

United States General Accounting Office

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**GAO**

Briefing Report to the Chairman,  
Subcommittee on Defense, Committee  
on Appropriations, U.S. Senate

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March 1990

# DOD HEALTH CARE

## Funding Shortfalls in CHAMPUS, Fiscal Years 1985-91



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United States  
General Accounting Office  
Washington, D.C. 20548

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Human Resources Division

B-231236

March 19, 1990

The Honorable Daniel K. Inouye  
Chairman, Subcommittee on Defense  
Committee on Appropriations  
United States Senate

Dear Mr. Chairman:

On July 20, 1989, you requested that we identify the extent of funding shortfalls in the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) since fiscal year 1985, reasons for the shortfalls, and actions planned by the Department of Defense (DOD) to reduce CHAMPUS costs in fiscal years 1990 and 1991. Information presented in our January 24, 1990, briefing to your staff is summarized below. Additional information is in appendixes I-IV.

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## Background

The DOD medical care system consists of (1) direct care provided by the military services in over 500 military facilities and (2) CHAMPUS. The military services are required to provide needed medical care to active duty members, either through their facilities or through care purchased from civilian providers. To the extent that space, staff, and necessary resources are available, medical care may also be provided to nonactive duty beneficiaries (dependents of active duty members, retired members, their dependents, and survivors of deceased members). These beneficiaries obtain care under CHAMPUS when it is not available from a military facility or when they do not live near a facility.

From fiscal year 1985 to 1989, the growth in DOD's CHAMPUS costs has outpaced DOD direct care cost growth. This growth pattern is expected to continue into 1990 and 1991. In fiscal year 1985, CHAMPUS costs totaled over \$1.4 billion; in fiscal year 1991, they are projected to be about \$2.7 billion—a 93-percent increase. During the same period, the direct care system costs will rise to about \$11.2 billion—a 43-percent increase.

In July 1989,<sup>1</sup> we reported that the amount and cost of care provided under CHAMPUS had grown, in part, because the amount of care provided at military facilities had declined. Other reasons for CHAMPUS cost increases included an overall cost increase in providing medical care, an

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<sup>1</sup>Defense Health Care: Workload Reductions at Military Hospitals Have Increased CHAMPUS Costs (GAO/HRD-89-47, July 10, 1989).

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increase in the number of beneficiaries, and an increase in the rate at which beneficiaries use CHAMPUS.

## Scope and Methodology

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We reviewed (1) DOD documents detailing CHAMPUS budget estimates and appropriations and actual expenditures since fiscal year 1985, (2) policy decisions affecting budget estimates, and (3) information developed by DOD on its efforts to reduce CHAMPUS costs. Also, we interviewed officials from the Office of the Assistant Secretary of Defense for Health Affairs and the Office of CHAMPUS, Aurora, Colorado.

Our work was conducted between July 1989 and January 1990.

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## Results in Brief

For the past 5 fiscal years, 1985-89, CHAMPUS has experienced funding shortfalls totaling \$1.8 billion. (A shortfall is the difference between the appropriated amount before supplemental appropriations and actual costs.) An additional \$441 million funding shortfall is expected in fiscal year 1990. In fiscal year 1991, DOD estimates there will be no shortfall because of steps it is taking to reduce CHAMPUS costs.

In every year since 1986, DOD has requested less funds in its budget than it estimated the program was going to cost. These lower estimates have been a major contributor to the yearly CHAMPUS funding shortfalls. In addition, each year the Congress appropriates less funds than DOD requests. Other reasons contributed to the shortfalls in some years, including unexpected start-up costs for the CHAMPUS Reform Initiative<sup>2</sup> and congressional direction that DOD fund CHAMPUS care to Coast Guard beneficiaries.

These shortfalls have been financed by reprogramming funds from other DOD activities to CHAMPUS, supplemental appropriations, and/or carryover of claims to subsequent fiscal years.

In an attempt to reduce CHAMPUS costs, DOD has initiated numerous efforts aimed at accommodating more of the CHAMPUS work load in the direct care system. DOD's estimates of future CHAMPUS costs anticipate substantial savings from these efforts. Should such efforts fail to produce the savings anticipated, DOD may continue to experience substantial shortfalls.

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<sup>2</sup>A managed-care demonstration project in California and Hawaii whose purpose is to improve basic health care services for military beneficiaries while containing CHAMPUS costs.

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## Agency Views

As requested by your office, we did not obtain written agency comments on this briefing report. We did, however, discuss its contents with officials of the Office of the Assistant Secretary of Defense for Health Affairs and incorporated their comments where appropriate.

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As arranged with your office, we plan to distribute copies of this report to the Senate and House Committees on Armed Services; House Committee on Appropriations; the Director, Office of Management and Budget; the Secretary of Defense; and other interested parties. We also will make copies available to others upon request. If you have questions regarding this report, I can be reached on (202) 275-6207. Other major contributors to this report are listed in appendix V.

Sincerely yours,



David P. Baine  
Director, Federal Health  
Care Delivery Issues

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**Abbreviations**

CHAMPUS Civilian Health and Medical Program of the Uniformed  
Services

DOD Department of Defense

GAO General Accounting Office

# CHAMPUS Budget Shortfalls

The CHAMPUS funding shortfalls for fiscal years 1985-89 total \$1.8 billion, with an added \$441 million projected for 1990 (see table I.1).

**Table I.1: CHAMPUS Shortfalls** (Fiscal Years 1985-91)

Dollars in millions

<b>Fiscal year</b>	<b>Total shortfall</b>	<b>Appropriation</b>
1985	\$27.3	\$1,336
1986	360.0	1,346
1987	610.7	1,465
1988	529.0	2,027
1989	252.0	2,467
1990	441.4 <sup>a</sup>	2,393
1991	<sup>b</sup>	<sup>b</sup>

<sup>a</sup>DOD estimate.

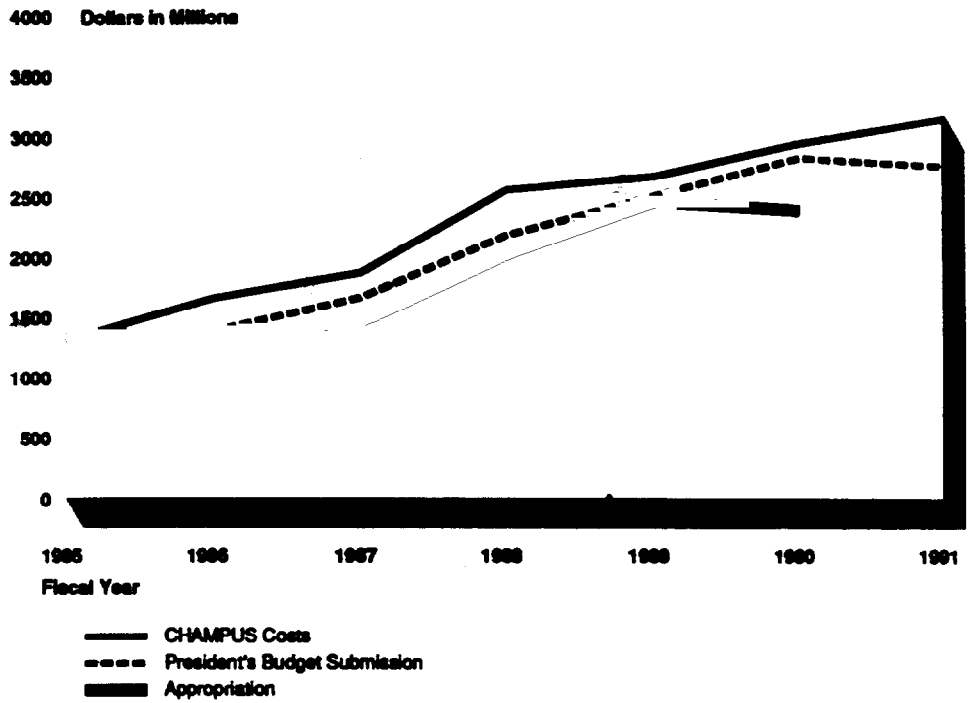
<sup>b</sup>Not applicable.

CHAMPUS actual costs for fiscal years 1986-89 exceeded both the President's budget submission and final appropriations, as figure I.1 shows. Although a shortfall is currently projected for fiscal year 1990, DOD anticipates that savings efforts will significantly reduce the projection by increasing the portion of care provided in the direct care system. For fiscal year 1991, the expected shortfall was eliminated because DOD policy now requires the services to request appropriations equal to the total amount of CHAMPUS funding needed, based on its estimated program requirements.



Appendix I  
CHAMPUS Budget Shortfalls

Figure I.1: Comparison of CHAMPUS Costs, President's Budget Submissions, and Appropriations (Fiscal Years 1985-91)



Note: CHAMPUS costs are projected for fiscal years 1990-91. President's budget submission is projected for fiscal year 1991. Appropriations are unavailable for fiscal year 1991.

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# Reasons for CHAMPUS Shortfalls

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Most of the CHAMPUS shortfalls are attributable to unanticipated and unbudgeted growth in the program (see fig. II.1). For example, in fiscal years 1985-87, during which shortfalls totaled \$998 million, CHAMPUS costs increased about \$700 million. In our July 1989 report, we noted that most of the cost increase was the cumulative result of a general decrease in work load at military facilities. For example, at these facilities, the CHAMPUS inpatient work load decreased about 11 percent and the outpatient work load, 10 percent over fiscal years 1985-87.

In some cases, this program growth resulted in expenditures being carried over and funded from the next year's appropriation. This in turn increased the shortfall in the subsequent year, specifically fiscal years 1985, 1987, and 1989. Other reasons for the shortfalls included the following:

- Start-up costs of \$100 million and \$52 million for the CHAMPUS Reform Initiative for fiscal years 1988 and 1989, respectively.
- Funding of CHAMPUS benefits for Coast Guard beneficiaries amounting to \$23 million for fiscal year 1988 and \$50 million for 1989. Previously, these benefits were included in the Coast Guard budget, but the Congress directed DOD to fund these services for these years.
- Congressional reduction in the CHAMPUS budget requests each year.

Figure II.1

**GAO** **Reasons for Shortfalls**  
**(Fiscal Years 1985-91)**

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- Mainly unanticipated and unbudgeted program growth
- Decrease in direct care work load
- Carryover of unpaid claims
- CHAMPUS Reform Initiative start-up costs

# Financing the Shortfalls

Procedures to restrain budget growth, that is cancellation or cutbacks in programs, are not available to CHAMPUS. The costs incurred when such services are delivered must be paid.

Thus, other sources of funding must be found if CHAMPUS is unable to pay for care out of its existing appropriation. CHAMPUS budget shortfalls are financed in various ways, DOD told us (see table III.1). They include

- reprogramming of funds (transfer of appropriated funds from other DOD activities) to CHAMPUS,
- supplemental appropriations, and/or
- carryover of unpaid claims into the subsequent fiscal year.

**Table III.1: How CHAMPUS Shortfalls Were Financed** (Fiscal Years 1985-89)

Dollars in millions				
Fiscal year	Budget shortfall	Financing method		
		Reprogramming	Supplemental appropriation	Carryover to next year
1985	\$27.3	•	•	\$27.3
1986	360.0	\$100.0	\$260.0	•
1987	610.7	•	425.0	185.7
1988	529.0	529.0	•	•
1989	252.0	152.3	•	99.7

# DOD Initiatives to Reduce CHAMPUS Costs

As part of its strategy to reduce CHAMPUS costs, DOD plans to add resources to the military's direct care system in fiscal years 1990-91 (see fig. IV.1). In this way, the direct care system can provide more medical care to beneficiaries rather than using CHAMPUS. Since the services state that CHAMPUS care is more expensive than care in the direct care system, they expect to avoid \$1.40 to \$2.00 in CHAMPUS care for each \$1.00 invested in the direct care system.

Each of the services is planning initiatives in accordance with DOD's strategy. The Army initiatives rely heavily on Army-wide increases in clinical support personnel to assist physician staff. The Navy plans to recapture the CHAMPUS work load by awarding a wide range of health care contracts to retain current functions, such as emergency services and primary care. The Air Force plans to use various contracts and to increase civilian health care staff.

Projected CHAMPUS savings from these initiatives are significant—about \$200 million and \$313 million in fiscal years 1990 and 1991, respectively (see table IV.1). If the initiatives do not achieve these savings, the projected shortfall for fiscal year 1990 will be even more significant and a shortfall may develop in 1991.

**Table IV.1: Estimated CHAMPUS Savings From Direct Care Initiatives (Fiscal Years 1990-91)**

Dollars in millions

Fiscal year	Service	Projected CHAMPUS shortfall	Savings initiatives	Estimated shortfall after savings initiatives
1990	Army	\$205.6	\$21.5	\$184.1
	Navy	209.8	126.2	83.6
	Air Force	226.3	52.6	173.7
	<b>Total</b>	<b>\$641.7</b>	<b>\$200.3</b>	<b>\$441.4</b>
	1991	Army	\$58.0	\$58.0
	Navy	201.2	201.2	0
	Air Force	54.1	54.1	0
	<b>Total</b>	<b>\$313.3</b>	<b>\$313.3</b>	<b>\$0</b>

Figure IV.1

**GAO** Efforts to Reduce  
CHAMPUS Costs

- Plans to invest additional resources in the direct care system
- DOD estimates it will avoid \$1.40 to \$2.00 in CHAMPUS costs per \$1.00 invested in direct care
- FY 1990-91 estimated savings of \$200-313 million

# Major Contributors to This Briefing Report

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