Rising DOD Health Care Costs Threaten National Security

By Mieke Eoyang and Julie Zelnick

The current financial situation with the military’s health care system (known as TRICARE) is a recipe for crisis. If we don’t address it soon, it may harm our national security in the long run. It will also impact operational effectiveness and threaten health care benefits for active duty troops and their families.

This digest accomplishes three things:

► Lays out the fiscal situation for the Defense budget and TRICARE;
► Demonstrates that minor cost adjustments to TRICARE would still allow for generous benefits to military personnel, retirees, and their dependents; and
► Recommends that Congress allow the Department of Defense to adopt minor cost controls now—and take a comprehensive look at broader reforms over the next year—in order to preserve TRICARE for future generations.

WHAT IS TRICARE?

Our troops are the foundation of American defense and have shown unwavering commitment over the last 11 years of war. In return, it is a priority to ensure that health care needs of servicemen and women and their dependents are met. As a result, the Department of Defense (DOD) administers health benefits to about 9.6 million active duty military members, retirees, and dependents through a system called TRICARE.¹

DOD provides care to active duty troops, retirees (those who served a full 20-year career), and their dependents. Veterans who did not serve twenty years or more receive care from the Veterans Administration (VA) system.

Before the mid-1990s, DOD treated these groups in two ways:

• There was free care for active duty troops and retirees, on a space-available basis, at military hospitals or Military Treatment Facilities; and

Leaving aside the sacred obligation we have to America’s wounded warriors, health care costs are eating the Defense Department alive.

— Secretary of Defense Robert M. Gates
May 8, 2010
Those who did not live near a military-run facility could use the Civilian Health and Medical Program (CHAMPUS).

After the Cold War, DOD shuttered numerous bases, reducing the number of DOD-run health care facilities. At the same time, there was growing demand for treatment. To address this problem, Congress in 1995 created a program that became known as TRICARE. Since 2000, Congress has dramatically expanded TRICARE benefits and created 17 new programs especially for seniors, Reservists, and their dependents. These expanded benefits recognize new battlefield challenges and the needs of an aging retiree population.

The new programs began to cover things like prosthetics, durable medical equipment, PTSD treatment, MRI breast cancer screening, Traumatic Brain Injury, and mental and behavioral health issues. Congress also created add-on programs like TRICARE for Life, TRICARE Senior Pharmacy, TRICARE Plus, TRICARE Reserve Select, Wounded Warrior Respite, and TRICARE Young Adult.

While each expansion addressed a legitimate medical need, eligibility ballooned by 43%. Significantly, while only 17% of the force serves 20 years, this group represents over half of all TRICARE beneficiaries. Furthermore, because they use the health care system more often, they impose disproportionate costs on TRICARE. Still, the expansion of benefits and the increased pool of those eligible for care could have been manageable if the cost-share between DOD and beneficiaries stayed the same, but it did not.

THE BUDGET CRISIS WILL FORCE TRICARE REFORMS

The Budget Control Act of 2011 will cause the DOD budget to grow at a slower rate than it has in the past 10 years. But the cuts won’t translate into reduced health care costs. Without reform, a bigger share of the Defense budget will go to health care costs, and TRICARE will crowd out other DOD security spending priorities.

In 2000, the Pentagon spent $17 billion on military health care. This nearly doubled by 2012 to $33.7 billion. Under
the President’s FY13 budget proposal, minor cost controls will keep the budget at about the same level.\(^9\)

- But even with these minor cost controls, the spending for the Defense Health Program will increase by $5.2 billion through 2017.\(^10\)

- Without reform, according to DOD estimates, spending on military health care could rise to $64 billion in 2015—a $30 billion increase over a shorter period of time.\(^11\)

By comparison, that increase is three times the size of the Marine Corps' entire Operations and Maintenance Account.\(^12\)

**TRICARE REFORM WOULD STILL PROVIDE GENEROUS BENEFITS**

1. **Inflation has led to an unsustainable windfall for beneficiaries.**

The annual enrollment fee for retirees using TRICARE Prime increased last year for the first time since the program began in 1997.

- TRICARE Prime’s annual fee for a retiree’s family is $539 and $269 for an individual.

Some interest groups are opposed to increases, saying they break faith with promises made to veterans. But even with the recent increase, this is a generous health care program compared to what civilians pay.

- Prior to 2012, a working-age retiree’s family under TRICARE paid a flat rate of $460 annually for the past 15 years.\(^13\)

- Had the enrollment fee increased along with general inflation over the years, TRICARE Prime would now cost $660 a year per family.\(^14\)

But as the real cost to the beneficiary has declined, DOD’s costs have risen exponentially.

- Health care inflation has also contributed to DOD costs since it grows at a higher rate than inflation.\(^15\)

- Even with the increase in enrollment fees, if the costs are not indexed to inflation, the cost share between the beneficiary and DOD will again become increasingly imbalanced. Ultimately, this is a financially unsustainable situation.
Since TRICARE Standard and Extra have no annual enrollment fees, DOD doesn’t know how many beneficiaries annually choose to use them. Thus, DOD cannot plan and budget appropriately. If beneficiaries were required to enroll, DOD would be able to better manage its health care services.

2. **Even with higher costs, TRICARE would remain a generous program.**

Military retirees often choose TRICARE over their private employer-provided health care. And why wouldn’t they?

- The costs to families for private insurance plans have risen steadily since 2001, growing by an average of $1,754.

- As a comparison, a civilian federal employee now might pay $5,000 for his or her family’s health care every year, and those in the private sector might pay up to $12,000. However, a family on TRICARE Prime, pays $539 annually.¹⁶

The numbers make the choice clear. Not surprisingly, 22.4% of working-age retirees switched to TRICARE during the last ten years. This has helped drive up DOD costs to unsustainable levels.

3. **Curbing overutilization is not a reduction in care.**

As the beneficiary pool has shifted from military hospitals to civilian care, TRICARE suffers many of the same overutilization problems experienced in private sector medicine. In cases where private sector doctors are paid on a fee-for-service model, some may have incentives to order more tests than are necessary in order to increase their income, driving up health care costs for the TRICARE program writ large. Now, people use TRICARE services much more than in the private sector.

- For example, in 2010 users of Standard/Extra received 2.4 times more health care services than their civilian PPO counterparts.¹⁹

- Allowing DOD to develop methods to address this kind of overuse will result in both better care for the beneficiaries and lower costs for the taxpayer.
CONGRESS MUST PRESERVE THE BENEFIT WHILE CURBING COSTS

DOD and the nation have an obligation to provide health care for our troops and their dependents. But to keep that promise, we cannot continue the rampant cost-growth this program has seen in the last decade.

Congress must revisit the cost-sharing between DOD and its beneficiaries. The original cost shares should be re-set to tie beneficiaries’ fees and co-payments to inflation in order to ensure that burdens remain in balance over time.

Congress also should allow DOD to implement minor cost controls.

• Congress authorized a Military Compensation and Retirement Modernization Commission in 2012 to examine the military compensation and retirement systems to ensure the sustainability of the all-volunteer force.

• This Commission has an opportunity to examine private sector cost control mechanisms that would be most applicable to the Defense Health Program, while preserving quality care for beneficiaries.20

CONCLUSION

The current TRICARE program is simply unsustainable, and both Congress and DOD must take significant steps to reform the system while keeping faith with our troops. While military health care cannot exactly parallel civilian or private health plans, it cannot be drastically different if we are to keep it afloat in a time of budget constraints.

Reforming the system will be challenging and it is difficult to ask our troops and veterans to pay more for their care. Congress must make some hard choices to ensure our troops have quality health care and DOD has what it needs to defend the United States.

The National Security Academy is the flagship initiative of the Third Way National Security Program. The Academy seeks to explain complex security questions in an engaging, easy-to-understand way in order to help policymakers better understand the challenges and threats facing America today.

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3 CHAMPUS, the Civilian Health and Medical Program for Uniformed Services, became TRICARE in 1994.


6 Ibid.


15 Ibid.


17 Ibid.

