



UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, DC 20301-4000

PERSONNEL AND
READINESS

JUL 22 2011

The Honorable Carl Levin
Chairman, Committee on Armed Services
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

The Department is pleased to forward the enclosed report regarding the feasibility of TRICARE Prime in certain commonwealths and territories of the United States, as requested in page 316 of House Report 111-491 to accompany H.R. 5136, the National Defense Authorization Act for Fiscal Year 2011.

The report was due to the congressional defense committees by July 6, 2011, and I apologize for the delay in submission. The report identifies the numbers and locations of beneficiaries that would be affected by the proposed change, as well as an analysis of the cost impact and feasibility of implementing this change on the current TRICARE Overseas Program contract. The study concluded that this action, if adopted, would result in a net increase of \$29.7 million annually.

A similar letter has been sent to the other congressional defense committees. Thank you for your interest in the health and well-being of our Service members, veterans, and their families.

Sincerely,

A handwritten signature in black ink that reads "Clifford L. Stanley". The signature is written in a cursive style with a large, sweeping flourish at the end.

Clifford L. Stanley

Enclosure:
As stated

cc:
The Honorable John McCain
Ranking Member



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JUL 22 2011

The Honorable Jim Webb
Chairman, Subcommittee on Personnel
Committee on Armed Services
United States Senate
Washington, DC 20510

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The Honorable Lindsey Graham
Ranking Member



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The Honorable Daniel K. Inouye
Chairman, Committee on Appropriations
United States Senate
Washington, DC 20510

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The Honorable Thad Cochran
Vice Chairman



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JUL 22 2011

The Honorable Howard P. "Buck" McKeon
Chairman, Committee on Armed Services
U.S. House of Representatives
Washington, DC 20515

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The Honorable Adam Smith
Ranking Member



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PERSONNEL AND
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JUL 22 2011

The Honorable Joe Wilson
Chairman
Subcommittee on Military Personnel
Committee on Armed Services
U.S. House of Representatives
Washington, DC 20515

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The Honorable Susan A. Davis
Ranking Member



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The Honorable Harold Rogers
Chairman
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

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The Honorable Norman D. Dicks
Ranking Member



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The Honorable C. W. Bill Young
Chairman
Subcommittee on Defense
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

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**REPORT TO CONGRESS
ON
FEASIBILITY OF TRICARE PRIME IN CERTAIN
COMMONWEALTHS AND TERRITORIES OF THE UNITED
STATES**

**Pursuant to House Report 111-491,
to Accompany H.R. 5136, the
National Defense Authorization Act for Fiscal Year 2011,**

May 2011

Preparation of this study/report
cost the Department of Defense a
total of approximately \$5,710 for
the 2011 Fiscal Year.
RefID: B-152FDAA

**Department of Defense
Report to Congress**

**Feasibility of TRICARE Prime in Certain Commonwealth and Territories of the
United States
May 2011**

Introduction

TRICARE Prime is available to eligible beneficiaries at selected locations worldwide. House Report 111-491 to accompany H.R. 5136, the National Defense Authorization Act (NDAA) for Fiscal Year 2011, requests that the Secretary of Defense conduct a study examining the feasibility and cost-effectiveness of offering TRICARE Prime to all beneficiaries in the Territory of Guam, the Commonwealth of Puerto Rico, the United States Virgin Islands, the Territory of American Samoa, and the Commonwealth of the Northern Marianas Islands and to submit a report on the study to the congressional defense committees within 180 days of the date of enactment of the NDAA for Fiscal Year 2011.

Background

Title 10, U.S.C., Section 1097(b)(3), provides authority for the Secretary of Defense to determine the availability of TRICARE Prime to beneficiaries who reside in designated geographic locations. In locations outside the fifty United States and the District of Columbia, TRICARE Prime enrollment is limited to the following beneficiary categories:

- Active duty service members (ADSMs) who are permanently assigned to an overseas duty location (including Reserve Component ADSMs who are called to active duty for more than 30 consecutive days with a final assignment to an overseas duty station);
- Command-sponsored active duty family members (ADFMs) (including ADFMs on Permanent Change of Station (PCS) orders to accompany the sponsor overseas); ADFMs on service-funded orders or a Noncombatant Evacuation Order (NEO) to relocate overseas without the sponsor; and overseas Prime-enrolled ADFMs whose sponsors are reassigned on unaccompanied PCS orders to a location that does not permit command sponsorship (not to exceed two years; ADFMs may not relocate during the sponsor's PCS move);
- ADFMs who resided in an overseas location prior to the activation/mobilization of a Reserve Component sponsor, as demonstrated by the residential mailing address of the sponsor prior to activation/mobilization; and
- Eligible transitional survivors, regardless of whether they remain at their original residence or relocate to another overseas location (TRICARE Prime eligibility continues for the duration of the transitional survivor period).

Non-command sponsored ADFMs, retirees, and retiree family members are not eligible for TRICARE Prime enrollment in any overseas location, including the U.S. commonwealths and territories. These individuals utilize TRICARE Standard (a fee-for-service plan with annual deductibles and cost shares); or if they reside in a U.S. commonwealth or territory and have dual eligibility under Medicare and TRICARE, they are eligible for TRICARE for Life. TRICARE Extra is not available in any overseas location, including the U.S. commonwealths and territories.

In overseas locations, TRICARE Prime enrollees receive “cashless, claimless” service when they obtain authorized care from local civilian providers or facilities. The “cashless, claimless” benefit ensures that a TRICARE Prime enrollee does not incur any out-of-pocket expenses at the time care is rendered, and that the provider or facility will file the TRICARE claim on their behalf. The TRICARE Overseas Program (TOP) contractor accomplishes this “cashless, claimless” benefit via the issuance of a guarantee of payment or other business arrangement between the contractor and the provider or facility. In overseas locations, non-Prime beneficiaries are often expected to pay for their care in full when services are rendered, and then must file a claim with TRICARE for reimbursement (less any applicable deductibles or cost shares). This process is a source of complaints from non-command sponsored ADFMs, retirees, and retiree family members, and is frequently cited as a reason for expanding the availability of TRICARE Prime to all eligible beneficiaries.

The long-standing limitation regarding TRICARE Prime enrollment in overseas locations derives from the limited number and capacity of Military Treatment Facilities (MTFs) and staff in overseas locations, coupled with their mission-critical requirement to provide Prime coverage for ADSMs as their first priority, and to command-sponsored ADFMs as their second priority. Also, establishing and maintaining large private sector TRICARE Prime networks is a challenging and costly task in overseas locations.

Current Health Care Delivery Process in U.S. Commonwealths and Territories

There are three military outpatient clinics on the island of Puerto Rico. The Rodriguez Army Health Clinic and San Juan Clinic provide health care to ADSMs, while the Coast Guard Clinic at Borinquen provides health care to ADSMs and some ADFMs. There is no additional capacity at these three clinics to accommodate non-command sponsored ADFMs, retirees, or retiree family members. These beneficiaries currently receive all of their health care from local civilian providers and facilities using their TRICARE Standard benefits (or, if dual-eligible, their TRICARE for Life benefits).

Andersen Air Force Base in Guam has a small outpatient clinic which provides primary care and pharmacy services, but specialty care services are extremely limited. Most specialty care, and all inpatient care, must be referred to U.S. Naval Hospital Guam or to a civilian provider or facility. Space-available care is offered to non-command sponsored ADFMs, retirees, and retiree family members at Andersen Air Force Base Clinic and U.S. Naval Hospital Guam; however, the demand often exceeds capacity. When direct care services are not available, these beneficiaries receive their health care from local civilian providers and facilities using their TRICARE Standard benefits (or, if dual-eligible, their TRICARE for Life benefits).

There are no military health clinics offering services to non-command sponsored ADFMs, retirees, or retiree family members in the United States Virgin Islands, the Territory of American Samoa, and the Commonwealth of the Northern Marianas Islands. These beneficiaries currently receive all of their health care from local civilian providers and facilities using their TRICARE Standard benefits (or, if dual-eligible, their TRICARE for Life benefits).

Cost-Effectiveness Issues Regarding the Establishment of TRICARE Prime in Certain U.S. Commonwealths and Territories

An Independent Government Cost Estimate (IGCE) was requested to determine a cost estimate for offering TRICARE Prime to non-command sponsored ADFMs, retirees, and retiree family members in the commonwealths and territories identified in the House Report 111-491. The IGCE considered the potential impact on both administrative contract costs and health care costs. Administrative costs would include such tasks as additional enrollment, further network development, and member services. Health care costs would include those costs that would result from attracting TRICARE eligible reliant who are not currently Military Health System (MHS) users as well as the increased government cost of shifting from TRICARE Standard to Prime for those who enroll.

Currently there are approximately 21,790 TRICARE eligible retirees and family members under the age of 65 residing in the U.S. territories. Of these, approximately 15,450 of these reside in Puerto Rico; 5,650 reside in Guam; 670 reside in the U.S. Virgin Islands, and 20 reside in American Samoa and the Northern Marianas Islands. In Puerto Rico, there are approximately 6,700 ADFMs who are not enrolled in Prime; 1,800 in Guam; 120 in the U.S. Virgin Islands, and 20 in America Samoa and the Northern Marianas Islands. Based on projected enrollment/utilization estimates by location, the estimated total increase in annual cost for adding the TRICARE Prime benefit to retirees, retiree family members, and non-command sponsored ADFMs is \$32.2 million. There would be an offset of \$2.5 million for TRICARE Prime enrollment fees that would be collected from retirees and retiree family members. This would result in an estimated annual net increase of about \$29.7 million for administrative and health care costs for this population.

Feasibility Issues Regarding the Establishment of TRICARE Prime in Certain U.S. Commonwealths and Territories

It would not be feasible to modify the current TOP contract to establish TRICARE Prime in certain U.S. commonwealths and territories. The current contract was awarded on October 16, 2009; the contract included a 10-month transition period and five option periods. If all options are exercised, the contract will expire on 31 August 2015. When the current contract was competed, the solicitation expressly stated that TRICARE Prime would not be offered to non-command sponsored ADFMs, retirees, and retiree family members residing overseas (including all U.S. commonwealths and territories). Since the establishment of Prime for these beneficiaries was not contemplated in the scope of work, the addition of such a requirement to the current contract is a significant modification which could potentially expose the Government to litigation, since the solicitation for the original contract did not advise offerors of this potential

change. To avoid this risk and to fully comply with the intent of the Competition in Contracting Act (CICA), a new solicitation for the TOP contract would need to be issued to properly incorporate a requirement for TRICARE Prime in certain U.S. commonwealths and territories for all beneficiary categories. The addition of this requirement to a new contract may result in increased administrative costs due to the impact on provider network development, enrollment processing, claims system programming, and customer service. Also, depending on the desired implementation date of the change, there could be additional costs related to the early procurement action and/or termination of the current contract for the convenience of the Government.

In addition to the contracting issues and risks described above, there is also a concern that establishing TRICARE Prime in certain U.S. commonwealths and territories for all beneficiary categories could lead to beneficiary dissatisfaction in other overseas locations. It could appear that the Department was offering TRICARE Prime to non-command sponsored ADFMs, retirees, and retiree family members in some overseas locations and ignoring similar requests from beneficiaries elsewhere. To ensure a uniform benefit, TRICARE Prime would have to be offered to eligible beneficiaries in all overseas locations, which would further increase the cost impact of this proposed change.

It should be noted that there are many areas in the 50 United States where TRICARE Prime is not available. There are no MTFs or Base Realignment and Closure (BRAC) locations in the U.S. Virgin Islands, the Territory of American Samoa, and the Commonwealth of the Northern Marianas Islands. If TRICARE Prime were established in these locations, this request would set precedence for establishing TRICARE Prime anywhere. If implemented, this would be more generous than the TRICARE Managed Care Support Contract model for Prime Service Areas in the United States.

Summary

Incorporating TRICARE Prime in certain U.S. commonwealths and territories for all beneficiary categories would result in an estimated \$29.7M annual increase in costs. Implementation of this requirement would not be feasible under the current TOP contract since the solicitation for the original contract did not advise offerors of the potential of this change. Establishing TRICARE Prime in certain U.S. commonwealths and territories for all beneficiary categories could lead to beneficiary dissatisfaction in other overseas locations, and it would offer a benefit that is more generous than is available in the United States where the Prime benefit is limited to MTF and BRAC locations.