TESTIMONY OF
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BEFORE THE
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HOUSE ARMED SERVICES COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES

REGARDING
DEFENSE HEALTH PROGRAMS

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Chairman McHugh, Dr. Snyder, distinguished members of the subcommittee, thank you for inviting me here today. Each year, the Navy Surgeon General has the privilege of appearing before the House Armed Services Subcommittee for Total Force to provide an update on the state of Naval Medicine. It has been a year of challenges met and rewards reaped, and of maturing of programs that we undertook in the wake of Sept. 11, the anthrax attacks by terrorists unknown, and the advent of the Global War on Terrorism.

As is Naval Medicine's tradition, wherever our Marines and Sailors at the tip of the spear are, we are, as we provide operational support in the Global War on Terrorism, achieving the lowest-ever disease and combat casualty rates on the battlefield. The lessons we've learned from previous wars have predicated Naval Medicine innovation toward a new agility and capability. Today, Expeditionary Medical Units - complete lightweight tent hospitals - can be airlifted on site within days, and smaller units, Forward Resuscitative Surgery Systems, can be deployed to the action and made ready for patient care almost within hours. They, staffed with their "Devil Docs," have proven to be lifesavers for injured and sick Marines.

In defense of more bio-terror attacks on our Nation, Naval Medicine's Naval Medical Research Center, a recognized world leader in infectious disease detection, has moved forward toward developing even better rapid analysis and confirmation of the presence of dangerous diseases, an important step in protecting deployed service members and Americans who are fighting a war in their own back yards.

Naval Medicine also provides the most visually recognizable healthcare facility in the world - the military treatment facilities Comfort and Mercy aboard the distinctive white with red-crossed hospital ships. These ships are symbols of life saving and caring that also send a clear message to our enemies: We are committed to our mission, and are prepared to take care of the casualties we are willing to suffer to accomplish it.

To ensure Naval Medicine's ability to execute its mission under any circumstances, Naval Medicine established its own office of Homeland Security, which has executed strategic plans to ensure highest emergency preparedness in our Naval Military Treatment Facilities; enhanced emergency training for medical personnel; emergency preparedness assist visits; and pharmacy emergency preparedness, to include stockpiling of essential medications.

The primary focus of these actions - and the focus of all of Naval Medicine's actions - is Force Health Protection, which are summed up in four umbrella categories:

- Preparing a healthy and fit force that can go anywhere and accomplish any mission that the defense of the nation requires of them,
- Go with our men and women in uniform to protect them from the hazards of the battlefield,
- Restore health, whenever protection fails, while also providing outstanding, seamless health care for their families back home, and

- Help a grateful nation thank our retired warriors with TRICARE for Life.

Naval Medicine balances all these actions to make force health protection work and see that all our beneficiaries get the outstanding healthcare they deserve.

Naval Medicine does face challenges, such as expanded healthcare benefits that do not necessarily influence readiness, the unpredictable growing use of TRICARE by our retirees, fencing of sector funds that don't necessarily provide the most economical use of DHP dollars, and the struggle to fully man critical communities within Naval Medicine. But with your continuing support, I know that we can ensure that we provide world-class healthcare to our service members and their families while maintaining vigilant stewardship of the taxpayer's dollars.

Defense Health Budget for FY 2004

One of Naval Medicine's greatest challenges is to meet the healthcare needs of its beneficiaries - active duty, retiree, family members and eligible survivors - within the realities of a limited budget. Nation-wide, healthcare costs are now increasing at the fastest rate in the last decade. Healthcare inflation continues to exceed inflation in other sectors of the economy. Utilization of healthcare services continues to increase as technology advances results in effective new - albeit sometimes costly - treatments and longer life spans.

As the news of TRICARE's quality and effectiveness spreads, and as the costs of other insurance programs rises, more and more retirees under 65 are dropping their other health insurance and relying on TRICARE. From the trends of the past few fiscal years, it's estimated that in FY 2004 there will be a seven percent increase in this population.

DoD has ongoing programs that help control health care cost increases, such as building cost control incentives to managed care support contracts and competitively awarding these contracts for best value, and ensuring the pharmaceuticals delivered in our Military Treatment Facilities and through the TRICARE Mail Order Pharmacy Program are procured through using discounted federal government pricing. DoD and Naval Medicine management programs have also been utilized to ensure that healthcare provided to beneficiaries is reviewed for clinical necessity and appropriateness.

Naval Medicine has worked hard to get the best value from every dollar Congress has provided, but your assistance is need to restore the flexibility to manage funds across activity groups. Fencing sector funds prevents transfer of funds from MTFs to the private sector, but also prevents transfer of private sector funds to the MTFs. This fencing prevents funding MTFs to increase their productivity without the burden of prior approval reprogramming, which can take anywhere from three to six months. The T-NEX contract, with its incentive to move care into MTFs, makes having this flexibility all the more vital.

Growth in Medicare-Eligible Retiree Accrual Fund

The FY 2001 National Defense Authorization Act (NDAA) significantly expanded the DoD health care benefits for Medicare eligible military retirees, their family members and survivors. TRICARE for Life makes good on the promise to military retirees of healthcare in their later years. In FY 2003, the "DoD Medicare Eligible Retiree Health Care Fund" (MERHCF) was established to ensure adequate resources to pay for this health care. Accrued and future liability of military treatment facility care, purchased care, and pharmacy costs for TFL participants will be paid through the fund.

Beginning in FY 2003, Naval Military Treatment Facilities have received prospective payments for care for Medicare-eligible retirees based on their historical workload levels performed for inpatient care, outpatient care, and pharmacy for this population from the MERHCF. Current plans for reconciliation, based on actual execution performance, will be used to determine future MTF prospective payments from the Fund.

Transition to The Next Generation of TRICARE Contracts

TRICARE Next Generation has provided sweeping improvements in its provision of TRICARE Benefits under contracting initiated this fiscal year. While there will be no significant benefit changes, it simplifies the old contracts, and provides performance incentives and guarantees. It also distinguishes health plan management, which includes such activities as financing, claims, payment rates, marketing, and benefit design, from healthcare delivery. Some major elements of the old TRICARE contracts have been shifted out into separate contracts to allow companies with excellent competencies in these contract areas to provide even better service and quality healthcare.

The most obvious change is the transition from 12 regions to three, and enhancing leadership in each region by putting a Flag, General Officer or SES as director. This is a significant step in transforming TRICARE. These Regional directors have a key role in enhancing participation of providers in TRICARE and in implementing the plan to improve TRICARE Standard for those who choose to use it, and will also be responsible for integration of military treatment facilities with civilian networks, ensuring support to local commanders and overseeing performance in the region. The first director to be selected is Rear Admiral James A. Johnson, Medical Corps, who is already on board in the TRICARE West Region

Medical commanders within these regions will also have an enlarged role and additional responsibilities under the new contracts, with the focus on accountability. Commanders will take on responsibilities formerly managed by the TRICARE contractor, including patient appointing, utilization management, use of civilian providers in military hospitals, and other local services.

The transition to the new TRICARE contracts in TRICARE West is going well, and I believe will provide an opportunity for Naval Medicine to serve its beneficiaries better while controlling healthcare costs.

Adequacy of TRICARE Provider Networks

TRICARE beneficiaries are highly mobile, and their healthcare needs can change on short notice. Generally, the available network provides outstanding healthcare, but there can be "gaps" in isolated areas, or when there's a unique event that interrupts healthcare, such as the accelerated closure of a medical facility, as was the case in Puerto Rico, when U.S. Naval Hospital Roosevelt Roads closed.

Deployment of Naval Medicine personnel in support of Navy operations also has the potential of affecting TRICARE provider network adequacy. To date, the networks have been able to meet beneficiary needs, even in the absence of naval hospital providers.

The next generation of TRICARE contracts will also place new responsibility on each Regional director to attract participation by providers into TRICARE. The director will also ensure tighter integration of the civilian networks and the military treatment facilities. The result will be a more complete network and more seamless healthcare for the beneficiary.

DOD/VA Resource Sharing and Coordination: Status on Implementation of Presidential Task Force Recommendation

Naval Medicine continues to support Presidential Task Force recommendations to pursue sharing collaboration with the Department of Veterans Affairs to optimize the use of federal health care resources. I believe our progress is one of Naval Medicine's great success stories. Site-specific sharing initiatives, including in the key geographical areas as directed by the FY 2002 and FY 2003 Defense Authorization Acts, are occurring and continue to be developed.

Naval Medicine currently has 54 medical agreements, 34 Reserve agreements, 24 Military Medical Support Office agreements, and 13 non-medical agreements with the Department of Veterans Affairs. Naval Medicine has also partnered with the Department of Veterans Affairs on five medical facilities construction projects. These are:

- Naval Hospital Pensacola FL. This joint venture outpatient facility will be built on Navy property, and the VA will fund the project, and provide Naval Medicine with 32,000 square feet. This will be a replacement facility for Naval Medicine's aging Corry Station Clinic. Negotiations are underway to select the site.
- Naval Hospital Great Lakes, IL. A FY 2007 construction start has been proposed to build a separate Navy/VA Ambulatory Care Clinic near the Naval Training Command. Full integration planning has begun, with facility and site analysis to follow. Additionally, the North Chicago Department of Veterans Affairs Medical Center will be available to the Navy for specified services with the Department of Veterans Affairs funding modifications of its surgical suites and urgent care facilities.
- Naval Hospital Beaufort, SC. A tentative FY 2011 construction start has been planned for a replacement hospital. The Department of Veterans Affairs currently operates a small clinic within the existing hospital, and is expected to be a partner in developing the replacement facility.

- Naval Ambulatory Care Clinic Charleston, SC. A FY 2005 construction start has been planned for a replacement clinic aboard Naval Weapons Station (NWS) Charleston. Navy has offered the Department of Veterans Affairs the options of an adjacent site onboard NWS or the take-over of the existing NWS clinic. The Department of Veterans Affairs is studying these options with a final decision yet to be made.
- U.S. Naval Hospital Guam. A FY 2008 construction start is planned for replacement of the current hospital. The Navy has offered the Department of Veterans Affairs a site for nearby freestanding community-based outpatient clinic. It's proposed that the Department of Veterans Affairs will fund the clinic, roads and parking, and will continue to utilize Navy ancillary/specialty care.

Other examples of partnerships that show the depth and variety of our collaboration include the development of uniform clinical practice guidelines for tobacco use and diabetes last year, and development of hypertension and low back pain guidelines scheduled for this year. Asthma guidelines are projected for revision next year.

In the works is a VA/DoD agreement that would permit the use of North Chicago VA Medical Center spaces to establish a center to manufacture blood products in exchange for the use of these blood products. This agreement would alleviate the necessity for Naval Medicine construction costs for a new center at Naval Hospital Great Lakes. An agreement between the Bureau of Medicine and Surgery and the Department of Veterans Affairs headquarters to share each other's "lessons learned" databases being developed.

Aggressive investigation of other mutually advantageous resource sharing possibilities is on-going at all Naval Medicine facilities with the focus of providing both of our beneficiary populations the outstanding healthcare they deserve.

Healthcare for Reservists and Implementation of NDAA FY 2004 Benefits

The Emergency Supplemental Appropriations Act and the National Defense Authorization Act of Fiscal Year 2004 authorized new health benefits, some permanent and others temporary, for Reservists to improve readiness and enhance access to care for Reservists and their families.

These new temporary benefits include 90 days of pre-mobilization TRICARE medical and dental coverage for Reservists and their families should the Reservist be activated more than 30 days; extension of eligibility for TRICARE benefits to 180 days for Reservist and their families, and TRICARE benefits to Reservists and their family members who are either unemployed or employed but not eligible for employer-provider health coverage. These temporary provisions end on Dec. 31, 2004.

Reservists will benefit from the establishment of a benefits counselor specifically for Reservists in each TRICARE region. One of the most significant problems Naval and Marine Corps Reservists had when they were mobilizing and demobilizing was understanding how to access seamless healthcare for themselves and their family. Naval Medicine has aggressively addressed

this problem, and the presence of dedicated benefits counselors will further enhance the transitions.

In addition to the enhanced TRICARE benefits the Department offered to activated Reserve Component members and their families during FY 2003, the National Defense Authorization Act of 2004 included even more new benefits. Because the new reserve health program is temporary, it offers us the ability to assess the impact of these benefits after the trial period. We will review the effects of these programs on reservists and their families as they transition to and from active duty and look at the overall effect on retention and readiness. We have concerns that health care benefits will be enhanced permanently before a full assessment of the impact can be completed, as well as concerns over the potential cost of the new entitlements for reservists who have not been activated. Consideration must also be given to the impact on the active duty force if similar health care benefits are offered to reservists who are not activated. The Office of Management and Budget, the Department of Defense, and the Congressional Budget Office are working together to develop a model and a resulting five-year cost estimate to price the proposal to expand TRICARE health benefits for all reservists without regard to employment, medical coverage, or mobilization status as proposed in the Reserve and Guard Recruitment and Retention legislation. Preliminary results indicate that this could range from $6 billion to $14 billion over five years. Final scoring of this proposal should be completed by the end of March.

Reserve Component Use of the Federal Strategic Health Alliance (FEDS-HEAL)

Naval Reserve Medical Corps, Dental Corps and support personnel perform medical and dental exams for Naval Reservists to support their medical readiness needs. Unlike the Army Reserve and National Guard, the Naval Reserve has at least one medical unit at each of its Naval Reserve Activities that makes it possible to provide this support. At present, Naval Reserve medicine is capable of providing adequate medical readiness support for its Marine Corps and Naval Reservists.

The Federal Strategic Health Alliance, or Feds-HEAL, Program, consists of agreements between the Army Reserve Component, Department of Veterans Administration and Department of Health and Human Service's Division of Federal Occupational Health. Services provided include immunizations, medical and dental exams. The Army Reserve has used this program since 2000.

DHP Reforms - DOD Healthcare Quality Initiatives Review Panel

The Healthcare Quality Initiatives Review Panel, chaired by Dr. Alfred S. Buck, released a comprehensive report that addressed the panel's 17-month-long study that made four recommendations that they felt would improve the quality of military medicine. They are:

- Implement a unified military medical command, to achieve stability and uniformity of healthcare processes and resources acquisition, and manage an error reduction and safety program bases on root cause analysis, system process redesign, responsive resource management and provider education.

- Attain comparability of oversight and accountability across the TRICARE spectrum including both the direct care and purchased care components.
- Expand and refine credentials management for all healthcare professionals in the Military Health System to enhance oversight, accountability and career management and support of implementation of development experience with a centralized, federal interagency credentials repository.
- Install a robust comprehensive data system capable of measuring and monitoring quality outcomes, resource utilization and healthcare costs.

The panel makes compelling arguments for these changes that I generally support; however, a joint command with representation from each of the Services' Medical Departments, would appropriately define an organization that centralizes control of assets without impinging on the basic prerogatives of each service. Work is underway in the other three areas to ensure ongoing enhancements to the quality of military medicine.

Beneficiary Group Concerns

One of Naval Medicine's most important concerns is beneficiary satisfaction with their healthcare. It constantly surveys its beneficiaries, and takes any criticisms it received extremely seriously. It is our intention to ensure all our patients, from their birth through retirement, get the world-class healthcare they are entitled and deserve.

Beneficiary groups have been straightforward and articulate in their concerns about their TRICARE benefit. For the most part, they are the same as healthcare recipients everywhere - access to healthcare, increasing out-of-pocket costs, gaps in coverage, and communication matters in understanding the benefit. As DoD Health Affairs and Naval Medicine work to control costs, yet retain world-class healthcare for all, some may see modification in the way they access their benefit. Instead of seeing a military healthcare provider at a military treatment facility, they may see a civilian provider downtown. Instead of picking up a 90-day supply of their medications at their nearest military pharmacy, they have them delivered to their homes through the mail for $3 for a generic drug or $9 for brand name pharmaceutical.

Conclusion

Naval Medicine has been extraordinarily successful in accomplishing its mission over the years, and with your support, the military benefit has become one of the most respected healthcare programs in the world. We know from Navy's quality of life surveys that among all enlisted personnel and female officers, the number one reason these service members stay Navy is the exceptional healthcare benefit.

You have allowed us to provide our service members, retirees and family members a benefit that is worthy of their sacrifices, and clearly articulates the thanks of a grateful nation for their selfless service. With your support, we have opportunities for continued success, both in the business of providing healthcare, and the mission to supporting deployed forces and protecting our citizens throughout the United States.

In just a few short months, I will leave this office, and will retire after serving more than 32 years in the United States Navy. I wish to thank this committee for its support to Naval Medicine, and to me during my time as the Navy's Surgeon General. It has been a privilege to serve.