THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D. C. 20301-1200

HEALTH AFFAIRS

FEB 24 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 pursuant to Section 722 of the National Defense Authorization Act for Fiscal Year (FY) 2005. The report provides the results of a feasibility and desirability study concerning the provision of reimbursement for travel expenses to military treatment facilities (MTF) for certain military disability retirees. This proposal would result in reimbursement for members of the uniformed services, retired for a disability, who travel to MTFs for medical care during the first two years after such retirement.

It is estimated this proposal would cost the Department of Defense approximately $2.4 million in FY 2006 and $2.1 million annually thereafter. The time and expense involved for administrative oversight of this program at the MTF may, in most cases, exceed the value of this small benefit. Additionally, the disparity among MTF beneficiaries will result in only a select few receiving travel reimbursement benefits. Many more beneficiaries will not receive this benefit, causing ill will and likely much consumption of scarce resources of MTF personnel needing to explain to non-recipients the reason for this disparity.

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

Sincerely,

William Winkenwerder, Jr., MD

cc: Senator Carl Levin

STUDY OF PROVISION OF TRAVEL REIMBURSEMENT TO HOSPITALS FOR CERTAIN MILITARY DISABILITY RETIREES

Introduction:

Section 722 of the National Defense Authorization Act for Fiscal Year 2005 requested a study of the feasibility, and desirability, of providing reimbursement for travel expenses of certain retired members.

Discussion:

The Department of Defense (DoD) does not currently provide travel reimbursement benefits to any medical disability retirees who are not enrolled in TRICARE Prime at Military Treatment Facilities (MTFs). The Department of Defense provides a travel reimbursement benefit for non active duty TRICARE Prime members (active duty families, retirees and their families) who are enrolled to MTF and civilian network Primary Care Managers (PCM). This travel benefit applies if the enrollee is referred by their PCM for medically necessary, non-emergent specialty care located greater than 100 miles from the PCM's location. The Department of Veterans Affairs (VA) provides a travel benefit that is authorized under title 38 USC 111, and the applicable regulations are found in 38 CFR 17.43 to 17.145. The benefit is summarized in the Veterans Healthcare Benefits Handbook as follows:[1]

"Travel
Reimbursement for mileage or public transportation may be paid for the following:

- *Veterans with service connected disabilities rated at 30% or more.*
- *Veterans traveling for treatment of a service connected condition.*
- *Veterans receiving a VA pension.*
- *Veterans traveling for scheduled compensation and pension examinations.*
- *Veterans whose income does not exceed the maximum VA pension rate.*

Mileage reimbursement is made at the rate of $.11 per mile. Travel payment is subject to a $3.00 deductible for each one-way trip. There is an $18 per month maximum deductible. If you are traveling for a compensation and pension examination, you are not subject to a deductible.

Special Mode Travel

If you have a medical condition that requires a special mode of transportation and are unable to pay the cost of that transportation, the VA may cover the cost. Special modes of transportation costs must be pre-authorized by the VA. If you have a medical emergency, and a delay in travel would be unsafe, travel does not need to be pre-authorized. When traveling by special modes of transportation (ambulance or specially equipped van), there is no deductible."

Based on information obtained from the VA's Chief Business Office, Director of Policy, the average annual total amount of reimbursement for this benefit throughout the VA system over the past three fiscal years has been $53,477,552 for mileage and $91,664,127 for other

[1] Found on the VA Healthcare Network Upstate New York website at http://www1.va.gov/visns/visn02/vet/benefits/services.html

transportation expenses, mostly under the "special mode" heading, which includes a wide variety of conveyances, from taxies and wheel-chair vans to air ambulances. The population of VA-system users with a service-connected disability rated at 30 percent or more has averaged about 909,000 in the same three-year period. This implies an average cost per VA-system user with service connected disabilities of approximately $160 per year.

Feasibility:

The act refers to "members of the uniformed services retired under chapter 61 of title 10." We have interpreted this to mean all uniformed services retirees with a service-connected disability of more than 30 percent, regardless of whether the disability is considered permanent or whether the retiree in question was placed on the temporary disability retirement list (TDRL). The Defense Manpower Data Center provided data on the history of such retirements for all uniformed services (including Coast Guard, Public Health Service, and National Oceanic and Atmospheric Administration members). These are summarized in Table 1 below for the last four fiscal years.

Table 1

Summary of Disability Retirements by Fiscal Year

Fiscal Year	Total Disabled Retirees		
	PDRL	TDRL	TOTAL
FY01	1,312	1,267	2,579
FY02	1,041	1,593	2,634
FY03	796	2,006	2,802
FY04	782	2,878	3,660

From the increasing trend evidenced by this table (and also reflected in monthly data for the last fiscal year), we estimate that the number of disability retirements may reach as high as 6,000 per year by FY06. We assume that the increasing trend reflected in the data is being driven by current military operations and that it will stabilize over time. For purposes of estimating the cost of this benefit, we have assumed that a maximum of 6,000 retirees will become eligible for this benefit per year in the foreseeable future. Since the benefit runs for two years, we assume that the maximum number of disabled retirees who would be eligible to use the benefit in each year will be 12,000.

Based on the assumptions made above relative to the eligible population for this benefit and the average cost per eligible, we estimate that the transportation cost per year for this benefit would be as indicated in the formula below:

12,000 eligibles per year x $160 per eligible = $1,920,000 per year

Generally, in the VA system, each eligible beneficiary registers with the travel office and each time the patient visits the facility, he or she simply reports to the travel window, signs in,

and the value of the benefit is automatically computed based on the patient's city of origin.[2] The payment amount is automatically transmitted to a cashier who then pays the patient when he or she reports to the cashier's window. The VA Chief Business Office estimates that the cost of administering this facet of the benefit is about $2.52 per claim, split among the travel clerk, cashier, and supervisor. The VA does not have an estimate of the cost per claim for special-mode travel, which is paid for primarily through contract arrangements with transportation providers, who are generally reimbursed monthly based on pre-approved patient loads that are accumulated and invoiced each month. Thus there are few individual claims for services. For purposes of this cost estimate we have assumed that the average administrative cost per patient, which consists primarily of processing and paying monthly invoices from a transportation provider, is $20 per occasion of service (which we will refer to as a "claim" in this report). This $20 per claim would also include procurement and contract-administration costs. Using the VA cost per mileage claim of $2.52, our estimate of $20 per special-mode claim, and the number of claims of each type estimated earlier (57,600 for mileage and 3,600 for special mode), the total annual administrative cost for this benefit would be:

$$(\$2.52 \times 57{,}600) + (\$20.00 \times 3{,}600) = \$217{,}152$$

This estimate assumes that the same type of automated system for mileage claims payment used by the VA would be put in place at most MTFs. We do not know what the cost of implementing such a system would be, but we assume it would be several hundred thousand dollars, including system development, testing, and deployment, and training of personnel. For purposes of this estimate, as a rough-order-of-magnitude estimate, we will assume an administrative start-up cost for this benefit would be $300,000, although the actual cost could be more or less, depending on whether or not, and how easily, the automated system currently in place at VA medical centers could be adapted for MTF use.

Based on the discussion provided above, our DoD cost estimate for the proposed travel benefit may be summarized as follows in FY06 dollars:

Annual Transportation Reimbursement Costs:	$1,920,000
Annual Administrative Costs:	$ 217,152
One-Time Start-Up Costs:	$ 300,000
TOTAL FY 2006 Cost:	**$2,437,152**

Desirability:

The Department of Defense believes this proposal would cause an inequity of benefits compared to the Department of Veterans Affairs (VA). Under 38 U.S.C. 111, if an individual does not fall below an annual income threshold, they are not eligible for the VA travel benefit. The TRICARE benefit and its cost shares, however, are not dependent upon either the beneficiary's income or the severity of illness or injury. This proposal would allow all members

[2] Mileage is calculated from city limit to city limit, and must be at least 28 miles one-way before the a positive reimbursement is allowed. A $6 deductible applies to the first three two-way trips each month, after which the deductible is waived for subsequent trips within the same month.

of the uniformed services, who are retired for a disability, to receive travel reimbursement even if they exceeded the income threshold set by VA. Additionally, this proposal would provide a TRICARE travel benefit for the two-year period beginning on the date of the member's retirement, whereas the VA travel entitlement is a permanent benefit. Furthermore, this proposal would result in significant disparity among unformed services beneficiaries as it would permit travel benefits for only a very small segment of eligible uniformed services beneficiaries (less than 6,000 per year) at the exclusion of all other eligible patient categories (known to be well over 9 million) who also receive care at MTFs.

Summary:

It is estimated that this proposal would cost the Department of Defense approximately $2.4 million in FY 2006 and $2.1 million annually thereafter. The time and expense involved for administrative oversight of this program at the MTF may, in most cases, exceed the value of this small benefit. Additionally, the disparity among MTF beneficiaries will result in only a select few receiving travel reimbursement benefits. Many more beneficiaries will not receive this benefit, causing ill will and likely much consumption of scarce resources of MTF personnel needing to explain to non recipients the reason for this disparity.