UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, DC 20301-4000
PERSONNEL AND READINESS

PERSONNEL AND READINESS

FEB 28 2012

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

Dear Mr. Chairman:

The enclosed report responds to Public Law 112-81, the National Defense Authorization Act for Fiscal Year 2012. The committee requested the Secretary of Defense study the feasibility of maintaining the same cost share for the initial dispensing of acute care medications filled in areas distant from a military treatment facility (MTF) as if they were dispensed through the TRICARE Mail Order Pharmacy. The committee further requested a report on the findings and recommendations by March 30, 2012.

Our analysis shows that prescriptions filled at retail pharmacies are almost equally split between beneficiaries who reside greater than 40 miles from an MTF and those who reside within 40 miles of an MTF. It appears that personal choice, convenience and formulary availability—not proximity to an MTF—are the determining factors in using a retail pharmacy. The increase in copayments (effective October 1, 2011) will add \$2 per prescription, or \$6 per year, to the average beneficiary cost share. If copayments are adjusted to the levels suggested by the committee, the Department of Defense (DoD) stands to lose approximately \$49 million in revenue per year, which averages out to a \$5.10 increase in the DoD per-member-per-year cost in order to save a specific group of beneficiaries \$6 per year.

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

Sincerely,

Jo Ann Rooney
Acting

Enclosure:
As stated

cc:
The Honorable John McCain
Ranking Member

PERSONNEL AND READINESS

UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, DC 20301-4000
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FEB 28 2012

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

Dear Mr. Chairman:

The enclosed report responds to Public Law 112-81, the National Defense Authorization Act for Fiscal Year 2012. The committee requested the Secretary of Defense study the feasibility of maintaining the same cost share for the initial dispensing of acute care medications filled in areas distant from a military treatment facility (MTF) as if they were dispensed through the TRICARE Mail Order Pharmacy. The committee further requested a report on the findings and recommendations by March 30, 2012.

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Sincerely,

Jo Ann Rooney
Acting

Enclosure:
As stated

cc:
The Honorable Lindsey O. Graham
Ranking Member

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FEB 28 2012

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

Dear Mr. Chairman:

The enclosed report responds to Public Law 112-81, the National Defense Authorization Act for Fiscal Year 2012. The committee requested the Secretary of Defense study the feasibility of maintaining the same cost share for the initial dispensing of acute care medications filled in areas distant from a military treatment facility (MTF) as if they were dispensed through the TRICARE Mail Order Pharmacy. The committee further requested a report on the findings and recommendations by March 30, 2012.

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Sincerely,

Jo Ann Rooney
Acting

Enclosure:
As stated

cc:
The Honorable Adam Smith
Ranking Member

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FEB 28 2012

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

Dear Mr. Chairman:

The enclosed report responds to Public Law 112-81, the National Defense Authorization Act for Fiscal Year 2012. The committee requested the Secretary of Defense study the feasibility of maintaining the same cost share for the initial dispensing of acute care medications filled in areas distant from a military treatment facility (MTF) as if they were dispensed through the TRICARE Mail Order Pharmacy. The committee further requested a report on the findings and recommendations by March 30, 2012.

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Sincerely,

Jo Ann Rooney
Acting

Enclosure:
As stated

cc:
The Honorable Susan A. Davis
Ranking Member

UNDER SECRETARY OF DEFENSE
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PERSONNEL AND READINESS

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FEB 28 2012

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

Dear Mr. Chairman:

The enclosed report responds to Public Law 112-81, the National Defense Authorization Act for Fiscal Year 2012. The committee requested the Secretary of Defense study the feasibility of maintaining the same cost share for the initial dispensing of acute care medications filled in areas distant from a military treatment facility (MTF) as if they were dispensed through the TRICARE Mail Order Pharmacy. The committee further requested a report on the findings and recommendations by March 30, 2012.

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Sincerely,

Jo Ann Rooney
Acting

Enclosure:
As stated

cc:
The Honorable Thad Cochran
Vice Chairman

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FEB 28 2012

The Honorable Daniel K. Inouye
Chairman
Subcommitte on Defense
Committee on Appropriations
U.S. House of Representatives
Washingtron, DC 20510

Dear Mr. Chairman:

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Sincerely,

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The Honorable Thad Cochran
Vice Chairman

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FEB 08 2012

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

Dear Mr. Chairman:

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Sincerely,

Jo Ann Rooney
Acting

Enclosure:
As stated

cc:
The Honorable Norman D. Dicks
Ranking Member

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PERSONNEL AND READINESS

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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

FEB 28 2012

Dear Mr. Chairman:

The enclosed report responds to Public Law 112-81, the National Defense Authorization Act for Fiscal Year 2012. The committee requested the Secretary of Defense study the feasibility of maintaining the same cost share for the initial dispensing of acute care medications filled in areas distant from a military treatment facility (MTF) as if they were dispensed through the TRICARE Mail Order Pharmacy. The committee further requested a report on the findings and recommendations by March 30, 2012.

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Sincerely,

Jo Ann Rooney
Acting

Enclosure:
As stated

cc:
The Honorable Norman D. Dicks
Ranking Member

Report to Congress

On the Cost Share for Acute Care Prescriptions under the TRICARE Pharmacy Program

House Report 112-78, Page 156, to Accompany H.R. 1540, the National Defense Authorization Act

for

Fiscal Year 2012

Preparation of this study/report cost the
Department of Defense a total of
approximately $ 3,360
in Fiscal Years 2011 and 2012

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BACKGROUND:

Report language of House Report 112-78, page 156, accompanying H.R. 1540, the National Defense Authorization Act for Fiscal Year 2012 (NDAA 2012), requested the Secretary of Defense study the feasibility of maintaining the same cost share for the initial dispensing of acute care medications filled outside of a military treatment facility (MTF) for those who live in areas distant from an MTF as if they were dispensed through the TRICARE Mail Order Pharmacy. The committee further requested the Secretary of Defense to submit a report on the findings and recommendations by March 30, 2012.

Increased Department of Defense (DoD) pharmacy copayments went into effect on October 1, 2011. The retail copayment for generics increased from $3 to $5, and for brand-name formulary agents it increased from $9 to $12. Copayments for nonformulary (non-preferred) drugs in retail rose from $22 to $25. In mail order, generic copayments dropped to $0; brand-name formulary agents stayed at $9, and nonformulary agents increased to $25.

The primary concern of the Committee is that as a result of the increased retail pharmacy copayments, those who live in areas distant from an MTF will have difficulty meeting the copayments for acute medications at retail, ($5 for generic, $9 for brand-name). To analyze the impact of this concept, the DoD Pharmacoeconmic Center (PEC) used the 40-mile catchment area (an area usually within an approximate 40-mile radius) of an MTF as the designated distance for obtaining data for an analysis.

DATA:

Approximately 3.2 million beneficiaries reside outside a 40-mile catchment area of Uniformed Services MTFs. These same beneficiaries received 9.8 million retail prescriptions for acute conditions from August 2010 to July 2011. Of these 9.8 million acute prescriptions, 85 percent were for retirees and their family members, and 15 percent were for active duty and their family members. A grand total of 18.4 million acute prescriptions were filled in retail pharmacy by all DoD beneficiaries during that same time frame, meaning that almost half of all acute retail prescriptions (8.6 million) are filled for beneficiaries who reside within a 40-mile catchment area of an MTF but choose to use a retail pharmacy.

Prescription data from the DoD's Pharmacy Data Transaction Service (PDTS) shows that on average, patients who reside greater than 40 miles from an MTF received 3 generics and no branded products in retail in a one-year period. Their total cost share for those 3 generics was $3 per prescription or $9 total for the year. The revenue to DoD for those cost shares was $29.4M per year prior to the copayment increase on October 1, 2011, and is estimated to be $49 million per year thereafter. The increase in copayments effective October 1, 2011, will add $2 per prescription or $6 per year to the average beneficiary cost share. However, as stated above, if copayments are adjusted back to levels suggested by the committee, DoD would lose about $49 million in revenue per year. This averages a $5.10 increase in cost to DoD per member per year in order to save a specific group of beneficiaries $6 per year.

FINDINGS:

Analysis shows that prescriptions filled at retail pharmacies are almost equally split between beneficiaries who reside greater than 40 miles from an MTF and those who reside within 40 miles of an MTF. It appears that personal choice, convenience and formulary availability, not proximity to an MTF, are the determining factors in using a retail pharmacy. The majority of prescriptions filled in retail pharmacies are for retirees and their family members. It will cost DoD approximately $49 million in lost revenue to reduce retail pharmacy copayments to equal mail order copayments in order to save a specific group of beneficiaries $6 per year per beneficiary. In addition, significant technology enhancements on the part of Defense Enrollment Eligibility Reporting System (DEERS) and the DoD Pharmacy contractor may be needed to implement these potential changes. History has demonstrated these enhancements can be costly and time consuming to implement.

For example, DEERS may be required to develop a pharmacy eligibility algorithm based on residential ZIP code to identify those beneficiaries who reside greater than 40 miles (or other designated distance) from an MTF pharmacy. Such a system would require frequent updating as the beneficiary population moves in and out of designated catchment areas. Significant confusion on the part of beneficiaries should also be anticipated as their copayments would vary based on their geographical distance from an MTF.

Another potential alternative would be to calculate copayments based on the relative distance of the filling retail pharmacy from a designated MTF, i.e. if the pharmacy lies outside a defined distance, copayments would be reduced to match mail order copayments. It should be noted that this option may be costly to implement depending on the needed changes to contract claims adjudication systems.

Calculating copayments based on geographic locations could also have the unintended effect of driving up DoD costs above the $49 million estimate. Once beneficiaries realize that pharmacy copayments are lower based on a pharmacy's location, significant "pharmacy shopping" may occur. It should also be anticipated that retail pharmacies with lower copayments will quickly advertise that fact to TRICARE beneficiaries. Either alternative would require an extensive beneficiary education program both before and after implementation.

CONCLUSION:

Compared to other national and federal health plans, the DoD pharmacy benefit remains the most generous and robust in coverage. Even with the recent copayment increase, DoD beneficiaries have minimal out-of-pocket costs for all medications, including acute medications obtained through retail pharmacies. As stated above, data show that distance from the MTF and copayments have little impact on beneficiary choice to use retail pharmacies. The Department has strived to create consistency across the enterprise and waiving or reducing copayments based on geographical criteria would reverse those efforts. In this time of economic scrutiny and fiscal challenges, it would be imprudent to implement a program that would increase DoD costs and create a disparate benefit.

There is little doubt DoD's costs would increase as more beneficiaries realized the financial advantage of traveling to a distant retail pharmacy for their acute prescriptions. The Department does not believe it is necessary or appropriate to waive or decrease copayments for acute prescriptions filled at TRICARE Retail Network pharmacies.