million over the six-year period beginning in Fiscal Year 2008 (an average savings of approximately $5 million per year). Using the DoD Exceptional Family Member Program to determine eligibility, we would have to establish an administrative process for members to report their actual premium costs and to obtain reimbursement; we estimate that about 4,326 families would participate. Federal employees who are eligible for, or enrolled in, the Federal Employees Health Benefit program should be excluded from this program, because their premiums are already covered in full by other authority.

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

Sincerely,

S. Ward Casscells, MD

cc:
The Honorable Lindsey O. Graham
Ranking Member

THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

JUN 11 2007

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

Dear Mr. Chairman:

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S. Ward Casscells, MD

cc:
The Honorable John McCain
Ranking Member

THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

JUN 11 2007

The Honorable Daniel K. Inouye
Chairman, Subcommittee on Defense
Committee on Appropriations
United States Senate
Washington, DC 20510-6028

Dear Mr. Chairman:

Section 715 of the National Defense Authorization Act for Fiscal Year 2007 requires the Department of Defense (DoD) to study the feasibility of allowing families of Reserve Component members called or ordered to Active Duty in support of a contingency operation to continue coverage under their civilian health care program, with DoD reimbursing their health plan premium costs. We focused on only these families with special health care needs, as suggested by the statutory language.

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Sincerely,

S. Ward Casscells, MD

cc:
The Honorable Ted Stevens
Ranking Member

THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

JUN 11 2007

The Honorable Robert C. Byrd
Chairman, Committee on Appropriations
United States Senate
Washington, DC 20510-6025

Dear Mr. Chairman:

Section 715 of the National Defense Authorization Act for Fiscal Year 2007 requires the Department of Defense (DoD) to study the feasibility of allowing families of Reserve Component members called or ordered to Active Duty in support of a contingency operation to continue coverage under their civilian health care program, with DoD reimbursing their health plan premium costs. We focused on only these families with special health care needs, as suggested by the statutory language.

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Sincerely,

S. Ward Casscells, MD

cc:
The Honorable Thad Cochran
Ranking Member

THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

JUN 11 2007

The Honorable Vic Snyder
Chairman, Subcommittee on Military Personnel
Committee on Armed Services
U.S. House of Representatives
Washington, DC 20515-6035

Dear Mr. Chairman:

Section 715 of the National Defense Authorization Act for Fiscal Year 2007 requires the Department of Defense (DoD) to study the feasibility of allowing families of Reserve Component members called or ordered to Active Duty in support of a contingency operation to continue coverage under their civilian health care program, with DoD reimbursing their health plan premium costs. We focused on only these families with special health care needs, as suggested by the statutory language.

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Sincerely,

S. Ward Casscells, MD

cc:
The Honorable John McHugh
Ranking Member

THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

JUN 11 2007

The Honorable Ike Skelton
Chairman, Committee on Armed Services
U.S. House of Representatives
Washington, DC 20515-6035

Dear Mr. Chairman:

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Sincerely,

S. Ward Casscells, MD

cc:
The Honorable Duncan Hunter
Ranking Member

THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

JUN 11 2007

The Honorable David R. Obey
Chairman, Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515-6015

Dear Mr. Chairman:

Section 715 of the National Defense Authorization Act for Fiscal Year 2007 requires the Department of Defense (DoD) to study the feasibility of allowing families of Reserve Component members called or ordered to Active Duty in support of a contingency operation to continue coverage under their civilian health care program, with DoD reimbursing their health plan premium costs. We focused on only these families with special health care needs, as suggested by the statutory language.

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Sincerely,

S. Ward Casscells, MD

cc:
The Honorable Jerry Lewis
Ranking Member

THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

JUN 11 2007

The Honorable John P. Murtha
Chairman, Subcommittee on Defense
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515-6018

Dear Mr. Chairman:

Section 715 of the National Defense Authorization Act for Fiscal Year 2007 requires the Department of Defense (DoD) to study the feasibility of allowing families of Reserve Component members called or ordered to Active Duty in support of a contingency operation to continue coverage under their civilian health care program, with DoD reimbursing their health plan premium costs. We focused on only these families with special health care needs, as suggested by the statutory language.

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

Sincerely,

S. Ward Casscells, MD

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

Report to Congress

The Study on Allowing Families of Activated Members of Reserve Components to Retain Civilian Health Care Coverage

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REPORT TO CONGRESS

STUDY ON ALLOWING FAMILIES OF ACTIVATED MEMBERS OF RESERVE COMPONENTS TO RETAIN CIVILIAN HEALTH CARE COVERAGE

Section 715 of the John Warner National Defense Authorization Act (NDAA) for Fiscal Year 2007[1] requires the Department of Defense (DoD) to study the feasibility of allowing families of Reserve component members called or ordered to active duty in support of a contingency operation to continue coverage under their civilian health care program, with DoD reimbursing their health plan premium costs. Focusing on those families with special health care needs, as suggested by the statutory language, we specifically addressed these four questions:

1. What is the appropriate rate of reimbursement for members or sponsors of civilian health coverage?

2. What is the number of military families with special health care needs (such as ongoing chemotherapy or physical therapy) who would benefit from continued coverage under the member's civilian health plan instead of enrolling in the TRICARE program?

3. How feasible is it to provide reimbursement to the member or the sponsor of the civilian health coverage?

4. Is it feasible to include families who do not have access to health care providers that accept payment under the TRICARE program?

Executive Summary

It is appropriate to reimburse individual Reservists, who have family members with special health care needs, for their actual premium cost to continue coverage under the family's civilian health plan with a cash payment. It is estimated that this would save DoD approximately $29 million over the six-year period beginning in fiscal year 2008 (an average savings of approximately $5 million per year). It would also be appropriate to limit the actual premium reimbursement to an amount not to exceed 115 percent of one of the nationwide fee-for-service plans open to all individuals eligible for a health plan under Chapter 89 of Title V of the United States Code. A flat rate approach was considered and rejected as inappropriate. Families whose actual premium cost was lower than the flat rate amount would make money, which some might construe as additional pay or allowances depending upon the tax treatment of the extra amount. Any family

[1] Pub. L. No. 109-364 § 715 (2007)

choosing to participate in this program would be accepting a cash benefit in lieu of any entitlement to benefits governed under Chapter 55 of Title 10 United States Code. Simply stated, they would not be covered beneficiaries and would not be entitled to any of these benefits including survivor benefits and Extended Care Health Option (ECHO) benefits.

Of the 4,326 families that could qualify, about 2,391 families would participate.

The DoD Exceptional Family Member Program would be used to determine eligibility. Any family participating in this program should be "locked-out" from any services paid by or received from the Military Health System (MHS). An administrative process would have to be established for members to report their actual premium costs and to obtain reimbursement.

Since TRICARE is a worldwide health system accessible around the globe, it is neither warranted nor appropriate to expand this benefit on the assumption that some families do not have access to health care providers that accept payment under the TRICARE program.

Background

To enhance the capabilities of our active duty forces, the DoD relies on the men and women of the Reserve and National Guard. Currently, Reserve components constitute nearly half of our total armed forces. The Ronald W. Reagan NDAA for Fiscal Year (FY) 2005[2] made permanent some provisions from previous legislation to improve the readiness of our fighting force. When on military duty, Reserve component members are covered for any injury, illness or disease incurred or aggravated in the line of duty, including traveling to and from military duty, under line-of-duty procedures. Medical coverage, direct care at the military treatment facilities, is available when the Reserve component member is activated. When ordered to active duty for more than 30 consecutive days, Reserve component members become eligible to receive comprehensive health care coverage under TRICARE. Additionally, when the Reserve component sponsor is on orders for more than 30 consecutive days, family members, which include spouses, children, and others, who qualify, are eligible for TRICARE benefits. While DoD requires Reservists to use TRICARE for their own health care, using TRICARE is an option for their families. During activations, some Reservists may choose to save the cost of premiums by dropping civilian health plan coverage for their families and relying on TRICARE, which has no associated premium.

In addition to making the choice to receive TRICARE benefits or not, three laws protect Reserve component members' right to continue health coverage under an employment-

[2] Pub. L. No. 108-375 enacted on October 28, 2004

based group health plan. The first law, the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1986[3], provides temporary health coverage continuation rights to employees and their families when group health coverage would otherwise be lost due to certain specific events, which would include a Reserve component member's call-up or order to active duty if that would result in a loss of the coverage. While COBRA generally applies to all group health plans maintained by private-sector employers (with at least 20 employees) or by state and local governments, it does not apply to health plans sponsored by the federal government.[4]

The second law was intended to minimize the disadvantages that occur when a person needs to be absent from civilian employment to serve in the uniformed services. The Uniformed Services Employment and Reemployment Rights Act (USERRA) of 1994[5] provides that if a person's employer-sponsored health plan coverage would terminate because of an absence due to uniformed service, the person may elect to continue that coverage for up to 24 months after the absence begins, or the period of absence, whichever is shorter. Note that USERRA also authorizes federal agencies to continue health benefits coverage for up to 24 months for those employees called or ordered to active duty. The person cannot be required to pay more than 102 percent of the full premium for the coverage; if the uniformed service was for 30 or fewer days, the person cannot be required to pay more than the normal employee share of any premium.

Finally, the NDAA for 2005[6] authorized federal agencies to pay the federal employee's share and the Government's share of premiums during the 24 months of continued coverage for federal employees who are called or ordered to active duty in support of a contingency operation, such as those who would be covered by this reimbursement program.

These statutory provisions generally allow individuals called for active duty to continue coverage for themselves and their families under an employment-based group health plan for up to 24 months. If military service is for 30 or fewer days, the individual and family can continue coverage at the same cost as before the short service time. Additionally, some special administrative requirements related to COBRA continuation coverage can come into play as a result of military call-ups. USERRA, like COBRA, provides that activated Reservists may maintain their health plan benefits as provided by their employers for up to 24 months, and, like COBRA, provides that Reservists may be required to pay the entire premium cost, plus a two percent administrative fee. However, many employers may very well choose to provide continuation coverage at no cost to the

[3] Pub. L. No. 99-272 enacted on April 7, 1986 amends the Employee Retirement Income Security Act (ERISA), the Internal Revenue Code, and the Public Health Service Act.

[4] Dept of Labor, *www.dol.gov/dol/topic/health-plans/cobra.htm*

[5] Pub. L. 103-353 (38 USC Chap. 43) and Pub. L. 108-454

[6] Pub. L. 108–375 § 1101 (5 U.S.C. 8905a and 5 U.S.C. 8906(e)(3))

member and family. The Office of Personnel Management reported that virtually all federal agencies are exercising their authority to pay the entire premium cost for federal employees who were activated in support of a contingency operation to continue coverage under the Federal Employees Health Benefit program. Reserve component members, who are absent from their jobs due to military service, and their families may have rights under both USERRA and COBRA. If both statutes apply, as in the case of employers with more than 20 employees, the employer must administer the maximum possible benefits under the law.

Additional background can be found in a report by the Comptroller General[7] required by the Ronald W. Reagan NDAA for Fiscal Year 2005[8] that investigated the cost and feasibility of providing a stipend to members of the Ready Reserve to offset the cost of continuing their current private health coverage for their families while they are on active duty.

Target Population

Program Eligibility

Activated families would need to apply for this new benefit in order for DoD to determine their eligibility. DoD already routinely identifies special needs families as part of the well-established Exceptional Family Member Program[9] (EFMP). The existing EFMP application, review processes, and special medical needs criteria would be leveraged to determine eligibility for this new benefit. It would not be appropriate for us to use the EFMP special educational needs criteria for this program.

An exceptional family member is defined as any authorized family member (spouse, child, stepchild, adopted child, foster child, or dependent parent) residing with the sponsor who possesses a physical, intellectual or emotional disability and requires special medical or educational services. An authorized family member is further defined as the family member of an active duty service member who meets the following criteria for enrollment in EFMP. The special needs family member must: be enrolled in the Defense Enrollment Eligibility Reporting System (DEERS), have a long-term/chronic medical, psychological or educational need, and reside with the service member. Exceptions to these authorized family members are those living in-residence in an educational program, in treatment facilities, or if the service member is a geographic bachelor.

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[7] GAO, *Defense Health Care: Health Insurance Stipend Program Expected to Cost More Than TRICARE But Could Improve Continuity of Care for Dependents of Activated Reserve Component Members,* GAO-06-128R (Washington, DC: October 19, 2005)

[8] Pub. L. No. 108-375 § 702 enacted on October 28, 2004

[9] Department of Defense Instruction 1315.19 (December 20, 2005)

Size of the Eligible Population

There would be about 100,000 activated Reservists each year based on recent history. As the number of activated Reservists changes over time, the cost of this benefit would change proportionately. About 60 percent of these Reservists have family members eligible for TRICARE coverage. Of these Reservist families, 11 percent would not qualify because their sponsor is enrolled in a health plan under the FEHBP, and 19 percent would not qualify because their sponsor is enrolled in TRICARE Reserve Select, which is not other health insurance in relationship to TRICARE but a form of TRICARE coverage itself.

Approximately 10 percent of Reservist families could qualify as having a member with special health care needs under the EFMP special medical needs criteria. This is the percentage of active duty family members whose TRICARE civilian and MTF workload records indicate a diagnosis that would meet the EFMP health care criteria. We used the same percentage as that of the active duty family members out of a concern that Reservist families with special needs might be under-represented in current data if they are already more likely to rely on a civilian health plan when activated. Applying this 10 percent estimate to the number of activated Reservists, we estimated that 4,326 families per year could be eligible for this civilian health plan benefit.

Costs of Special Needs Families under Current Policy

In order to analyze the cost impact of having some Reservist families continue to use their employer's health plan, we estimated DoD's cost to cover these families under current policy. We found that the average health care and administrative cost of special needs families when using TRICARE would be approximately $18,000 per family in FY08 (for all the eligible members in the family, but excluding the Reservist). Under current policy, we assume that 30 percent of activated Reservist families with special health care needs use TRICARE (for the family's health coverage).

For the average activated family, we estimated that 50 percent use TRICARE under current policy. We assumed families with special health care needs are more likely to continue using their civilian health plan during activation so that they can maintain established provider relationships and to avoid having to navigate potential differences in coverage, pre-authorization requirements, and claims payment procedures, all for a temporary period of TRICARE eligibility. Our estimate that 50 percent of typical activated Reservist families use TRICARE under current policy is based on two sources:

1. Analysis of cost data for Global War on Terrorism (GWOT)-mobilized Reservists, and

2. Analysis of the 2004 Status of Forces Survey of Reserve Component Members.[10]

Employer Health Coverage Status of Reservists

According to the 2000 DoD Survey of Reserve Component Personnel[11], nearly 80 percent of Reservists had health care coverage when they were not on active duty. This rate is consistent with that of comparable groups within the overall U.S. population. Reservists obtained coverage through a variety of sources, and some Reservists had more than one source of coverage. The most frequently cited sources of coverage were civilian employer health plans (75 percent of Reservists) and spouses' employer health plans (28 percent of Reservists). (It could have been that some had double coverage between their own employer and their spouse's coverage.) Reservists with families were more likely to have health care coverage than those without families. Few family members of activated Reservists experienced disruptions in their health coverage, primarily because most maintained their civilian health plan while Reservists were activated, according to the survey. Of the Reservists with civilian coverage in 2000, about 90 percent maintained it. When surveyed in May 2004, 35 percent of respondents reported keeping employer-sponsored health coverage for all (26 percent) or part (9 percent) of their activation period.[12] Members were more likely to keep their civilian health coverage when they were ordered to active duty for several months typical of activations before the terrorist attacks of September 11, 2001.

Additionally, according to a 2002 Government Accountability Office study[13], Reservists responded that they maintained their civilian health plan to better ensure continuity of health benefits and care for their families. While most of the respondents continued to receive assistance from their employers for their premiums, out-of-pocket premium costs for a few increased because they not only continued to pay their employee contribution, but also paid the employer contribution.

To estimate how many of the special needs families would continue with their employer health plan, we examined how much they pay in employer premiums for their health plans. Based on data from the 2004 Status of Forces Survey of Reserve Component Members,[14] we estimated that:

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[10] Defense Manpower Data Center Report No. 2004-015, October 2004

[11] Defense Manpower Data Center Report No. 2002-032, July 2002

[12] Defense Manpower Data Center Report No. 2004-015, October 2004

[13] GAO, *Defense Health Care: Most Reservists Have Civilian Health Coverage but More Assistance is Needed When TRICARE is used,* GAO-02-829 (Washington, DC: September 6, 2002)

[14] Defense Manpower Data Center Report No. 2004-015, October 2004

- 42 percent of employers pay the full premium for family coverage of Reservist employees who are activated;
- 43 percent of employers pay a portion of the premium with the Reservist employee paying their usual employer share ($3,404 in FY08); and
- 15 percent of employers pay none of the premium, with the Reservist employee responsible for 102 percent of the premium ($13,406 in FY08) as allowed for continuation coverage under COBRA and USERRA rules.

The average employee contribution is taken from the 2006 Kaiser Family Foundation/HRET survey of employer health plans,[15] which we trended at 7 percent annual inflation. For the 102 percent amount, we started with the average full premium in the same Kaiser survey.

Potential Program Structures

There are two broad approaches in which DoD could structure a program to provide cash payments to reimburse premium costs so Reservists could retain their civilian health plan and continue coverage for their family members. In the first approach, the Department would reimburse individual Reservists for their actual cost to maintain the family's civilian health plan. In the second approach, the Department would pay a flat rate amount to each Reservist family that qualified for the benefit, regardless of the family's actual cost to maintain their civilian health plan.

Regardless of the approach chosen to reimburse premium costs of the member's civilian health plan, we realized that the benefit under consideration is a cash benefit. Therefore, all terms of the civilian health plan will apply including eligibility, covered benefits, and cost sharing. The Department will make no representation as to the adequacy or any other feature or provision of the health plan. Members will be accepting the civilian coverage at their own risk. Any family choosing to participate in this program would be accepting a cash benefit in lieu of any entitlement to benefits governed under Chapter 55 of Title 10 United States Code. Simply stated, they would not be covered beneficiaries and would not be entitled to any of these benefits including survivor benefits and Extended Care Health Option (ECHO) benefits.

Approach 1 – Reimbursement of Members' Actual Premium Costs

For the approach that would reimburse members' actual premium costs, we assumed that 80 percent of the special health care needs families who would have used TRICARE under current policy would instead take this civilian health plan benefit and that 90

[15] Kaiser Family Foundation and Health Research and Educational Trust. Employer Health Benefits: 2006 Annual Survey, *www.kff.org/insurance/7527/upload/7527.pdf*

percent of the civilian health plan users under current policy who face a partial or full premium contribution would take this benefit (See Table 1). We assumed a higher take rate for the current policy civilian health plan users who face a premium contribution than for the current policy TRICARE users since there may be a small number of current policy TRICARE users who prefer the temporary TRICARE coverage even when offered this civilian health plan premium benefit (we did not assume a 100 percent take rate for the current policy civilian health plan users because no program achieves a 100 percent take rate). We assumed that families who face no premium contribution during activation (their employers pay the full premium during activation) would not bother applying for this benefit, since they would receive no reimbursement under this option. These families would realize a substantial benefit under the flat rate approach, however, which is why that option is significantly more expensive than the actual reimbursement option.

Table 1 – Take Rates and Premium Benefit Offered for Families of Activated Reservists With Special Health Care Needs (SHCN) Members Under Actual Reimbursement and Flat Rate Approaches

	Families With Civilian Health Plan Prior to Activation But Using TRICARE During Activation Under Current Policy			**Families Using Civilian Health Plan Prior to Activation and Using it During Activation Under Current Policy**			**Total Families**
	Families With No Employer Contribution	**Families With Partial Employer Contribution**	**Total**	**Families With 100% Employer Contribution**	**Families With Partial Employer Contribution**	**Total**	**Total**
Actual Reimbursement Option							
FY08 Families	649	649	1,298	1,817	1,211	3,028	**4,326**
Take Rates	80%	80%	80%	0%	90%	36%	**49%**
FY08 Families Taking	519	519	1,038	0	1,090	1,090	**2,128**
FY08 Premium Benefit Offered	$13,406	$3,404	$8,405	$0	$3,404	$3,404	**$5,843***
Flat Rate Option							
FY08 Families	649	649	1,298	1,817	1,211	3,038	**4,326**
Take Rates	0%	67%	33%	90%	90%	90%	**73%**
FY08 Families Taking	0	433	433	1,635	1,090	2,725	**3,158**
FY08 Premium Benefit Offered	$3,404	$3,404	$3,404	$3,404	$3,404	$3,404	**$3,404***

* Average DoD Premium payment per family taking the benefit.

Relative to current policy costs, the actual reimbursement rate approach would save DoD approximately $29 million over the six-year period beginning in FY08 (an average savings of approximately $5 million per year, including amortization of the start-up

administrative costs). These results are presented in Table 2. The key reason for these savings is that DoD would avoid TRICARE costs for expensive families while only reimbursing the activated employee's actual civilian health plan premium contribution which, on average, is far less than the TRICARE cost of these families. This estimated savings would be large enough even to cover the reimbursements for those current policy civilian health plan users who face a premium contribution when activated. Additionally, it would be appropriate to limit the actual reimbursement to an amount not to exceed 115 percent of one of the nationwide fee-for-service plans open to all individuals eligible for a health plan under Chapter 89 of Title V of the United States Code.

Table 2 – Estimated Cost Impact of an Actual Reimbursement Benefit for Civilian Health Plan Premiums Paid by Activated Reservist Families With Special Health Care Needs (Dollars in Millions)

	FY08	FY09	FY10	FY11	FY 12	FY13	FY08–FY13
Health Care	-$5.4	-$5.8	-$6.2	-$6.6	-$7.1	-7.6	-$38.6
Administrative	$5.8	$0.8	$0.8	$0.8	$0.9	$0.9	$10.0
Total	$0.4	-$5.0	-$5.4	-$5.8	-$6.2	-$6.7	-$28.6

We assumed $5 million in start-up administrative costs for the actual reimbursement option, to cover systems changes, hiring and training staff, marketing and education, etc. We also assumed annual ongoing administrative costs of $750 per eligible family (consisting of $150 per eligibility review and $50 per family per month to process the specific premium reimbursements for each Reservist family taking the benefit).

Approach 2 - Flat Rate Reimbursement

This approach would reimburse all participating families the same flat rate based on an average premium contribution. DoD would save on the cost of administering the benefit, but this savings would be greatly outweighed by the higher aggregate reimbursement cost to DoD. We assume that 90 percent of the families whose employers cover their full premium during activation would take the flat rate reimbursement. However, under the actual reimbursement approach, these families would derive no benefit and not participate and thus incur no cost to DoD. Therefore, families whose actual premium cost was lower than the flat rate amount would make money, which could be construed as additional pay or allowances depending upon the tax treatment of the extra amount.

This flat rate approach would also cost DoD more than the actual reimbursement option because a lower percentage of current policy TRICARE users would take the benefit, since those who face higher-than-average premiums would not receive full

reimbursement for their premiums. Under this alternative, we assumed a 67 percent take rate among current policy TRICARE users rather than the 80 percent assumed in the actual reimbursement base case. Therefore, instead of the savings estimated under the actual reimbursement base case, we estimate that implementing a flat rate approach to this benefit would cost DoD $37 million over the six-year period beginning in FY08 (an average cost of approximately $6 million per year).

Expansion to Address Access to Health Care Providers

In section 715 of the NDAA for FY 2007, DoD was asked to consider in this study the feasibility of including families who do not have access to health care providers that accept payment under the TRICARE program. According to the Journal of Rural Health[16], more than 20 million people in the United States live in areas that have a shortage of physicians to meet their basic health care needs. Health care delivery in rural and urban communities poses many challenges that are not unique to the MHS. Individuals choosing to live in these underserved areas, to include Reserve component families, face a common problem of the lack of physicians practicing in these communities and/or availability to any accepting physicians in this area. These families, with or without TRICARE, are within areas that are deemed underserved and, therefore, the challenges they face are not inherent to the TRICARE system itself or to the lack of providers who accept TRICARE, rather that they are in an area where any provider may be difficult to access.

TRICARE is a worldwide health system accessible around the globe. TRICARE has strategies for localities that are medically underserved, which includes authority to pay up to 115 percent of the TRICARE Maximum Allowable Charge for care delivered to Reserve families.

Conclusion

This study focused on the impact of offering this new cash benefit only to those families with special health care needs and addressed the four questions. The outcome of our analyses is completely dependent on the structures that we have described. If legislation varies from these structures, our analyses and the resulting conclusions will no longer apply. Our responses to the specific questions follow.

1. What is the appropriate rate of reimbursement for members or sponsors of civilian health coverage?

[16] TRICARE Reserve Select Fact Sheet; *www.tricare.mil/Factsheets/viewfactsheet.cfm?id=343*

It is appropriate to reimburse individual Reservists, who have family members with special health care needs, for their actual premium cost to continue coverage under the family's civilian health plan. We estimate that this would save DoD approximately $29 million over the six-year period beginning in FY08 (an average savings of approximately $5 million per year, including amortization of the start-up administrative costs). We would pay families who would otherwise rely on TRICARE (and thus avoid more costly TRICARE expenditures), while only reimbursing the activated employee's actual civilian health plan premium contribution which, on average, is far less than the cost to TRICARE to cover these families' health care expenses. It would also be appropriate to limit the actual reimbursement to an amount not to exceed 115 percent of one of the nationwide fee-for-service plans open to all individuals eligible for a health plan under Chapter 89 of Title V of the United States Code. This estimated savings would be large enough even to cover the reimbursements for those current policy civilian health plan users who face a premium contribution when activated. Therefore, even though DoD makes a larger average payment per taking family, we are avoiding a more significant TRICARE cost than under the flat rate approach. Any family participating in this program should be "locked-out" from any services paid by or received from the MHS.

We consider it inappropriate to pay a flat rate amount to each Reservist family that qualifies for the benefit, regardless of the family's actual cost to maintain their civilian health plan. While administrative costs might be lower, we estimate that the flat rate approach would cost DoD $37 million over the six-year period beginning in fiscal year 2008 (an average cost of approximately $6 million per year). We would pay families who were not going to rely on TRICARE regardless, including almost all families whose employers cover their full premium during activation. Further, those whose out-of-pocket premium costs would exceed the flat rate reimbursement would be less likely to participate. Families whose actual premium cost was lower than the flat rate amount would make money, which could be construed as additional pay or allowances depending upon the tax treatment of the extra amount. These families derive no benefit and would not participate under the actual reimbursement approach, and thus incur no cost to DoD.

Any family choosing to participate in this program would be accepting a cash benefit in lieu of any entitlement to benefits governed under Chapter 55 of Title 10 United States Code. Simply stated, they would not be covered beneficiaries and would not be entitled to any of these benefits including survivor benefits and Extended Care Health Option (ECHO) benefits.

2. What is the number of military families with special health care needs (such as ongoing chemotherapy or physical therapy) who would benefit from continued

coverage under the member's civilian health plan instead of enrolling in the TRICARE program?

Using the actual cost reimbursement approach, we estimate that about 2,391 families of the 4,326 families who have members with special health care needs would take this civilian health plan benefit each year. Federal employees who are eligible for, or enrolled in, the Federal Employees Health Benefit Program (FEHBP)[17] should be excluded from this program, because their premiums are already covered in full under other authority.

3. How feasible is it to provide reimbursement to the member or the sponsor of the civilian health coverage?

   We would adopt well-established processes used in the DoD Exceptional Family Member Program to determine if a family member had special needs. An administrative process would have to be established for members to report their actual premium costs, and a reimbursement process would have to be established.

4. Is it feasible to include families who do not have access to health care providers that accept payment under the TRICARE program?

   We believe that this is neither warranted nor appropriate. TRICARE is a worldwide health system accessible around the globe. TRICARE has strategies for localities that are medically underserved, which includes authority to pay up to 115 percent of the TRICARE maximum allowable charge for care delivered to Reserve families.

[17] United States Code, Title 5, Chapter 89