THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D. C. 20301-1200

HEALTH AFFAIRS

AUG 12 2005

The Honorable John W. Warner
Chairman, Committee on Armed Services
United States Senate
Washington, DC 20510-6050

Dear Mr. Chairman:

The enclosed report is submitted as requested by the Fiscal Year (FY) 2004 Supplemental Appropriations Act Conference Report (108-337). The report provides an update on implementation of the Reserve health benefits authorized in the Supplemental Appropriations Act and in the National Defense Authorization Act (NDAA) for FY04, as well as the cost estimates for these benefits. We regret the delay in responding.

Importantly, provisions of the NDAA for FY05 make permanent two of the temporary provisions (Sections 703 and 704) of the NDAA for FY04, and authorize a new program to allow certain Selected Reserve members to enroll in a premium-based TRICARE program, while in a Reserve status. As you are aware, the NDAA for FY05 authorizes greatly enhanced health care benefits for Selected Ready Reservists and their families. Section 701 of the NDAA for FY05 authorizes the Department to offer Selected Ready Reserve members and their families premium-based TRICARE Standard coverage providing they have served continuously on active duty for 90 days or more and agree to serve continuously in the Selected Reserve for one or more years following completion of their active duty period. The Department has implemented a health care program consistent with the direction provided in Section 701. The program is known as TRICARE Reserve Select and implementation began on April 26, 2005.

In order to facilitate the implementation of the Reserve health benefits, the Department established a work group to make the policy and program changes required to ensure Reserve Component (RC) members and their families have access to the TRICARE benefit. The Department has taken steps to build on existing mechanisms for determining eligibility, enrollment in TRICARE, and delivering health care services.

The Department is committed to improving access to health care services for many of the RC Service members and their families. While this has not been a simple process, we remain committed to implement these provisions to ensure eligible members and their families have access to TRICARE health benefits and receive accurate, clear, consistent and timely information on these benefits and how to obtain them.

Thank you for your continued interest in the Military Health System.

Sincerely,

William Winkenwerder, Jr., MD

Enclosure:
As stated

cc:
Senator Carl Levin

Report to Congress on
Temporary Reserve Health Care Benefits

The Department of Defense recognizes that our Reserve Component (RC) members, serving in the Reserve and National Guard, face particular hardships when being called to active duty for prolonged periods of time. We wish to ensure that they receive the same high quality, low cost health care that is available to our active components. With this in mind, the Department worked diligently to implement the provisions of the National Defense Authorization Act (NDAA) for Fiscal Year 2004 and the Supplemental Appropriations Act for Fiscal Year 2004.

Introduction

The conference report on the FY04 Supplemental Appropriations Act requests a report on the implementation of the demonstration program regarding health care services for Reserve Component (RC) sponsors and family members. While it is far too early to assess the impact of this program on recruitment and retention, we are pleased to provide the following information on implementation.

The National Defense Authorization Act (NDAA) for FY04 included several provisions revising statutory authorities for health care services for RC sponsors and family members. Three of these provisions were temporary and were scheduled to expire on December 31, 2004. Key provisions under this legislation include:

- **Section 701 – Permanent.** Authorizes, but does not require, medical and dental screening and care for RC members alerted for mobilization.
- **Section 702 – Temporary, expired December 31, 2004.** Authorizes premium-based TRICARE coverage for RC members who are not eligible for employer-provided coverage, or who are eligible unemployment compensation recipients.
- **Section 703 – Temporary, scheduled to expire December 31, 2004 but made permanent by NDAA for FY05.** Authorizes TRICARE coverage for RC members and their families effective on the date the sponsor receives a delayed-effective-date order for activation for more than 30 days beginning on the later of the date that is: the date of issuance of the order, or 90 days before the date on which the period of active duty is to commence.
- **Section 704 – Temporary, scheduled to expire December 31, 2004 but made permanent by NDAA for FY05.** Authorizes temporary extension of transitional health care benefits from 60 or 120 days to 180 days for eligible RC sponsors and their family members.
- **Section 706** –Limits FY 2004 funding to $400 million to implement sections 702, 703, and 704.
- **Section 707 – Permanent.** Requires a full-time Reserve TRICARE Beneficiary Counseling and Assistant Coordinator for each TRICARE region.

- **Section 708 – Permanent.** Authorizes TRICARE Eligibility of Reserve Officers for Health Care Pending Orders to Active Duty Following Commissioning if the member does not have health care insurance and is not covered by any other health benefits plan.

Current Implementation Status

In order to implement this legislation with its seven related TRICARE provisions, the Department was required to develop new policies, operating guidelines, regulations, administrative cost tracking mechanisms, personnel data system changes, contract modifications, and communication strategies before the benefits could be fully realized. Given these challenges, coupled with ongoing military operations in Iraq and Afghanistan, the initial focus has been on implementing the sections most relevant to mobilizations and demobilizations, Sections 701, 703 and 704. Section 701, which offers medical and dental screening and care for alerted Reservists, was implemented by the Services in January 2004. Section 703, which offers an earlier eligibility date for TRICARE benefits, was implemented as of July 2004. Section 704, which extended the post-mobilization TRICARE benefit to 180 days, was implemented as of April 2004. The necessary system changes were completed to implement Section 703, which offers an earlier eligibility date for TRICARE benefits. As noted above, the Section 703 and 704 benefit changes have been made permanent in the NDAA for FY05. They did not expire on December 31, 2004.

A work group comprised of personnel from the Offices of the Assistant Secretaries of Defense for Health Affairs and Reserve Affairs, the TRICARE Management Activity (TMA), the Services and other Defense agencies made policy, program and system changes required to ensure RC families have access to the TRICARE benefit. As each phase of the 2004 Temporary Reserve Health Benefit Program began, guidance regarding start dates, eligibility, TRICARE medical and dental premiums and cost shares, was communicated to RC military units and their families. In addition to developing contract modification language and implementing guidance for the Services, TMA continues to develop the required communication strategies to inform RC members and their families of the benefits being made available to them.

The Department built on existing mechanisms for determining eligibility, recording eligibility in the Defense Enrollment Eligibility Reporting System (DEERS), and delivering health services. These activities required modifications to the current DEERS system, modification to the old and new managed care support contracts, the issuance of guidance on the new provisions, and the development of implementing instructions. The Services are transmitting eligibility records to DEERS upon issuance of delayed-effective order dates to identify eligible RC members and their families for Section 703 benefits. System changes have been made to DEERS to support Sections

703 and 704, and these provisions have been fully implemented to provide extended TRICARE benefits to eligible members and their families.

The Department issued specific guidance and information to RC members regarding paying bills during the period preceding full implementation. Sponsors and family members who were saving receipts have been applying for TRICARE reimbursement by submitting a TRICARE claim form, a copy of itemized bills, explanation of benefits and/or proof of payment to their TRICARE claims processor. Coverage for the Section 703 and 704 benefits was retroactive to November 6, 2003, and letters were mailed to affected persons on how to apply for TRICARE reimbursement.

Section 701: Medical and Dental Screening and Care for Members of Ready Reserve Alerted for Mobilization – Permanent Benefit – effective November 6, 2003

Under Section 701, RC members alerted for mobilization are now eligible to obtain any medical and dental screening and care that is necessary to ensure that the member meets the applicable medical and dental standards for deployment.

The Services will notify RC members alerted for mobilization for more than 30 days that they are eligible to obtain any medical and dental screening and care that is necessary to ensure that the member meets the applicable medical and dental standards for deployment.

The Under Secretary of Defense (Personnel and Readiness) issued supplementary guidance to the Service Secretaries regarding implementation of the benefits under Sections 701, 703 and 704 of the NDAA for FY04. Since this is not a TRICARE benefit, the Services are responsible for the funding of this provision, as well as for issuing guidance to their respective Reserve units. There is no charge to the member for any screening or care provided during this period.

Section 702: Coverage for Ready Reserve Members under TRICARE – Temporary Benefit – Superseded by Section 701 of NDAA for FY05

This section would make the TRICARE benefit available for RC members and their families who are not eligible for employer-provided medical coverage or who are eligible for unemployment compensation.

This section presented a different set of implementation challenges. This is the section providing premium-based TRICARE enrollment for RC members who receive unemployment compensation or are ineligible for employer-sponsored health care benefits. First, initial estimates indicated immediate implementation of Section 702 would break the statutory spending cap applicable to Sections 702, 703, and 704. Second, from June through November 2004, the twelve TRICARE regions and seven

contracts have been restructured into three regions and three new contracts, affecting over five million beneficiaries. Priority was given to the critical start-up and implementation of these new contracts to provide healthcare. As noted above, the NDAA for FY05 signals a major change in direction from Section 702. We have implemented Section 701 of the NDAA for FY05.

The TRICARE Reserve Select program was implemented in April, 2005.

In summary, in spite of the infeasibility of prompt Section 702 implementation, the steps DoD has taken during the past year and a half on Reserve health care affirm our commitment to a program that supports medical readiness, personnel retention, equity with active duty members and families, and sustainability in resource requirements.

Section 703: Early Eligibility for TRICARE Benefits for RC Members – Temporary Benefit – effective November 6, 2003 – made permanent by NDAA for FY05

Under Section 703, if RC members are issued delayed-effective-date active duty orders for more than 30 days in support of a contingency operation, they and their family members are now eligible for "early" TRICARE medical and dental benefits beginning on the later date of either: (a) the date their orders are issued or (b) 90 days before the member begins serving under orders to active duty for more than 30 days. This temporary provision was effective from November 6, 2003 through December 31, 2004. The NDAA for FY 05 makes this a permanent provision.

Guidance to the Services on implementation was provided in the memorandum signed by the USD (P&R) January 7, 2004. RC members are eligible for direct care in MTFs or supplemental health care in the private sector, depending on location. Eligible family members who reside in TRICARE Prime Service area are eligible for TRICARE Prime. If not in a Prime Service area, and they lived with the sponsor at time of activation or receipt of delayed-effective date orders, they may enroll in TRICARE Prime Remote for Active Duty Family Members (TRADFM). Family members who choose not to enroll in TRICARE Prime or TPRADFM may obtain medical benefits using either TRICARE Extra or TRICARE Standard. They are also eligible for the Nationwide TRICARE Reserve Family Member Demonstration Project, the provisions of which were made permanent in the NDAA for FY 05.

On January 27, 2004, the Department issued a memorandum that provided additional guidance to be followed regarding medical/dental screening and care for both RC members identified for active duty in support of the current partial mobilization operations, and their family members. It also provides guidance on the early identification of Service members called up in support of a named contingency and any partial mobilization operations. The memorandum also notes the responsibility for each

Military Service to provide electronic files to DEERS for RC members who are issued a delayed-effective-date active-duty order, or are covered by such an order, that is for a period of active duty of more than 30 days, in support of a contingency operation. Lastly, the memorandum notes that affected persons will have their coverage under the Transitional Assistance Medical Program (TAMP) extended.

Thus far, the cost for this provision for FY 2004 is $45 million. A full year cost estimate using FY 2005 rates is $89 million.

As of July 2004, Section 703 was implemented. It has been made permanent by Section 703 of the NDAA for FY05.

Section 704 – Temporary Extension of Transitional Health Care Benefits – Temporary – effective November 6, 2003 – made permanent by NDAA for FY05

When RC members are deactivated, this section extended the period of receipt of transitional health care benefits from 60 or 120 days to 180 days for eligible beneficiaries. The extension to 180 days is applicable to all persons eligible for the transitional benefit, including Reservists being deactivated after contingency call-up, other involuntary separations, and separations following retention in support of contingency missions. Extensions are effective for persons deactivated or separated on or after November 6, 2003. DEERS modifications were completed in mid-January 2004 and managed care support contractors are paying the claims for eligible RC members and their families. The cost impact on contracts has been negotiated with the contractors. Contract modifications for the current contractors have been completed, and the provision was fully implemented as of April, 2004.

Guidance provided in the Department's memorandum of January 7, 2004, notes that affected RC members and their families are eligible for TRICARE Prime (if in a Prime area), TRICARE Extra, or TRICARE Standard. Members and their families may also participate in the Nationwide TRICARE Reserve Family Member Demonstration Project through October 31, 2004. As with the current Transitional Assistance Medical Program (TAMP), Service members and their families will not be eligible for TPR or TPRADFM. Additional guidance for the implementation of this provision was provided in an ASD(HA) Memorandum dated March 15, 2004 that contained information on the temporary extension of benefits. Points of contact were provided to assist RC sponsors in verifying eligibility and to answer possible questions with processing claims. TMA sent a letter to those sponsors eligible for this benefit describing the temporary change in the eligibility period and providing information on submitting claims for processing.

Thus far, the cost for this provision for FY 2004 is $38 million. A full year cost estimate using FY 2005 cost rates is $83 million.

The NDAA for FY05, Section 706 makes permanent the extension of TAMP to 180 days.

Section 706 – FY 2004 Funding Limits for Temporary Reserve Health Benefits – Temporary

This section prescribed a limitation of $400 million on FY 2004 outlays for the benefits authorized in Sections 702, 703, and 704. Adherence to this limitation entailed careful tracking of outlays as they occurred. The Department must adhere to the limitation to avoid an Anti-Deficiency Act violation. Mechanisms were established to accurately track and account for all expenditures covering administrative and health care costs. The Department identified $300 million to fund these benefits for the first quarter in FY 2005.

Section 707 – Full-Time Reserve TRICARE Beneficiary Counseling and Assistance Coordinator (BCAC) – Permanent – effective November 6, 2003

Eleven Beneficiary Counseling and Assistance Coordinators from the RCs have begun work in areas around the country to specifically address eligibility and health care benefit issues for activated members and their families.

The Department issued a memorandum outlining policy guidance on February 3, 2004. Each military department appointed beneficiary counseling and assistance coordinators to support RC members with the new benefits and other questions on TRICARE. This support will be part of an ongoing information campaign to inform affected RC members and their families about the new provisions and how to use their benefits.

Section 708 – Eligibility of Reserve Officers for Health Care Pending Orders to Active Duty Following Commissioning – Permanent – effective November 6, 2003

This section makes newly commissioned officers eligible for health care under TRICARE pending orders to active duty, if the officer lacks any other health coverage. Due to the recent mobilizations and demobilizations, this section has not yet been implemented. Those who meet eligibility requirements will be eligible for TRICARE Prime where it is available or to have health care provided through supplemental health care funds. Family members will not be eligible for TRICARE coverage under this section. Policy guidance was drafted by TMA and transferred to RA for further coordination and action by the personnel community relative to determination of eligibility. The critical implementation actions revolve around eligibility determination which is reserved to personnel, along with contract modifications and required system changes to note eligibility.

Summary

The Department implemented the requirements of Sections 701, 703, 704 and 706 of the NDAA for FY04, related to eligibility determination and delivery of health benefits for Reserve component members and their families. Policy guidance and implementing procedures have been established for Sections 701 and 707. Section 703 was implemented as of July 2004. Section 704 was fully implemented as of April 2004.

The Administration's original full year cost estimate for Sections 702, 703, and 704 was approximately $1.9 billion, which would have significantly exceeded the limitation of $400 million imposed by Section 706 of the NDAA for Fiscal Year 2004. Currently, the estimate for a full year for FY05 is $172 million. The current estimate for FY04 is $83.5 million, reflecting partial year costs. The Department will continue to track costs carefully to ensure compliance with the Section 706 limitation.

Revisions to cost estimates have been made based on more available information as well as changes in assumptions. Critical changes in assumptions involve the number of Reservists eligible for each benefit, the assumed cost of TRICARE for these individuals, and the rate at which the Reservists will enroll. Even now, there is uncertainty for some of these estimates due to the lack of precedent for some of these benefits.

We are very pleased with the enhanced benefits outlined in the NDAA for FY05 and have moved out quickly to implement these provisions. As mentioned earlier, the NDAA for FY04 offered temporary pre-activation health coverage, and extended transitional health benefits to 180 days after demobilization. The NDAA for FY05 makes these temporary provisions permanent. Furthermore, when the transitional period of coverage ends, the NDAA for FY05 Section 701 makes premium-based coverage available to RC members and their families based on the length of service under the contingency and the RC member's commitment to continued service in the Selected Reserve of the Ready Reserve. The TRICARE Reserve Select program was implemented on April 26, 2005.