DR. WILLIAM WINKENWERDER, JR., MD
ASSISTANT SECRETARY OF DEFENSE (HEALTH AFFAIRS)
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Introduction

Mr. Chairman, Distinguished Committee Members, it is a pleasure to have this opportunity to address you, and to describe the delivery of health care to Uniformed Services beneficiaries in the Military Health System, and in particular the purchase of health care services through TRICARE regional contracts. We have made some significant strides in recent years in our purchase of health care services and both opportunities and challenges lie ahead.

In 2003, the Department's senior military medical leadership – the Surgeons General of the Army, Navy and Air Force, and the Joint Staff Surgeon – have been deeply involved in and expertly executing the operational missions for which we exist, in particular medical readiness activities. Their leadership has been instrumental in our successful management of deployment health issues, dramatic decreases in non-battle injuries and illnesses, and expert casualty care management. Along with their operational focus, the Surgeons General have not wavered from their efforts to make TRICARE work better for all of our beneficiaries.

Supporting Our Families

TRICARE provides a peacetime health care benefit to 8.7 million beneficiaries – active duty Service members and their families, as well as retirees and their families and survivors. Nearly half are enrolled in TRICARE Prime, our HMO-type option, and the others are in TRICARE Standard, our fee-for-service option. We operate 75 hospitals and almost 500 clinics, with over 130,000 personnel, both uniformed and civilian. To supplement the care available in military hospitals and clinics, we purchase additional health care services on a large scale, delivering a managed care and fee-for-service program and processing about 90 million claims per year – currently through seven regional contracts. Overall, the budget of the military health system was over $27 billion in FY 2003.

In order to sustain our medical readiness posture, as well as to attract and retain the best qualified Americans for military service, we operate a quality, world-wide health care system. Wherever we maintain medical capability and capacity, whether through military hospitals and clinics or contracted civilian services, our goal is a world-class health benefit that serves the health care needs of our active duty Service members, retirees, the family members of both active and retired Service members, and survivors. Through the operation of a clinically challenging medical practice, we ensure our health

care providers and other medical experts are best prepared for their operational mission.

TRICARE

With the essential support of Congress, TRICARE is one of the most comprehensive health care benefits in the world. Recent enhancements have done even more to bring TRICARE to the forefront:

- Two years ago, we eliminated cost sharing requirements for families of active duty Service members enrolled in TRICARE Prime, our HMO option;

- Also at that time, we implemented a prescription drug benefit for senior beneficiaries;

- Eighteen months ago we implemented a TRICARE benefit for military beneficiaries who are also eligible for Medicare.

- Last summer, we released requests for proposals for the next generation of TRICARE contracts, to support our efforts to build a performance-based health care system with an emphatic focus on customer service.

- Most recently we have focused on improving access to care for the families of reservists, including the many serving their country at home and abroad today.

Yet, there is more to do. For example, in the coming year, we are introducing new programs to improve patient safety and quality health care.

We recently restructured our Patient Safety Program. Our objectives for the Patient Safety Program involve improving coordination of patient safety activities across the three Services, with the Armed Forces Institute of Pathology (AFIP), the Uniformed Services University of the Health Sciences (USUHS), and the TRICARE Management Activity providing essential integrating and leadership functions. We will align our patient safety data with national standards; to increase our reporting of near misses from Military Treatment Facilities; and to create a culture of disclosure and reporting to improve systems within healthcare. Surrounding these objectives, we intend to increase patient awareness and involvement in our patient safety initiatives.

One of the most significant advancements we have made in the area of patient safety was achieved through the deployment of the Pharmacy Data

Transaction Service (PDTS). The PDTS provides real-time integration of individual beneficiary prescription drug profiles from MTF, mail order and retail pharmacy points of service. In the brief time since its implementation, PDTS has already alerted TRICARE providers and patients to more than 69,000 potentially life-threatening drug interactions. It was recognized recently by President Bush as one of the most outstanding innovations in all of the federal government.

Shaping Our Future

TRICARE continues to set standards as one of the premier health plans in the world. While we are proud of our accomplishments in TRICARE, we also recognize that improvements can be made in the administration of this program. This year is an important transition year for TRICARE and we have begun the transition process already.

New TRICARE Contracts

In August 2002, we issued a Request for Proposal for a new generation of TRICARE contracts – simpler, more customer-focused, easier to administer, and with greater local accountability for performance. We reduced the number of TRICARE regional contracts from seven to three, and we reduced the number of TRICARE regions from eleven to three.

We continue to purchase managed care and administrative services from a single entity for a geographic area, offering beneficiary choice by offering managed care and fee-for-service options through the single entity. This is for two reasons. First, TRICARE delivers a defined benefit mandated in law, rather than setting a payment level and seeking health care plans to design coverage options for that price. Second, it is in the Government's best interest for our beneficiaries to receive their care in the MTF, and it is much simpler for the government and for beneficiaries to have a single health care entity coordinating referrals of care into military facilities.

Key features of this new TRICARE acquisition include:

- There is a single request for proposals; offerors may bid on all regions, but may only win one region.

- The procurement was developed in an open process, with input from industry and beneficiaries. Comments and questions from potential offerors were incorporated into evolving draft documents posted on an Internet site for public review.

- The procurement is performance-based, with a "Statement of Objectives" replacing the customary "Scope of Work." Whenever appropriate, we have set performance objectives rather than specifying the technical approach to be used. Key areas that require continuation of specifications are interface with Government systems and achievement of superior customer service.

- Offerors make oral presentations of their technical approach rather than submitting multi-volume proposals on paper.

- The Government and the regional contractors will share in the risk for health care costs; contractors will be paid fixed prices per claim or per beneficiary for administrative services

- The contracts include incentives for contractors to utilize local military medical facilities and to increase patient satisfaction. We are aligning our incentive structure so that Service medical departments and local military medical facility commanders are similarly rewarded for cost-effective decisions to optimize use of their medical facilities.

In January 2003, the acquisition process reached a milestone when bids were received for the three TRICARE regions. We have already accomplished a major objective by ensuring market competition for each of the three regional contracts.

We have also simplified our TRICARE contracts through selective identification of functions and services that can be more easily administered through single, nationwide contracts, or through more focused, local solutions. For example, local MTF commanders sought, and we provided more direct control of contracting for local support functions such as appointing and resource sharing with civilian providers for support to military hospitals and clinics.

We have competed and awarded a national mail order pharmacy contract that began March 1, 2003. This will be followed by a single national retail pharmacy contract; the request for proposals was released in March of this year. The establishment of national pharmacy services will enhance our management of this high-cost service, and enhance customer service for patients traveling in different regions who require short-notice prescriptions.

In addition, we are partnering with the VA very successfully on many different levels. To name a few of our efforts: The VA/DoD Health Executive Committee has been established and is co-chaired by the Deputy Secretary, Veterans Affairs, and the Under Secretary of Defense for Personnel

and Readiness. We have successfully launched a one-year DoD/VA Consolidated Mail Outpatient Pharmacy (CMOP) pilot program at three DoD medical treatment facility (MTF) sites. Our joint ventures and facility sharing efforts are progressing extremely well, and our sharing agreements now cover 163 VA medical facilities, most DoD MTFs and 280 Reserve units. Approximately 622 sharing agreements are now in operation, covering 6,017 health services with the military.

TRICARE Governance

The most important element of our TRICARE transition, however, is our effort to ensure a seamless transition for our patients. The establishment of a new governance model for TRICARE that focuses on local health care needs will best support this transition.

Over the next several years, our Lead Agent offices around the country will have a critical role in this transition. For 2003, we have fully operational TRICARE contracts that continue to require the full efforts of our Lead Agents staffs in coordinating and overseeing contractor performance. In 2004, these contracts will still be operational for several months. The transition issues between contractors will require intensive oversight and coordination that will largely be conducted by Lead Agent staff. As the contract transition passes, there will be a migration of Lead Agent staff responsibilities from regional matters to local health care market management. Our Lead Agent/Market Manager offices are all located in areas of significant military medical capability as well as sizable beneficiary population. The Lead Agent/Market Manager duties may differ in some respects but the need for experienced health care executive staff with knowledge of local market circumstances will remain.

To further our ability to best deliver services in local health care markets, the Department is studying health care delivery in those markets served by more than one military medical treatment facility. Our objective is to identify business practices that allow us to sustain high quality health care programs, to include graduate medical education programs, and ensure patient satisfaction with access to these services.

Metrics

The DoD medical leadership has established a long-term strategic plan, using the Balanced Scorecard model. As part of this strategic plan, we have established a series of metrics and performance targets for our health system. Although there are a number of important measures, we have selected three

indicators that will receive great visibility throughout our system. These indicators are:

An Individual Medical Readiness metric to determine individual Service member's medical preparedness to deploy. This is a new, joint Service metric that promises to provide valuable information to both line and medical leadership.

Patient Satisfaction with Making an Appointment by Phone. While we will measure a number of patient satisfaction indicators with access to health care, we are providing heightened attention to the specific indicator of phone access, which we have found to be a significant determinant of overall satisfaction with access. We will also measure ourselves against civilian benchmarks on this item.

Patient Satisfaction with the Health Plan. This comprehensive review of patient satisfaction with their health plan provides a perspective on our overall performance on behalf of our patients. Similar to the previous metric, we will again compare ourselves to civilian benchmark standards.

Conclusion

Mr. Chairman, our responsibility to provide a world-class health system for our Service members, our broader military family, and to the American people has always been recognized by the Congress, and I am very grateful.

Thank you for the opportunity to testify before the Committee on this important issue.