THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

APR 07 2009

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

Dear Mr. Chairman:

The enclosed report responds to Section 731 of the National Defense Authorization Act for Fiscal Year 2009, which requires the Secretary of Defense to report on including dependents of military retirees in the Extended Care Health Option (ECHO) program for a limited transitional period following retirement.

The report includes: (1) estimates of both the current and future number of military retirees with dependents who could be eligible to receive an ECHO transitional benefit; (2) a cost estimate for extending the ECHO program benefits to dependents of estimated current and future military retirees; (3) the feasibility of including dependents of military retirees in any ongoing demonstration or pilot program within the ECHO program; and; (4) statutory and regulatory impediments to including military retiree dependents in the ECHO program.

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

Sincerely,

S. Ward Casscells, MD

Enclosure:
As stated

cc:
The Honorable John McCain
Ranking Member

THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

APR 07 2009

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

Dear Mr. Chairman:

The enclosed report responds to Section 731 of the National Defense Authorization Act for Fiscal Year 2009, which requires the Secretary of Defense to report on including dependents of military retirees in the Extended Care Health Option (ECHO) program for a limited transitional period following retirement.

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

Sincerely,

S. Ward Casscells, MD

Enclosure:
As stated

cc:
The Honorable Thad Cochran
Ranking Member

THE ASSISTANT SECRETARY OF DEFENSE

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WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

APR 07 2009

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

Dear Mr. Chairman:

The enclosed report responds to Section 731 of the National Defense Authorization Act for Fiscal Year 2009, which requires the Secretary of Defense to report on including dependents of military retirees in the Extended Care Health Option (ECHO) program for a limited transitional period following retirement.

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

Sincerely,

S. Ward Casscells, MD

Enclosure:
As stated

cc:
The Honorable Jerry Lewis
Ranking Member

THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

APR 07 2009

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

Dear Mr. Chairman:

The enclosed report responds to Section 731 of the National Defense Authorization Act for Fiscal Year 2009, which requires the Secretary of Defense to report on including dependents of military retirees in the Extended Care Health Option (ECHO) program for a limited transitional period following retirement.

The report includes: (1) estimates of both the current and future number of military retirees with dependents who could be eligible to receive an ECHO transitional benefit; (2) a cost estimate for extending the ECHO program benefits to dependents of estimated current and future military retirees; (3) the feasibility of including dependents of military retirees in any ongoing demonstration or pilot program within the ECHO program; and; (4) statutory and regulatory impediments to including military retiree dependents in the ECHO program.

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

Sincerely,

S. Ward Casscells, MD

Enclosure:
As stated

cc:
The Honorable Lindsey O. Graham
Ranking Member

THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

APR 07 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:

The enclosed report responds to Section 731 of the National Defense Authorization Act for Fiscal Year 2009, which requires the Secretary of Defense to report on including dependents of military retirees in the Extended Care Health Option (ECHO) program for a limited transitional period following retirement.

The report includes: (1) estimates of both the current and future number of military retirees with dependents who could be eligible to receive an ECHO transitional benefit; (2) a cost estimate for extending the ECHO program benefits to dependents of estimated current and future military retirees; (3) the feasibility of including dependents of military retirees in any ongoing demonstration or pilot program within the ECHO program; and; (4) statutory and regulatory impediments to including military retiree dependents in the ECHO program.

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

Sincerely,

Very Best,
Ward

S. Ward Casscells, MD

Enclosure:
As stated

cc:
The Honorable Joe Wilson
Ranking Member

THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

APR 07 2009

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

Dear Mr. Chairman:

The enclosed report responds to Section 731 of the National Defense Authorization Act for Fiscal Year 2009, which requires the Secretary of Defense to report on including dependents of military retirees in the Extended Care Health Option (ECHO) program for a limited transitional period following retirement.

The report includes: (1) estimates of both the current and future number of military retirees with dependents who could be eligible to receive an ECHO transitional benefit; (2) a cost estimate for extending the ECHO program benefits to dependents of estimated current and future military retirees; (3) the feasibility of including dependents of military retirees in any ongoing demonstration or pilot program within the ECHO program; and; (4) statutory and regulatory impediments to including military retiree dependents in the ECHO program.

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

Sincerely,

S. Ward Casscells, MD

Enclosure:
As stated

cc:
The Honorable John M. McHugh
Ranking Member

Report to Congress

Fiscal Year 2009

Report on Including Dependents of Military Retirees in the Extended Health Care Option Program for a Limited Transitional Period Following Retirement

REPORT TO CONGRESS

ON PROVIDING THE EXTENDED CARE HEALTH OPTION PROGRAM TO DEPENDENTS OF MILITARY RETIREES FOR A TRANSITIONAL PERIOD

INTRODUCTION

Section 731 of the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2009, Public Law 110-417, requires the Secretary of Defense to submit a report on including dependents of military retirees in the Extended Health Care Option Program (ECHO) for a limited transitional period following retirement. Section 731 provides that the report should include:

1. The most current data on the number of military retirees with dependents who are eligible to receive extended benefits under the ECHO program and an estimate of the number of future military retirees with dependents who are eligible to receive such benefits;

2. The cost estimate of providing extended benefits under the ECHO program to dependents of all current and future military retirees;

3. The feasibility of including dependents of military retirees in any ongoing demonstration or pilot program within the ECHO program; and

4. The statutory and regulatory impediments to including dependents of military retirees in the ECHO program.

BACKGROUND

The ECHO program is a supplemental program to the TRICARE Basic Program and is available only to the family members of Active Duty Service Members (ADSMs). The benefit is limited to such beneficiaries because prior to ECHO these beneficiaries were dependent on services furnished by State or local entities where they lived and the benefits those systems provided. Since ADSMs usually do not have a choice where they are assigned, if they had a child with special needs and the locale where they were assigned could not furnish adequate benefits, the child could not always receive the care they required. On the other hand, retirees are not limited by the Department of Defense as to where they can live and theoretically could locate where adequate services are available.

The ECHO program provides an additional financial resource of integrated services and supplies designed to reduce the disabling effects of the beneficiary's qualifying condition. It replaced the Program for Persons with Disabilities. Since the

program is currently limited to the dependents of ADSMs, the dependents of military retirees are ineligible to receive extended benefits under the ECHO program.

ESTIMATE OF CURRENT AND FUTURE RETIREE DEPENDENTS ELIGIBLE FOR ECHO

Some dependents of ADSMs who are eligible or nearly eligible for retirement, receive ECHO benefits. To provide an estimate of the number of retirees who might become eligible for such a transitional benefit two key assumptions were made. First, the legislative language referring to a "limited transitional period," did not specify a length of time. For the purpose of this report, it is assumed that this period of time is six months similar to TRICARE's Transitional Assistance Management Program, another transitional benefit. Second, it is assumed that ADSMs who, immediately before their retirement, had dependents using the ECHO program would be the retirees most likely to use this transitional benefit.

An estimated 118 dependents of ADSMs would be eligible for six months of extended ECHO benefits each year, if a six-month transitional program for retiree dependents were implemented. To make this estimate, it was found that in FY 2008, there were 1,024 dependents of ADSMs whose sponsor was near retirement (age 35 or older) and who were in ECHO. This means that there were about 3.11 ECHO dependents per 1,000 ADSM sponsors (based upon an estimate of 329,000 ADSM sponsors, age 35 or older). It was also found that approximately 38,000 ADSMs, age 35 and older, retire each year. Thus, it is estimated that about 118 ADSM dependents would be eligible for the ECHO transitional benefit if their sponsor retired (38,000 x .00311=118). This information is displayed in Table 1 in the Addendum.

COST ESTIMATE OF EXTENDING ECHO BENEFITS TO RETIREE DEPENDENTS FOR SIX MONTHS

What would the costs be of a six-month ECHO transitional benefit program for retiree dependents? It is assumed that the average ECHO costs incurred by dependents of retirees under a transitional program would be similar to those costs currently incurred by dependents of ADSMs near retirement. Based upon an analysis of FY08 ECHO claims, it is calculated that the average ECHO dependent of an ADSM near retirement had ECHO costs of $28,017 in FY 2008. Potential participants in the ECHO program can be divided into two groups, those with Autism Spectrum Disorder (ASD) and those without ASD. If the ECHO program were extended to non-ASD beneficiaries, about 60 percent of the 118 ADSM dependents would be eligible for the ECHO transitional benefit if their sponsors retired (about 45 dependents per year). Assuming that 45 ECHO dependents would become retiree dependents each year, the costs of the ECHO program would be about $1.3 million annually if the extension benefit were for one year (45 multiplied by $28,017). Assuming the availability of the benefit would be only for 6 months reduces

this cost estimate by about 50 percent which is an annual cost of $616,374 (see Table 2, "All Other Dependents" column – 22 multiplied by $28,017).

THE FEASIBILITY OF INCLUDING DEPENDENTS OF MILITARY RETIREES IN ANY ONGOING DEMONSTRATION OR PILOT PROGRAM WITHIN THE ECHO PROGRAM

Currently, there is a demonstration within ECHO which is limited to Active Duty Family Members that addresses the significant lack of providers of services to treat autism spectrum disorders (ASD). In examining the ECHO participants in FY 2008, about 60 percent had ASD and 40 percent did not. Thus, it is estimated that of the 118 ADSM dependents, 73 would have ASD and 45 would not (see Table 1).

Two adjustments were made to the cost estimate in Table 2 for the ASD population. First, under a current TRICARE demonstration, ASD beneficiaries receive additional benefits. If this demonstration applied to the ECHO transition program, it is assumed that these additional demonstration costs would increase the costs for ASD beneficiaries by 50 percent. This assumption produces additional ASD demonstration costs of $0.23 million annually (50 percent multiplied by $0.45 million). Second, the ECHO expenditure cap has been increased by 20 percent, from $2,500 per month (maximum of $30,000/year) to $36,000 annually. This would also increase the costs of a transitional benefit program relative to the FY 2008 experience. It is assumed that ASD beneficiaries who were at the $2,500 per month cap would increase their spending up to the new cap, and that ASD costs would increase by 10 percent under the new cap due to this change, or by about $70,000. In summary, as indicated in Table 2, having a six-month transitional ECHO benefit for dependents of retirees would result in estimated annual costs of $1.38 million.

This demonstration is scheduled to end in March, 2010. Given the number of qualified providers, including additional beneficiaries in the demonstration would decrease the overall availability of the providers and thereby adversely affect all beneficiaries needing such services. It could also increase the costs of services with greater demand for the limited number of providers. Lastly, it could have the consequence of allowing services for a relatively short time until the demonstration ends and thereafter provide no continuity of care for beneficiaries with chronic conditions.

Including dependents of retirees in a demonstration or pilot program would require the changes described below in the "impediments" section.

It is likely that there would be costs for modifying the three TRICARE managed care contracts.

STATUTORY AND REGULATORY IMPEDIMENTS TO INCLUDING DEPENDENTS OF MILITARY RETIREES IN THE ECHO

A statutory limitation would have to be resolved to implement this transitional benefit. Specifically, Title 10 of the United States Code, Section 1079 (d) (3) (A), limits eligibility to dependents of active duty members. This provision needs to be changed to include those same dependent classifications [1072 (2) (A), (D) and (I) for members or former members covered under 1086 (c)].

The Code of Federal Regulations would also need to be amended at section 199.5 (b) (1) (i) which limits the benefit to dependents of members of Uniformed Services on Active Duty; and (b) (3) (i), which stipulates that a beneficiary loses eligibility when his/her sponsor ceases to be on active duty.

ADDENDUM

Table 1
Estimated Annual Number of Retiree Dependents Who Would Be Eligible for Extended ECHO Benefits for a Six-Month Limited Transitional Period

	Autism Spectrum Disease Dependents	All Other Dependents	All Dependents Combined
FY 2008 ECHO Program Claimants Whose ADSM Sponsor Was Age 35+	635	389	1,024
Total Number of ADSM Sponsors Age 35+	328,966	328,966	328,966
ECHO Dependents Per 1,000 ADSM Sponsor	1.93	1.18	3.11
Number of ADSM Sponsors Age 35+ Nearing Retirement Annually	37,696	37,696	37,696
Estimated Number of ADSM Dependents Who Would Be Eligible for ECHO if Their Sponsor Retired	73	45	118

Source: MDR TED and M2 DEERS data, November 2008.

Table 2
Estimated Cost Increase of Allowing a 6-Month Transitional ECHO Benefit For Retiree Dependents

		Autism Spectrum Disease Dependents	All Other Dependents	All Dependents Combined	Source or Assumption
1.	FY 2008 ECHO Program Claimants Whose ADSM Sponsor Was Age 35+	635	389	1,024	Table 1
2.	FY 2008 ECHO Program Paid Claims for Claimants Whose ADSM Sponsor Was Age 35+	$7,988,672	$10,898,802	$18,887,474	MDR TED Claims
3.	FY 2008 Paid Amount Per Claimant	$12,581	$28,017	$18,445	
4.	Number of Retiree Dependents Likely to Use 6-Month ECHO Transition Benefit	36	22	59	Table 1
5.	Estimated Annual Cost of Extending Benefits to Retiree Dependents for 6 Months	**$452,916**	**$616,374**	**$1,088,255**	4 x 3
6.	Estimated Additional ASD Demo Program Cost Increase	$226,458	$0	$226,458	50 percent Assumed for ASD
7.	Estimated Additional Cost of Payment Cap Increase from $2,500/month to $36,000/year	$67,937	$0	$67,937	10 percent of 5 + 6
8.	Total Estimated Cost Incurred	**$747,311**	**$616,374**	**$1,382,650**	