



Highlights of GAO-07-647, a report to congressional committees

May 2007

MILITARY HEALTH CARE

TRICARE Cost-Sharing Proposals Would Help Offset Increasing Health Care Spending, but Projected Savings Are Likely Overestimated

Why GAO Did This Study

In light of the fact that Department of Defense (DOD) health care spending more than doubled from 2000 to 2005 and continues to escalate, DOD proposed increasing the share of health care costs paid by TRICARE beneficiaries, under a proposal known as Sustain the Benefit. DOD estimated that if the proposal had been implemented in fiscal year 2007, savings would amount to over \$11 billion through fiscal year 2011. As required by the National Defense Authorization Act for 2007, GAO evaluated (1) the likelihood that DOD would achieve its estimated savings from the proposed enrollment fee and deductible increases for retirees and dependents under age 65, (2) the likelihood that DOD would achieve its estimated savings from the proposed pharmacy co-payment increases for all beneficiaries except active duty personnel, and (3) the factors identified by DOD as contributing to increased TRICARE spending from 2000 to 2005. To conduct its work, GAO examined DOD analyses and interviewed DOD officials. GAO also analyzed data on many aspects of health care costs in general and interviewed health economists.

What GAO Recommends

GAO recommends that DOD collect and compile certain data from TRICARE beneficiaries to help manage its health care spending. In its comments, DOD concurred with this recommendation and with GAO's conclusions.

www.gao.gov/cgi-bin/getrpt?GAO-07-647.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Laurie Ekstrand at (202) 512-7101 or ekstrandl@gao.gov.

What GAO Found

Although DOD would likely achieve significant savings if its proposal is implemented, it is unlikely to achieve the \$9.8 billion savings that it expects to receive over 5 years as a result of increased TRICARE enrollment fees and deductibles for retirees and dependents under age 65. DOD's savings estimate depends largely on the assumption that the increased fees and deductibles will result in approximately 500,000 retirees and dependents under age 65 either leaving or choosing not to enroll in TRICARE—collectively referred to as avoided users—and on the assumption that each avoided user will save DOD the equivalent of the cost of providing health care to the average TRICARE beneficiary. However, DOD's projected number of avoided users is likely too high. Many beneficiaries in this group, particularly older and sicker individuals, are unlikely to have lower-priced health insurance options available to them and would therefore be likely to continue to use TRICARE. In addition, DOD's estimated savings per avoided user is likely too high because the estimate does not account for older and sicker individuals, who are less likely to leave or not enroll in TRICARE, and who incur greater-than-average medical expenses. Even without any avoided users, GAO estimates that DOD's proposed fee and deductible increases would achieve at least \$2.3 billion in savings over 5 years. Neither GAO nor DOD can make a more accurate savings estimate, in part because DOD does not collect and compile certain data, such as the cost of other health insurance options. These data, along with information on beneficiaries' access to other health insurance options, could help DOD estimate beneficiary reaction to changes in TRICARE's cost-sharing structure, such as the number of beneficiaries who would become avoided users.

DOD is unlikely to achieve the \$1.5 billion it expects to save by increasing retail pharmacy co-payments for all beneficiaries except active duty personnel. DOD based its estimated savings on a study that measured savings from increased pharmacy co-payments in non-DOD employer-sponsored insurance programs. This study was not analogous to DOD's situation, which resulted in DOD overestimating the reduction in the number of prescriptions obtained from retail pharmacies, and thereby overestimating its savings. Therefore, more beneficiaries may continue to use retail pharmacies and pay higher co-payments, generating more revenue for DOD. However, revenues from these beneficiaries would not offset the higher cost of providing these beneficiaries' prescriptions in retail pharmacies.

DOD attributed its increase in health care spending, from \$17.4 billion in 2000 to \$35.4 billion in 2005, to a number of factors. The factors DOD identified as the largest contributors were medical care inflation and benefit enhancements required by law, including TRICARE for Life, which supplements Medicare coverage for TRICARE beneficiaries, generally after age 65. DOD also identified other factors, including an increased number of beneficiaries who have chosen to use TRICARE and health care costs for mobilized reservists and their families due to the Global War on Terrorism.