

GAO Highlights

Highlights of [GAO-13-808](#), a report to the Committee on Armed Services, U.S. Senate

Why GAO Did This Study

DOD offers health care coverage—medical and pharmacy services—to eligible beneficiaries through its TRICARE program. DOD contracts with managed care support contractors to provide medical services, and separately with a pharmacy benefit manager to provide pharmacy services that include the TRICARE mail-order pharmacy and access to a retail pharmacy network. This is referred to as a carve-out contract structure. DOD's current pharmacy contract ends in the fall of 2014. DOD has been preparing for its upcoming contract through acquisition planning, which included identifying any needed changes to contract requirements.

Senate Report 112-173, which accompanied a version of the NDAA for fiscal year 2013, mandated that GAO review DOD's health care contracts. For this report, GAO examined: (1) how DOD identified changes needed, if any, to requirements for its upcoming pharmacy services contract; and (2) what, if any, assessment DOD has done of the appropriateness of its current contract structure. GAO reviewed DOD acquisition planning documents and federal regulations, and interviewed officials from DOD and its pharmacy services contractor.

What GAO Recommends

GAO recommends that DOD conduct an evaluation of the potential costs and benefits of alternative structures for the TRICARE pharmacy services contract, and incorporate such an evaluation into acquisition planning. DOD concurred with GAO's recommendations.

View [GAO-13-808](#). For more information, contact Debra A. Draper at (202) 512-7114 or draperd@gao.gov.

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DEFENSE HEALTH CARE

Evaluation of TRICARE Pharmacy Services Contract Structure Is Warranted

What GAO Found

The Department of Defense (DOD) used various methods to identify needed changes to requirements for its upcoming pharmacy services contract. During acquisition planning for the upcoming TRICARE pharmacy services contract, DOD solicited feedback from industry through its market research process to align the contract requirements with industry best practices and promote competition. For example, DOD issued requests for information (RFI) in which DOD asked questions about specific market trends, such as ensuring that certain categories of drugs are distributed through the most cost-effective mechanism. DOD also issued an RFI to obtain information on promoting competition, asking industry for opinions on the length of the contract period. DOD officials told us that responses indicated that potential offerors would prefer a longer contract period because it would allow a new contractor more time to recover any capital investment made in implementing the contract. The request for proposals for the upcoming contract, issued in June 2013, included a contract period of 1 base year and 7 option years. DOD also identified changes to contract requirements in response to legislative changes to the TRICARE pharmacy benefit. For example, the National Defense Authorization Act (NDAA) for fiscal year 2013 required DOD to implement a mail-order pilot for maintenance drugs for beneficiaries who are also enrolled in Medicare Part B. DOD officials incorporated this change in the requirements for the upcoming pharmacy services contract.

DOD has not conducted an assessment of the appropriateness of its current pharmacy services contract structure that includes an evaluation of the costs and benefits of alternative structures. Alternative structures can include incorporating all pharmacy services into the managed care support contracts—a carve-in structure—or a structure that incorporates certain components of DOD's pharmacy services, such as the mail-order pharmacy, into the managed care support contracts while maintaining a separate contract for other components. DOD officials told GAO they believe that DOD's current carve-out contract structure continues to be appropriate, as it affords more control over pharmacy data that allows for detailed data analyses and cost transparency, meets program goals, and has high beneficiary satisfaction. However, there have been significant changes in the pharmacy benefit management market in the past decade, including mergers and companies offering new services that may change the services and options available to DOD. GAO has previously reported that sound acquisition planning includes an assessment of lessons learned to identify improvements. Additionally, GAO has reported that a comparative evaluation of the costs and benefits of alternatives can provide an evidence-based rationale for why an agency has chosen a particular alternative. Without this type of evaluation, DOD cannot effectively demonstrate that it has chosen the most appropriate contract structure in terms of costs to the government and services for beneficiaries.