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Analysis of Approaches to Reduce Federal Spending on Military Health Care

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What Are Some Current Proposals for Cost Savings?

Recent Proposals to Restructure TRICARE

Proposal	Description
Department of Defense (Submitted as part of the 2015 and 2016 President's budget request)	Consolidate TRICARE's plans (Prime, Standard, and Extra) into a single program Restructure cost sharing to encourage more efficient (and less expensive) consumption of health care services by beneficiaries
Military Compensation and Retirement Modernization Commission	Most beneficiaries not on active duty could choose from a variety of commercial insurance plans Military facilities would be included in provider networks and reimbursed for care (like private providers) Financed through trust funds

Slowing the Growth of Health Care Costs: Options Examined by CBO

Type of Option	Description	Estimated Reduction in DoD's Budget Authority Over Ten Years ^a
Cost Sharing	Three options, including changes to eligibility and out-of-pocket expenses for military retirees	\$18 billion to \$90 billion
Other Approaches	Four methods to better manage chronic disease and to better administer military health care	\$0.02 billion to \$0.15 billion

a. The net effect on the federal budget as a whole would differ from these amounts.

Cumulative Budgetary Effects of Policy Options That Would Raise Military Retirees' Cost Sharing, 2015 to 2023

Billions of Dollars

	Change in the Federal Budget			Change in DoD's Budget Authority
	Discretionary Outlays	Mandatory Outlays	Revenues	
Option 1: Increase medical cost sharing for military retirees who are not yet eligible for Medicare	-19.7	-0.3	-1.6	-24.1
Option 2: Make military retirees ineligible for TRICARE Prime; allow continued use of Standard and Extra with an annual fee	-71.0	0.5	-10.5	-89.6
Option 3: Introduce minimum out-of-pocket requirements for TRICARE for Life	0	-30.7	0	-18.4

Note: Estimates were prepared in November 2013 and spanned the 2015–2023 period.

Potential for Savings in Other Approaches

Approach	Estimated Annual Savings
Expand Disease Management Programs	About \$23 million
Expand the Use of Scholarships and Close the Uniformed Services University of the Health Sciences	As much as \$150 million, assuming that some functions are transferred elsewhere
Hire Additional Auditors to Identify Fraud	About \$2 million in reduced spending resulting from a \$1.3 million increase in TRICARE audit resources
Combine Military Medical Establishments	DoD estimated savings from establishing the Defense Health Agency in 2013 of \$46.5 million (the Government Accountability Office's estimates are lower)

What Is CBO's Approach to Estimating the Effects of Legislation?

Policy changes are measured relative to **CBO's 10-year baseline** projections, which incorporate the agency's **latest economic assumptions**.

Estimates reflect important budgetary considerations.

CBO considers:

- Discretionary spending vs. mandatory spending
- Accrual vs. current-year funding
- Budget authority vs. outlays
- The effect on other federal programs
- The effect on tax revenues (in collaboration with the Joint Committee on Taxation)

Economic analysis is used to project behavioral responses.

CBO considers:

- How many people would switch to employment-based insurance
- How many people would participate in other federal programs like those of the Veterans Health Administration
- How much less health care would be consumed overall

CBO's estimates reflect the middle of the distribution of possible outcomes.

Budgetary Effects of Increasing Medical Cost Sharing for Military Retirees Who Are Not Yet Eligible for Medicare

Billions of Dollars

Changes in Spending Subject to Appropriations	Total, 2015–2023
Department of Defense and the Uniformed Services	
Budget Authority	-24.1
Outlays	-22.7
Veterans Health Administration and FEHB Program	
Budget Authority	3.2
Outlays	3.0
Net Impact on Spending Subject to Appropriations	
Budget Authority	-21.0
Outlays	-19.7
Change in Mandatory Outlays	-0.3
Change in Revenues	-1.6

Note: Estimates were prepared in November 2013 and spanned the 2015–2023 period. FEHB = Federal Employees Health Benefits.

What Would Be CBO's Approach to Estimating the Cost of a Proposal for Restructuring TRICARE?

CBO's cost estimate would focus on projecting the federal cost—in particular, how the **price** and **quantity** of military health care would change relative to current law.

A broader analysis could focus on military readiness, access to care, and quality of services provided.

How would restructuring TRICARE
affect **prices**?

CBO would consider:

- Reimbursement rates (for example, TRICARE reimbursement rates are based on Medicare rates, but private insurance plans might not be)
- How much more private plans would charge for the same services

How would restructuring TRICARE affect the **quantity of services** provided?

CBO would consider:

- The number of beneficiaries who would leave TRICARE
- Alternative sources for health care—private insurance or other federal programs
- Changes in how medical conditions are treated
- Any health consequences of those changes

A broader analysis would consider how restructuring TRICARE would affect **readiness, access to care,** and the **quality of services** provided.

Such an analysis might consider:

- Whether military providers maintain the right skills
- The portion of in-house capability that must be preserved to meet the wartime mission
- How the military would maintain care of beneficiaries in the U.S. during wartime