

CRS Insights

Defense Health Program Funding Shortfall for Fiscal Year 2015

Pat Towell, Coordinator, Specialist in U.S. Defense Policy and Budget (ptowell@crs.loc.gov, 7-2122)

Don J. Jansen, Specialist in Defense Health Care Policy (djansen@crs.loc.gov, 7-4769)

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As reported in an online article (behind subscription wall) dated July 27, 2015, by Austin Wright in *Politico* and a *Stars and Stripes* online [article dated July 28, 2015](#), a letter from the Assistant Secretary of Defense for Health Affairs and the service Surgeons General to the armed services and appropriations committee chairs dated July 16, 2015, states that the Defense Health Program (DHP) budget account faces a projected "shortfall of over \$2 billion in fiscal year (FY) 2015." The letter attributes the shortfall to three factors: (1) unexpected growth in retail prescription drug spending, (2) more beneficiaries than expected, and (3) a general increase in the inflation rate of medical costs. The letter asks for committee approval of various reprogramming requests as well as abstention from reductions to the FY2016 DHP appropriation request. The article reports that the shortfall is being cited as an argument in support of a provision in the [Senate-passed defense authorization bill](#) to increase TRICARE pharmacy copayment. The copayment issue is one of several that have reportedly been holding up conferees' progress in negotiating a final version of the FY2016 national defense authorization act ([H.R. 1735](#)).

What Is the Defense Health Program?

"Defense Health Program" is the title for the appropriation and budget account that funds, among other things, both the in-house care provided through Department of Defense (DOD) facilities and personnel and the private sector care (or "purchased care") portions of the TRICARE health insurance program that will be used by an [estimated 9.3 million](#) military service members, retirees, and family members worldwide in FY2015. Both in-house care and private sector care are budget activity groups. Each includes the cost of prescription drugs provided to beneficiaries through military pharmacies and treatment facilities in the case of in-house care or by mail order, retail drug stores, and non-DOD medical facilities in the case of private sector care.

How Much Was Requested and Appropriated for DHP in FY2015?

The base (not including overseas contingency operation funding) DHP [FY2015 appropriation](#) totaled \$32,069,772,000, of which \$14,503,759,000 was for private sector care. The base DHP [request](#) was for a total of \$31,994,918,000, of which \$15,412,599,000 was for private sector care. The [explanatory statement](#) stated that the reduction of \$908,840,000 to the in-house care request was accounted for in part by what was designated as \$855,000,000 in "historical under execution" and \$200,000,000 in "excess growth in pharmaceutical drugs." The 2015 budget request assumed inflation of [3.7 percent](#) for FY2015 for DHP purchases (excluding fuel and pay).

Table 1. Defense Health Program Appropriations, FY2015

Amounts are discretionary budget authority in thousands of dollars

	FY2015 Budget Request	FY2015 Appropriation (P.L. 113-235/H.R. 83)
Operation and Maintenance		
In-House Care	8,799,086	8,680,970
Private Sector Care	15,412,599	14,503,759
<i>historical underexecution</i>		(-855,000)
<i>pharmaceutical drugs—excess growth</i>		(-200,000)
<i>other congressional changes (net)</i>		(+146,200)

Consolidated Health Support <i>historical underexecution</i>	2,462,096	2,360,696 (-100,000)
<i>other congressional changes (net)</i>		(-2,000)
Base Operations and Communications <i>facilities maintenance and repair</i>	1,683,694	1,832,471 (+150,000)
<i>other congressional changes (net)</i>		(-1,223)
Other O&M budget activities	2,674,436	2,652,754
Subtotal, O&M	31,031,911	30,030,650
Procurement	308,413	308,413
Research and Development	654,594	1,730,709
TOTAL, DHP	31,994,918	32,069,772

Note:

a. "Other O&M" budget activities include Information Management, Management Activities, and Education and Training.

Historical DHP Underexecution

Although at one time DOD regularly requested supplemental funding for DHP, that has not been the case in recent years. Appropriated amounts have been in excess of actual needs and DOD has requested and received prior-approval from the relevant congressional committees to reprogram the excess amount to other DOD programs. In response, appropriators have anticipated such "underexecution" and, as illustrated in [Table 2](#), not appropriated the full amount of the DHP budget requested in certain budget activity groups, primarily private sector care and consolidated health support.

Table 2. Congressional Reductions to TRICARE "Private Sector Care" Budget Requests on Grounds of "Underexecution" or "Pharmacy Cost Growth"

Amounts in millions of dollars

2011	P.L. 112-10	underexecution	-236.0
	H.R. 1473		
	P.L. 112-74		
2012		historical underexecution	-330.0
	H.R. 2055		
	P.L. 113-6		
2013		historical underexecution	-807.4
	H.R. 933		
		unjustified growth in pharmacy costs	-20.0
	P.L. 113-76		
2014		historical underexecution	-968.0
	H.R. 3547		
		unjustified growth in pharmacy costs	-150.0
	P.L. 113-235		
2015		historical underexecution	-855.0

	H.R. 83	unjustified growth in pharmacy costs	-200.0
2016	S. 1558 (Senate committee reported)	historical underexecution	-263.1
	H.R. 2685 (House passed)	Funds in FY2016 request would restore cuts made to FY2015 request	-1,102.6

Why Were the 2015 DHP Budget Estimates Inaccurate?

Forecasting future year health expenditures requires making assumptions about a multitude of factors, all of which may be subject to change. DOD officials state in personal communications that of the \$2 billion shortfall, compound pharmacy accounts for about \$1.5 billion, a modest increase in TRICARE Mail Order Pharmacy accounts for about \$100 million (unrelated to compounds), and increased health care costs account for about \$415 million. "[Compound pharmacy](#)" refers to a combination of two or more drugs prepared by a pharmacist for a patient's individual needs. These drugs can be expensive. A DOD information paper dated July 10, 2015, indicates that after new screening procedures were put in place for compound pharmacy prescriptions, the cost per prescription was reduced from \$6,889 in April 2015 to \$254 for the post-implementation period of May 11 to 31. DOD is doing additional research related to trends in pharmacy costs.