

**It covers military retirees 65 and older, but details are yet to be worked out.**

# Tricare

**By Tom Philpott**

**T**o the surprise of many, Congress has delivered to the military community Tricare for Life, a program that is expected to bring about the greatest expansion of health care benefits in at least three decades.

It happened in October in an end-of-session vote. The legislation, to take effect Oct. 1, 2001, aims to restore lifetime health care to 1.4 million beneficiaries eligible for Medicare because of age (65 and up) or disability.

Under the new plan, the lifetime value of the health care benefit will increase by more than a third. That will boost the federal government's annual expenditure by a net of up to \$6 billion (in 2000 dollars).

"This is a huge win for military retirees," said Rep. Floyd D. Spence, a South Carolina Republican who serves as chairman of the House Armed Services Committee. His nearly unqualified praise was typical of reaction among retirees and their supporters within the services and on Capitol Hill.

A few, however, were more restrained, and the Air Force Association was among those counseling caution. While noting that "some of the provisions seem attractive—on the surface," AFA's Oct. 17 statement warned, "We are not yet certain that this [program] will actually live up to the claims made for it. The association will continue to research, monitor, and be an active participant in any health care reform initiative, but we are still a long way from recommending to our members that

this new program is the answer for all of our health care needs."

One thing is beyond dispute: It was an extraordinary confluence of political and social forces that caused Congress to take the step that no lawmaker or service association was bold enough to predict months earlier.

Two central figures were Sen. John Warner (R-Va.), the chairman of the Senate Armed Services Committee, and Rep. Steve Buyer (R-Ind.), chairman of the House Armed Services military personnel subcommittee. They had the support of Republican Congressional leaders and, in the end, strong bipartisan support, which they used to bring forth a program that intends to not only end age discrimination in military health care but to shield benefits for the elderly and Medicare-eligible disabled from future defense spending showdowns.

## **No Longer a "Nice to Have"**

The legislation enhances the benefits of these two groups and redesignates them as an "entitlement," meaning that annual federal funding becomes mandatory, not discretionary.

It also shifts away from the defense budget and into the new Department of Defense Medicare-Eligible Retiree Health Care Fund as much as \$200 billion in unfunded obligations associated with these new benefits. The fund will be administered by the Treasury Department.

The intent of all these moves is to permit the nation's 784,000 military retirees, 391,000 spouses, and 214,000

# for Life

survivors to gain access to better and more comprehensive health care coverage. It will come through one of two routes:

- Tricare Prime, the military's managed care health plan.
- Tricare Standard, DoD's fee-for-service insurance plan once known as CHAMPUS.

At present, the size of DoD's network of uniformed and civilian health care providers limits the number of retirees who are enrolled in Tricare Prime. That limitation is expected to continue, and as a result, expectations are that most Medicare-eligibles will come to use Tricare Standard as a second payer (behind Medicare) of their health costs.

It has been billed as a backup or supplement to Medicare with no exclusions for pre-existing conditions and no enrollment fees, premiums, deductibles, or co-payments. In principle, this is what service retirees have long sought.

Plans call for Tricare Standard to pick up many of the costs, fees, and deductible amounts that Medicare will not cover. These include the routine 20 percent co-payment on medical bills and the large deductible required for hospitalization.

Tricare for Life was approved as part of the Fiscal 2001 National Defense Authorization Act and thus is enshrined in law. This has caused some experts to conclude that a fundamental and irreversible change has taken place.

For example, Paul Arcari, director of government relations for The Retired Officers Association, said

that, if all goes as expected, beneficiaries, starting next October, "can safely drop their supplemental insurance policies." Such a step would save the average 65-and-older retiree several hundreds of dollars a year.

AFA said it was urging members not to cancel any current Medicare supplement insurance they now hold because "to do so could be financially devastating" if the program were to be delayed or altered.

## Concerns About Tricare

Yet to be seen, said skeptics, is how effectively Tricare functions as a second payer. They noted that Tricare has become notorious for slow payment, a fact that has infuriated doctors and caused many of them to flee the system. Moreover, the skeptics also wondered how Tricare companies will be able to pay 100 percent of costs not covered by Medicare and turn a profit at the same time.

"We do not know how this program will work, and so far as we can determine, neither does anyone else," AFA said. "We will continue to ask questions and stay on top of the program every step of the way."

Experts said that, under the new plan, Tricare Standard would not become a true wrap-around Medicare supplemental plan, covering every possible expense not covered by Medicare. The intent, rather, is to guarantee beneficiaries 65 and older, at minimum, the same level of coverage they enjoyed before turning 65. The new law extends Tricare

Standard into old age so that a person's shift to Medicare doesn't result in reduced benefits.

In other words: Tricare Standard, while it won't become a different supplemental plan, no longer will disappear when a beneficiary turns 65, as is the case today.

The use of Tricare Standard as second payer to Medicare should have

## DoD Praises the "Golden Supplemental"

At the Pentagon, optimism about the new Tricare program is widespread. James T. Sears, executive director of DoD's Tricare Management Activity, made the following comments in an Oct. 26 session with the press.

"I hope you all are aware of the sorts of benefits we're talking about: The [65-and-over] benefit, the pharmacy benefit, the ability for folks when they turn 65 to stay in Tricare. I call it the 'golden supplemental' for folks who have Medicare as first payer and Tricare as the 'golden supplemental.' I can't think of a better health plan or a more comprehensive health plan, and [it is] way beyond what I would have dreamed would have occurred this year. ...

"We've got a wonderful benefit going into place that really rounds out the Tricare program, cradle to grave, now, and all the other benefits that we're putting in place. Somebody asked me today, 'Well, how are you going to pay for it?' I don't have an answer to that, except what we're talking here are entitlements and bills that will be paid, and that we will put these programs in place."

## What About Tricare Senior Prime?

It still unclear how the new program will affect those beneficiaries already enrolled in Tricare Senior Prime at select test sites. Defense officials will study their options in the months ahead.

The Senior Prime enrollees already pay Part B premiums in return for access to military managed care, but so far, Medicare hasn't acknowledged an obligation to reimburse the military for some of the cost of caring for enrolled seniors. Military hospitals haven't been able to show Medicare officials that they are exceeding previous levels of effort in treating elderly beneficiaries, a condition for reimbursement.

Defense officials hope to renegotiate the deal with the Health Care Financing Administration, which oversees Medicare. They will argue that HCFA can only gain from more efficient use of in-service facilities. To give that approach a chance, Congress voted to extend the Senior Prime demonstration through at least December 2001. If HCFA doesn't agree to a more favorable deal on reimbursements, Tricare Prime enrollees likely will just be transitioned to the Tricare for Life plan.

no impact on a patient's choice of physician, Tricare officials said.

For many service elderly, Tricare for Life should reduce annual health care costs to just Medicare Part B premiums which, in 2000, ran \$45.50 a month if the insured had signed up at age 65. Seniors who decline Part B enrollment when they first become eligible do face a 10 percent penalty on premiums for each year they delay past age 65.

So, for example, a 75-year-old retiree who now buys Part B coverage delayed coverage for 10 years; when the number of years is multiplied by 10 percent, it means his or her premium will be 100 percent higher, or \$91 per month.

Arcari said about 84,000 Medicare-eligible beneficiaries lack Part B coverage. Military associations have pressed Congress for legislation to waive the late fee penalty for military retirees.

It's "something we hope to address next year," said Arcari, but Congressional committees with jurisdiction over Medicare and its trust fund have opposed such moves in the past, fearing the precedent it might set.

Arcari said military retirees living in the United States should sign up for Part B "as soon as possible" and then hope for a fix.

In 1999, Army Gen. Henry H. Shelton, Chairman of the Joint Chiefs, began to raise expectations of major health care reform for the year 2000 by acknowledging broken promises of lifetime health care to retirees and encouraging formation of an oversight panel on military health care run by the Joint Staff.

Political pressure on the Pentagon included high-profile lawsuits brought against the government by many military retirees, including a group led by Air Force retiree and lawyer Col. George "Bud" Day, a recipient of the Medal of Honor.

### Administration Defaults

By January 2000, however, it had become clear that the Joint Chiefs had failed to persuade the Clinton Administration to raise the topline on defense spending to accommodate far-reaching and expensive health benefit reform.

At that point, the Republican-led Congress assumed leadership on the issue, but initial efforts by Warner and Buyer were relatively modest in scope, entailing primarily enhancements to the pharmacy benefit for older retirees.

In May, Rep. Gene Taylor (D-Miss.) raised the ante when he pushed through a defense bill amendment to expand Tricare Senior Prime within five years from its status as a 10-site test to a nationwide program. Senior Prime reflects a concept known as Medicare Subvention. The idea is to open military managed care to service elderly if Medicare agrees to reimburse the military for at least a portion of the care to elderly beneficiaries.

By June, an increasing number of disgruntled retirees had rallied around a different piece of legislation—the \$9 billion-a-year "Keep Our Promise" bill introduced by Rep. Ronnie Shows (D-Miss.) and Sen. Tim Johnson (D-S.D.). The Shows-Johnson bill proposed to open to all military retirees the menu of health

care options available to federal civilian employees under the Federal Employees Health Benefits Program. However, the Shows-Johnson bill would have had the government pick up the full cost of premiums only for the retirees who entered service before June 1956, when Congress first passed a law limiting health care access for retirees to "space available" care.

In response to the new initiative, Warner introduced a new amendment that he and co-sponsor Sen. Tim Hutchinson (R-Ark.) said would end "age discrimination in military health care."

The plan (later named Tricare for Life) was to make these changes permanent, but Congressional Democrats said that the \$40 billion cost, over 10 years, violated the budget resolution. They warned Warner that his amendment, if approved, would trigger a procedural challenge that could tie up the entire defense bill.

Believing he lacked 60 votes to defeat such a challenge, Warner opted to limit the program to two years, through September 2003. He vowed to work with the Senate Budget Committee to find a way to make the changes permanent before the start date in October 2001. Without permanency, he knew, retirees wouldn't feel comfortable dropping their Medicare supplemental insurance.

In late September, Buyer, chairman of the House military personnel subcommittee, decided not only to embrace Warner's plan but also improve on it. Buyer unveiled what he called a Warner-Buyer proposal to make Tricare for Life permanent. He would remove Warner's two-year sunset provision and order the program funded as an entitlement paid for through a special trust fund run by Treasury.

Earlier, both Warner and the Joint Chiefs had floated the idea; Warner was expected to pursue it in 2001.

### Warner: Risk Too High

Irritated by this unexpected late-inning development, an angry Warner declared that Buyer's attempt to deliver Medicare-eligibles from the uncertainty of a two-year program was well-intended but would put at risk both Tricare for Life and the defense bill itself. He had seen nothing that might ease his worry about

the procedural challenge; he didn't have 60 votes.

By Sept. 21, Warner was convinced that he had killed the idea and was eager to say why. He said, "I've got but a few days, before the Senate and the House stop for the year, to get through a conference report covering the entire military and \$300-plus billion. I cannot risk the Senate stopping that bill on a point of order."

Buyer and Spence, Warner's opposite number on the House side, continued to press a late-hour shift to permanent legislation. Buyer said the turning point came during an Oct. 4 House Armed Services Committee hearing attended by Shelton and the four service chiefs.

"What I wanted to do was break the dynamic of this debate, that the reason we can't take care of the military retirees is because we have other very important needs," Buyer said. "So I asked the chiefs, 'If I were no longer pitting military retirees' health care against other priorities, would you agree to that?' Obviously they all said, 'Yes.'"

With the chiefs' endorsement, Buyer said, he won over House Speaker J. Dennis Hastert (R-Ill.). Hastert, in turn, persuaded Trent Lott (R-Miss), Senate majority leader.

The House on Oct. 11 approved the defense bill, with its Tricare for Life provisions, in an overwhelming vote. On the next evening, the Senate did the same, but not before disposing of a challenge from Sen. Bob Kerrey (D-Neb.).

Kerrey, a Medal of Honor recipient, warned colleagues that the plan would exceed spending targets by \$6 billion a year, "in a bill that has never been debated, in a program that's never been discussed."

Kerrey's challenge was supported by several senators including Sen. Phil Gramm (R-Tex.). Gramm at one point charged that Congress was "taking money away from poor young people and giving it to old people who are rich."

The health care trust fund will operate just like one established in 1986 to handle military retired pay. The existing cost of health care obligations will be picked up by the Treasury as an "unfunded liability." Each year, DoD will make payments into the new fund to cover future benefits of persons coming on active duty.

## Beyond Tricare for Life

Besides establishing Tricare for Life, the latest defense bill enhances pharmacy benefits for the Medicare-eligible retiree population.

Starting April 1, 2001, beneficiaries will be able to use the military's National Mail Order Pharmacy Program to buy a 90-day supply of most drugs for \$8 per prescription.

Seniors living near a military installation can continue to use base pharmacies at no charge. Besides the mail order plan, they also will have access to Tricare's retail pharmacy network, which requires 20 percent co-payment on each prescription.

The roughly 800,000 Medicare-eligibles who live far from bases won't be left out. They will have access to the mail order program, and in addition, Rep. Steve Buyer (R-Ind.) pressed successfully for access to nonnetwork pharmacies, too, with a 25 percent co-pay and a \$150 deductible.

Other provisions of the bill will provide new benefits to younger beneficiaries. Sharon Barnes, with The National Association for Uniformed Services, said these include a reduction in maximum out-of-pocket health costs (the "catastrophic cap") from \$7,500 to \$3,000 per year.

The new law will extend Tricare Prime Remote coverage to families of 80,000 active duty members living more than 50 miles away from a military treatment facility. It ends Tricare Prime co-payments of \$6 or \$12 per visit for family members.

No one yet has a reliable estimate of that annual payment, but it won't be small.

### Topline Must Rise

"The topline for defense spending still must be increased in order to accomplish this," Buyer said.

Starting in October 2001, DoD's managed care capacity at military treatment facilities will determine the level of access that Medicare-eligibles have to Tricare Prime. If enrollment is full, or if they live far from a military base, retired 65-and-older beneficiaries would be expected to find a civilian provider, use their Medicare benefits as the first payer, and then turn to Tricare Standard for payment of costs not covered by Medicare.

Arcari characterized the entire health care packet as "an extraordinary accomplishment." A Tricare official, however, noted that it also poses a major challenge.

"This," he said, "will affect everything that military medicine does—claims, appointments, contracts, the way dollars flow, our relationship with [the Health Care Financing Administration], access standards for hospitals and clinics. People are just waking up to this realization. They are overjoyed that the broken promise is going to be renewed, but it [proper implementation] is going to take a Manhattan Project level of effort."

Meanwhile, military associations

remain committed to the Shows-Johnson bill, which would open the Federal Employees Health Benefits Program to military retirees. As FEHBP premiums rise, however, retirees are expected to find superior value in the Tricare for Life program.

Arcari asked, "Why would you pay \$2,000 a year for family coverage when you can use Tricare for Life at no cost" other than Medicare Part B premiums?

Tricare officials said they already are working up a robust communication plan to reach beneficiaries with full details of Tricare for Life as soon as possible. If all goes as planned, elderly military retirees, for the first time in many years, will get the care they need without worrying about huge bills.

"Once and for all, we are taking care of our military retirees by giving them Tricare for Life and by improving their prescription drug benefit," said Rep. Sue Myrick (R-N.C.), in a statement preceding the Oct. 11 House vote on the issue. "Our military retirees were promised lifetime health care coverage when they answered the call of duty, and it's about time that we fulfilled our promise." ■

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