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

HEALTH AFFAIRS

SEP 22 2009

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

Dear Mr. Chairman:

This letter provides the final report to Congress on the request in the Conference Report 110-434, accompanying H.R. 3222, the Department of Defense (DoD) Appropriations Act, 2008, for the Assistant Secretary of Defense for Health Affairs to provide a report that reviews TRICARE co-pays and analyzes whether or not elimination of certain co-pays would result in a cost savings.

Three types of co-pays were analyzed: cost sharing for preventive care in TRICARE Standard (preventive care is already free for TRICARE Prime enrollees), the co-pay for generic prescriptions in retail and mail order, and co-pays for mail order prescriptions in general. The Department of Defense's assessment of each of these potential changes is that they would increase rather than reduce net health care costs. In the case of eliminating cost sharing for preventive care, this conclusion is focused on the stated question of whether such a change would reduce net health care costs, not whether the health benefits (i.e., lives saved) might be worth the net cost increase.

The conclusion is that elimination of co-pays would not result in cost savings to the Department if done in isolation. The use of differential co-pays to affect behavior should be considered as part of a larger review of cost shares for military beneficiaries and cost savings for the Department.

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

Sincerely,

Ellen P. Embrey
Deputy Assistant Secretary of Defense
(Force Health Protection and Readiness)
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

HEALTH AFFAIRS

SEP 22 2009

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

Dear Mr. Chairman:

This letter provides the final report to Congress on the request in the Conference Report 110-434, accompanying H.R. 3222, the Department of Defense (DoD) Appropriations Act, 2008, for the Assistant Secretary of Defense for Health Affairs to provide a report that reviews TRICARE co-pays and analyzes whether or not elimination of certain co-pays would result in a cost savings.

Three types of co-pays were analyzed: cost sharing for preventive care in TRICARE Standard (preventive care is already free for TRICARE Prime enrollees), the co-pay for generic prescriptions in retail and mail order, and co-pays for mail order prescriptions in general. The Department of Defense's assessment of each of these potential changes is that they would increase rather than reduce net health care costs. In the case of eliminating cost sharing for preventive care, this conclusion is focused on the stated question of whether such a change would reduce net health care costs, not whether the health benefits (i.e., lives saved) might be worth the net cost increase.

The conclusion is that elimination of co-pays would not result in cost savings to the Department if done in isolation. The use of differential co-pays to affect behavior should be considered as part of a larger review of cost shares for military beneficiaries and cost savings for the Department.

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

Sincerely,

Ellen P. Embrey
Deputy Assistant Secretary of Defense
(Force Health Protection and Readiness)
Performing the Duties of the
Assistant Secretary of Defense
(Health Affairs)

Enclosure:
As stated

cc:
The Honorable Lindsey O. Graham
Ranking Member

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

HEALTH AFFAIRS

SEP 22 2009

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

Dear Mr. Chairman:

This letter provides the final report to Congress on the request in the Conference Report 110-434, accompanying H.R. 3222, the Department of Defense (DoD) Appropriations Act, 2008, for the Assistant Secretary of Defense for Health Affairs to provide a report that reviews TRICARE co-pays and analyzes whether or not elimination of certain co-pays would result in a cost savings.

Three types of co-pays were analyzed: cost sharing for preventive care in TRICARE Standard (preventive care is already free for TRICARE Prime enrollees), the co-pay for generic prescriptions in retail and mail order, and co-pays for mail order prescriptions in general. The Department of Defense's assessment of each of these potential changes is that they would increase rather than reduce net health care costs. In the case of eliminating cost sharing for preventive care, this conclusion is focused on the stated question of whether such a change would reduce net health care costs, not whether the health benefits (i.e., lives saved) might be worth the net cost increase.

The conclusion is that elimination of co-pays would not result in cost savings to the Department if done in isolation. The use of differential co-pays to affect behavior should be considered as part of a larger review of cost shares for military beneficiaries and cost savings for the Department.

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

Sincerely,

Ellen P. Embrey
Deputy Assistant Secretary of Defense
(Force Health Protection and Readiness)
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

HEALTH AFFAIRS

SEP 22 2009

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

Dear Madam Chairwoman:

This letter provides the final report to Congress on the request in the Conference Report 110-434, accompanying H.R. 3222, the Department of Defense (DoD) Appropriations Act, 2008, for the Assistant Secretary of Defense for Health Affairs to provide a report that reviews TRICARE co-pays and analyzes whether or not elimination of certain co-pays would result in a cost savings.

Three types of co-pays were analyzed: cost sharing for preventive care in TRICARE Standard (preventive care is already free for TRICARE Prime enrollees), the co-pay for generic prescriptions in retail and mail order, and co-pays for mail order prescriptions in general. The Department of Defense's assessment of each of these potential changes is that they would increase rather than reduce net health care costs. In the case of eliminating cost sharing for preventive care, this conclusion is focused on the stated question of whether such a change would reduce net health care costs, not whether the health benefits (i.e., lives saved) might be worth the net cost increase.

The conclusion is that elimination of co-pays would not result in cost savings to the Department if done in isolation. The use of differential co-pays to affect behavior should be considered as part of a larger review of cost shares for military beneficiaries and cost savings for the Department.

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

Sincerely,

Ellen P. Embrey
Deputy Assistant Secretary of Defense
(Force Health Protection and Readiness)
Performing the Duties of the
Assistant Secretary of Defense
(Health Affairs)

Enclosure:
As stated

cc:
The Honorable Joe Wilson
Ranking Member

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

HEALTH AFFAIRS

SEP 22 2009

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

Dear Mr. Chairman:

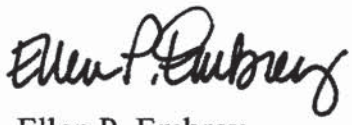
This letter provides the final report to Congress on the request in the Conference Report 110-434, accompanying H.R. 3222, the Department of Defense (DoD) Appropriations Act, 2008, for the Assistant Secretary of Defense for Health Affairs to provide a report that reviews TRICARE co-pays and analyzes whether or not elimination of certain co-pays would result in a cost savings.

Three types of co-pays were analyzed: cost sharing for preventive care in TRICARE Standard (preventive care is already free for TRICARE Prime enrollees), the co-pay for generic prescriptions in retail and mail order, and co-pays for mail order prescriptions in general. The Department of Defense's assessment of each of these potential changes is that they would increase rather than reduce net health care costs. In the case of eliminating cost sharing for preventive care, this conclusion is focused on the stated question of whether such a change would reduce net health care costs, not whether the health benefits (i.e., lives saved) might be worth the net cost increase.

The conclusion is that elimination of co-pays would not result in cost savings to the Department if done in isolation. The use of differential co-pays to affect behavior should be considered as part of a larger review of cost shares for military beneficiaries and cost savings for the Department.

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

Sincerely,



Ellen P. Embrey
Deputy Assistant Secretary of Defense
(Force Health Protection and Readiness)
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

HEALTH AFFAIRS

SEP 22 2009

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

Dear Mr. Chairman:

This letter provides the final report to Congress on the request in the Conference Report 110-434, accompanying H.R. 3222, the Department of Defense (DoD) Appropriations Act, 2008, for the Assistant Secretary of Defense for Health Affairs to provide a report that reviews TRICARE co-pays and analyzes whether or not elimination of certain co-pays would result in a cost savings.

Three types of co-pays were analyzed: cost sharing for preventive care in TRICARE Standard (preventive care is already free for TRICARE Prime enrollees), the co-pay for generic prescriptions in retail and mail order, and co-pays for mail order prescriptions in general. The Department of Defense's assessment of each of these potential changes is that they would increase rather than reduce net health care costs. In the case of eliminating cost sharing for preventive care, this conclusion is focused on the stated question of whether such a change would reduce net health care costs, not whether the health benefits (i.e., lives saved) might be worth the net cost increase.

The conclusion is that elimination of co-pays would not result in cost savings to the Department if done in isolation. The use of differential co-pays to affect behavior should be considered as part of a larger review of cost shares for military beneficiaries and cost savings for the Department.

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

Sincerely,

Ellen P. Embrey
Deputy Assistant Secretary of Defense
(Force Health Protection and Readiness)
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

HEALTH AFFAIRS

SEP 22 2009

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

Dear Mr. Chairman:

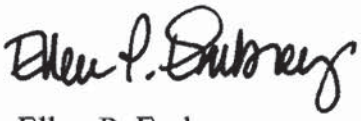
This letter provides the final report to Congress on the request in the Conference Report 110-434, accompanying H.R. 3222, the Department of Defense (DoD) Appropriations Act, 2008, for the Assistant Secretary of Defense for Health Affairs to provide a report that reviews TRICARE co-pays and analyzes whether or not elimination of certain co-pays would result in a cost savings.

Three types of co-pays were analyzed: cost sharing for preventive care in TRICARE Standard (preventive care is already free for TRICARE Prime enrollees), the co-pay for generic prescriptions in retail and mail order, and co-pays for mail order prescriptions in general. The Department of Defense's assessment of each of these potential changes is that they would increase rather than reduce net health care costs. In the case of eliminating cost sharing for preventive care, this conclusion is focused on the stated question of whether such a change would reduce net health care costs, not whether the health benefits (i.e., lives saved) might be worth the net cost increase.

The conclusion is that elimination of co-pays would not result in cost savings to the Department if done in isolation. The use of differential co-pays to affect behavior should be considered as part of a larger review of cost shares for military beneficiaries and cost savings for the Department.

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

Sincerely,



Ellen P. Embrey
Deputy Assistant Secretary of Defense
(Force Health Protection and Readiness)
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

HEALTH AFFAIRS

SEP 22 2009

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

Dear Mr. Chairman:

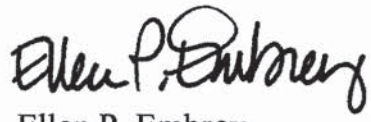
This letter provides the final report to Congress on the request in the Conference Report 110-434, accompanying H.R. 3222, the Department of Defense (DoD) Appropriations Act, 2008, for the Assistant Secretary of Defense for Health Affairs to provide a report that reviews TRICARE co-pays and analyzes whether or not elimination of certain co-pays would result in a cost savings.

Three types of co-pays were analyzed: cost sharing for preventive care in TRICARE Standard (preventive care is already free for TRICARE Prime enrollees), the co-pay for generic prescriptions in retail and mail order, and co-pays for mail order prescriptions in general. The Department of Defense's assessment of each of these potential changes is that they would increase rather than reduce net health care costs. In the case of eliminating cost sharing for preventive care, this conclusion is focused on the stated question of whether such a change would reduce net health care costs, not whether the health benefits (i.e., lives saved) might be worth the net cost increase.

The conclusion is that elimination of co-pays would not result in cost savings to the Department if done in isolation. The use of differential co-pays to affect behavior should be considered as part of a larger review of cost shares for military beneficiaries and cost savings for the Department.

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

Sincerely,



Ellen P. Embrey
Deputy Assistant Secretary of Defense
(Force Health Protection and Readiness)
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

TRICARE Copays

USE OF CO-PAYS

The use of co-pays serves a dual purpose. The most obvious is that they reduce the Department's portion of the liability for a specific health care encounter. The beneficiary pays the remainder to the provider. In the case of retired TRICARE Prime enrollees, the amount the government pays to the provider is reduced by the $12 that the beneficiary pays. In the case of the retired TRICARE Extra/Standard user, the government share is reduced by the 20 percent to 25 percent co-pay.

The second purpose is to manage the demand for health care services. The use of health care services, like other services, is sensitive to the cost borne by the beneficiary. The less the cost experienced by the beneficiary, the more likely the beneficiary is to use those services or to choose less costly alternatives, such as primary care visits over emergency rooms. While health care is not very sensitive to these cost changes, the RAND Health Insurance Experiment (HIE) showed that demand for health services did, in fact, rise in health plans where deductibles and/or co-pays were lowered or eliminated. Furthermore the HIE showed that this increase in use had no measurable effect on the health status of those in the lower deductible/co-pay plans. Thus, the use of co-pays reduces the Department's liability by reducing the demand for health care while not reducing the quality of care provided or health status of the beneficiary.

Co-pays (or the lack of them) can also stimulate beneficiaries to develop behaviors that are healthier, preventative, and/or less costly. In particular, preventive services have the potential to save costs by preventing diseases from occurring, detecting diseases early and/or treating diseases in less intense modalities. They also have the very real effect of improving outcomes/quality of life. However, most of these savings are generated over a longer time period and many do not produce immediate or directly associated cost savings. A systematic review by Tufts-New England Medical Center of their Cost Effectiveness Analysis Registry found less than 20 percent of studies demonstrated cost savings. Many of the others, while not saving health care costs, did have low cost-effectiveness ratios for extending/improving quality of life. In addition, the Military Health System is already above the 50th percentile of health plans in most of the preventive services measures, so any increases will have less of an incremental effect.

CURRENT BENEFIT

Department of Defense's (DoD) TRICARE program was established in 1995 with three benefit options (Prime, Standard, and Extra) for those DoD beneficaries who are not Medicare-eligible. TRICARE Prime is a managed care-like option which requires enrollment. For retirees and their family members, there is an annual enrollment fee; currently $460 per year for a family. There is no enrollment fee for Active Duty family members, but they must also make a choice to enroll in this option. (Active Duty members are always considered Prime.) For those beneficiaries who elect not to enroll in

Prime, they are still entitled to health care on a fee for service basis with no annual enrollment fee. There are two options that are available when care is received. TRICARE Standard is available from any qualified provider. TRICARE Extra is available from preferred providers in the TRICARE network for reduced co-pays. (For care delivered at a military hospital or clinic, care is usually free although there may be some minimal charges for inpatient care and some elective (cosmetic) surgeries.)

For Active Duty members there are no co-pays for their care. Furthermore any eligible beneficiary who receives care from a military treatment facility (MTF) pays no co-pay. Co-pays associated with civilian inpatient care, outpatient care, and pharmacy varies by program and by beneficiary category for non-Active Duty beneficiaries.

For Active Duty family members enrolled in TRICARE Prime, there are also no co-pays or deductibles for inpatient or outpatient care provided they obtain authorization. (If an Active Duty family member obtains care without authorization, a 50 percent point of service co-pay is charged after a $300 deductible is applied.) For those Active Duty family members using TRICARE Standard, the co-pay is 20 percent of allowable charges for outpatient visits and the greater of $15.65/day or $25/admission for inpatient care. If a provider is a network provider, and the family member uses TRICARE Extra, the co-pay is reduced to 15 percent of the negotiated fee.

For retirees and their family members who are not Medicare-eligible and opt to enroll in Prime, there are no deductibles, but there are co-pays. For outpatient care, the co-pay is $12 per visit. For emergency room care, the co-pay is $30 and for outpatient behavioral health care, the co-pay is $25 for an individual session and $17 for a group session. For inpatient care, the co-pay is the greater of $11/day or $25 per admission with no separate co-pay for professional services. For those not enrolled in Prime, the co-pay is 25 percent of allowable charges for outpatient visits and the lesser of $535/day or 25 percent of billed charges plus 25 percent of allowable professional fees for inpatient care. If a provider is a network provider, and the family member uses TRICARE Extra, the co-pay is reduced to 20 percent of the negotiated fee.

SPECIFIC CO-PAYS

There are three types of co-pays; at first glance, it might seem possible that reducing or eliminating patient cost sharing would produce health care cost savings: cost sharing for preventive care in TRICARE Standard (preventive care is already free in Prime), the co-pay for generic prescriptions in retail and mail order; and co-pays for mail order prescriptions in general. However, DoD's assessment of each of these potential changes is that they would increase rather than reduce net health care costs. In the case

of eliminating cost sharing for preventive care, this conclusion is focused on the stated question of whether such a change would reduce net health care costs, not whether the health benefits (i.e., lives saved) might be worth the net cost increase (which would be a cost-effectiveness standard rather than a cost savings issue). Each of these potential changes is discussed below.

Cost sharing for preventive care in TRICARE Standard

DoD analyzed the cost impact of eliminating the TRICARE Standard deductible and coinsurance for preventive services. DoD's analysis indicated that such a change would produce a net increase in health care costs, not a decrease, for the following reasons:

- DoD would incur a larger share of cost for those who are already getting preventive care (for which there would be no new pay-off because the preventive care was occurring anyway).

- There would be induced demand for additional preventive encounters, with DoD paying the full cost of this induced care, but only some of these additional encounters would actually detect or prevent a condition needing treatment (i.e., only some of those individuals getting preventive care would otherwise have gotten sick).

- Treatment of any conditions discovered by the preventive screening would be a current year cost increase, while the cost of the avoided condition typically would have been incurred well into the future.

- The additional screening would also yield false positives, and DoD would then incur costs for follow-up care generated by the false positives.

Retail and mail order co-pays for generic drugs

DoD also considered whether eliminating the retail pharmacy and mail order co-pay for generic drugs would produce a net health care savings, but the conclusion is that such a change (in isolation) would increase net health care costs, for the following reasons:

For existing generic prescriptions, DoD would simply be incurring a larger share of the cost.

- TRICARE already has a policy of mandatory generic substitution unless the brand name drug is medically necessary.

- Even in cases where the beneficiary does have a choice between brand and generic, the existing generic co-pay is already so low ($3 for a 30-day retail fill and $3 for a 90-day mail order fill) that the vast majority of beneficiaries who are price-sensitive enough to switch would already have done so to obtain the current level of co-pay savings relative to a brand drug.

- To the extent that any behavioral savings would occur due to a small additional shift from brand to generic, there would be an offset for the induced demand that presumably would result when generic drugs are free to the beneficiary.

Mail Order Pharmacy Copays

Eliminating mail order pharmacy co-pays (in isolation) would increase rather than decrease DoD costs for the following reasons:

For existing mail order prescriptions, DoD would simply be incurring a larger share of the cost.

- The existing mail order co-pay already represents a large (67 percent) savings relative to retail co-pays; as a result, the vast majority of beneficiaries who are price-sensitive enough to switch would already have done so.

- To the extent that any behavioral savings would occur due to a small additional shift from retail to mail order, there would be an offset for the induced demand that presumably would result when mail order drugs are free to the beneficiary.

- To the extent any additional shift did occur from retail to mail order, the savings to DoD on those prescriptions would be smaller than in the past because of the new federal pricing rebates that DoD will receive on retail brand drugs.

- Making mail order free to the beneficiary would also incentivize a shift from the MTF to mail order, and mail order is more expensive to DoD than the MTF, so such a shift would be a further increase in DoD cost.

CONCLUSION

In conclusion, elimination of co-pays would not result in cost savings to the Department if done in isolation. The use of differential co-pays to affect behavior should be considered as part of a larger review of cost shares for military beneficiaries and cost savings for the Department.