



Insight

# TRICARE: The Military's Health Care System

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The Department of Defense (DOD) provides health care for 9.5 million military service members, retirees, and family members through military treatment facilities (MTFs) and a self-funded, self-administered insurance program called TRICARE.<sup>[1]</sup> The mission of the military health care system is to maintain the health of military personnel, and their families, so that they are capable of carrying out their missions, and to ensure that military medical personnel are prepared to deliver all necessary health care services to any service member injured in battle.

Health care is provided to active duty service members at no cost to the individual. Family members of active duty service members pay almost none of their health care costs and receive second priority (ahead of reservists, retirees, and retirees' family members) in military health facilities; the purpose of providing such priority and keeping the cost-share to families so low is to help ensure service members are not distracted from their mission with worries over the health of a loved one or their family's financial situation. Retirees and their family members are also eligible for care as a lifetime benefit for serving in the military for 20-plus years. Veterans who served less than 20 years, and thus do not officially qualify as a "retiree", may receive health care through the Veterans Health Administration.<sup>[2]</sup>

## TRICARE Plan Summary: Eligible Beneficiaries, Coverage, and Costs

TRICARE has four main benefit plans: TRICARE Prime, TRICARE Standard, TRICARE Extra, and TRICARE for Life (TFL). The TRICARE Pharmacy Benefits Program, the TRICARE Dental Program, and the Extended Care Health Option (ECHO) provide supplemental benefits to the main plans.<sup>[3]</sup>

### TRICARE Prime

TRICARE Prime essentially functions as a health maintenance organization (HMO) plan, where beneficiaries have a designated primary care provider (PCP) who manages care and facilitates referrals to specialists. There is no annual deductible, but there is an annual enrollment fee (similar to a premium); this fee is applied to the annual catastrophic out-of-pocket limit. For FY2015, the fee is \$278 for individuals and \$556 for a family. Active duty service members—who are required to use TRICARE Prime—and their families are exempt from paying the annual enrollment fee. Active duty family members using TRICARE Prime also receive care at no cost, unless using the Point-of-Service (POS) option.<sup>[4]</sup> (*POS option may be used to see a specialist without referral from PCP or for urgent care services outside an MTF, which provide faster access to care.*) Retired service members and their families pay nothing for clinical preventive services, but they do owe a \$12 copay for outpatient visits. In FY2014, 4.9 million individuals were enrolled in TRICARE Prime, including 1.6 million retirees and their family members.<sup>[5]</sup>

### TRICARE Standard

TRICARE Standard is a traditional fee-for-service (FFS) plan that does not require beneficiaries to enroll in order to participate, and does not restrict service coverage to a network of providers. Beneficiaries using TRICARE Standard face an annual deductible and cost-sharing based on the eligible service member's status (active, retired, or reserve) and pay grade. In FY2015, for service members at pay-grades of E-5 and above, the deductible is \$150 for individuals and \$300 for a family; for service members at E-4 and below, the deductible is \$50 for an individual and \$100 for families.<sup>[6]</sup> Cost-sharing for active duty family members and TRICARE Reserve Select (TRS) beneficiaries is typically 20 percent after the deductible is met; cost-sharing for retirees, their families, and all others is typically 25 percent after the deductible.<sup>[7]</sup> Under TRICARE Standard, beneficiaries may receive care from authorized out-of-network civilian providers (as opposed to in-network providers as available through TRICARE Extra; see below). Medicare-eligible beneficiaries may use TRICARE Standard for services covered by TRICARE but not Medicare.

## **TRICARE Extra**

TRICARE Extra is a preferred provider network plan available to TRICARE Standard-eligible beneficiaries. It also has no formal enrollment requirements. In-network providers receive a reduced payment from TRICARE compared with out-of-network providers and must file all claims for participants. Beneficiaries using preferred providers are still responsible for meeting their deductible as applies under the TRICARE Standard benefit, but the cost sharing is reduced by 5 percent.<sup>[8]</sup>

## **TRICARE for Life (TFL)**

TRICARE for Life (TFL) is a supplemental Medicare plan for Medicare-eligible retirees. TFL functions as a secondary payer to Medicare and covers out-of-pocket costs for medical services covered under Medicare for beneficiaries entitled to Medicare Part A benefits. Beneficiaries must enroll in and pay premiums for Medicare Part B, but there is no TFL enrollment cost and cost-sharing is limited. TFL may cover additional services that Medicare does not cover, similar to a Medicare Advantage plan. More than 2 million retirees and their family members are enrolled in TRICARE for Life.<sup>[9]</sup>

## **Extended Care Health Option (ECHO)**

Another program which supplements TRICARE is the Extended Care Health Option (ECHO). ECHO provides benefits not covered by TRICARE that are typically needed by individuals with special physical or educational needs. Eligibility for ECHO is generally limited to family members of active duty service members or activated National Guard/Reserve members. An eligible individual must have a qualifying condition and enroll in the Exceptional Family Member Program (EFMP) in order to receive ECHO benefits.<sup>[10]</sup> There is no enrollment fee, but monthly cost-sharing based on the service member's pay-grade must be paid by the beneficiary.<sup>[11]</sup> The total government cost share for ECHO benefits, excluding the ECHO Home Health Care benefit, is capped at \$36,000 annually per beneficiary.

## **Pharmacy Benefits Program**

The Pharmacy Benefits Program allows all TRICARE beneficiaries to obtain prescription drugs through MTFs, retail pharmacies, or a national mail order plan. Prescriptions filled at MTFs are done so at no cost to the beneficiary.<sup>[12]</sup> However, while MTFs are required to stock a subset of the Uniform Formulary, non-formulary drugs are generally not available at MTFs. Beneficiaries may also fill prescriptions at retail pharmacies or through mail-order; copayments are required when filling prescriptions outside an MTF, except for generics

filled through mail-order. Active duty service members receive full reimbursement after they file a claim. DOD requires prescriptions be filled with generics, when available, and pharmaceuticals, as of 2008, are subject to federal pricing standards, established under the Veterans Health Care Act of 1992, which require a minimum 24 percent discount off non-federal average manufacturer prices.<sup>[13]</sup>

## Catastrophic Out-of-Pocket Caps

There is a catastrophic cap on what an individual or family pays each fiscal year for covered TRICARE services that helps to ensure beneficiaries do not face financial hardship due to medical expenses. These caps are \$1,000 for active duty family members and TRS enrollees, and \$3,000 for all others. It should be noted that premium payments for TRS, TRR, and TYA, and point-of-service deductibles and cost-share amounts are not creditable against the cap.<sup>[14]</sup>

## Defense Health Care Costs: Long-Term Trends

Health care costs for the DOD are expected to rise over the next decade, despite the decreasing number of active duty personnel.<sup>[15]</sup> This is largely due to fewer deaths but more injuries in war, and retirees living longer and utilizing more health care services while paying for a smaller portion of that care relative to when the TRICARE program was first implemented. According to the Congressional Budget Office (CBO), before sequestration, costs were expected to grow from \$52 billion in 2012 to \$65 billion in FY2017 and \$95 billion by FY2030. <sup>[16]</sup> However, budget caps put in place by the Budget Control Act of 2011 (BCA) resulted in cuts to the defense budget which have slightly reduced these costs. In 2015, \$48.5 billion was authorized for DOD health care expenditures.<sup>[17]</sup> The Senate's version of the National Defense Authorization Act (NDAA) for FY16 authorizes \$32 billion for the Defense Health Program and \$15 billion for TRICARE.<sup>[18]</sup> However, some policymakers are advocating for a budget compromise to allow spending above the caps; doing so would presumably allow these costs to begin rising again as previously projected.

The expected rise in costs is partially due to general inflation in health care costs, but is primarily the result of DOD becoming responsible for an ever-growing percentage of the cost. Between 1999 and 2013, the annual enrollment fee for TRICARE Prime rose 17 percent; by contrast, annual premiums for private sector workers rose 196 percent over the same period.<sup>[19]</sup> Retirees and their families represented 5.37 million of the 9.6 million beneficiaries in 2014, and are projected to account for 65 percent of DOD health care costs by 2015.<sup>[20]</sup> In 1996, non-Medicare eligible retirees were responsible for 27 percent of their health care costs; by 2014, the cost-share for these individuals had fallen to 4-5 percent for individuals and 5-6 percent for families.<sup>[21]</sup> Given that retirees and their family members account for more than half of the total beneficiaries and that TRICARE beneficiaries utilize both inpatient and outpatient care at significantly higher rates than people with other insurance—50 percent more outpatient services than a civilian of comparable age receiving care through an HMO<sup>[22]</sup>—it is not surprising that DOD's health care costs are expected to rise so substantially.

While both DOD and CBO project military health care costs will continue to rise, they disagree over how much costs will rise, and that disagreement has been a problem in itself because of how the BCA mandatory cuts are calculated. CBO projected DOD's health care costs to average 6 percent annual growth from FY2012 to FY2017, while DOD predicts average growth of only 2.6 percent annually. <sup>[23]</sup> Because Congress used DOD's projections to determine sequestration amounts in the BCA, defense funding has been capped between 2014 and 2021 at roughly 10 percent below what CBO projected in November 2013 will be the true cost of DOD's plans. <sup>[24]</sup> Thus, the cut is much more severe than Congress may have intended for it to be and may have more drastic effects than people realize.

## Conclusion

Lawmakers have been under great pressure over the past several years to control government spending and work towards reducing the national debt. As such, many have discussed the need for entitlement reform. However, few are willing to discuss benefit changes for the men and women, and their families, who sacrifice so much every day to protect our country and our freedoms. The reality, though, is that sequestration and the BCA spending caps are already having an impact. Left as is, TRICARE—like the other entitlement programs—will continue to fall victim to the fiscal constraints of the federal budget, unable to provide the benefits promised to its beneficiaries. Targeted, thoughtful reforms could be implemented to modernize the program and provide the quality care our troops and their families deserve within the budget realities currently facing our nation.

<sup>[1]</sup>[Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2015 Report to Congress.](#)