Congressional CBO Budget Office
Summary

The Effects of Proposals to Increase Cost Sharing in TRICARE

The TRICARE program provides health care for the military's uniformed personnel and retirees, and for their dependents and survivors—the more than 9 million people eligible to use its integrated system of military health care facilities and providers and regional networks of contracted civilian providers. In 2008, the Department of Defense's (DoD's) costs for that medical care were $42 billion, or about 6 percent of DoD's total funding for that year. The Congressional Budget Office (CBO) has projected DoD's future spending on the basis of the information in the most recent Future Years Defense Program (FYDP).[1] Those projections indicate that costs for medical care will rise more rapidly than overall resources for defense and require an estimated 13 percent of total defense funding by 2026.[2]

To accommodate that growth could require reductions in spending for other defense programs, such as the procurement and maintenance of weapon systems. Alternatively, if policymakers chose to increase DoD's resources, such boosts in funding might put pressure on other types of federal spending. Thus, many policymakers have expressed the concern that the current TRICARE program will become unaffordable in the future.

One approach to managing DoD's health care spending that has been discussed would be to increase the out-of-pocket costs paid by some beneficiaries. The enrollment fees, deductibles, and copayments that TRICARE beneficiaries pay today have remained the same (or even been reduced) since the mid-1990s, when the program was first set up. For example, the cost today for a 45-year-old military retiree to enroll his or her family in the TRICARE program's managed care plan, TRICARE Prime, is $460 per year—the same cost in nominal terms that prevailed in 1995. DoD has thus proposed, among other changes, to increase the share of health care costs paid by military retirees who are not yet eligible for Medicare (generally retirees between the ages of 38 and 65) and their survivors or dependents. DoD first proposed to increase annual cost sharing for those beneficiaries in February 2006, as part of the President's budget request for 2007, calling the program "Sustain the Benefit." DoD submitted an amended version of its plan in the budget requests for 2008 and 2009. The proposal was not enacted.

Nevertheless, the approaches reflected in DoD's proposal continue to be explored. This paper presents the results of CBO's analysis of how those higher enrollment fees, copayments, and deductibles for the TRICARE program would affect DoD's health spending.

- CBO found that the higher out-of-pocket costs that DoD proposed reflected the growth seen in civilian health care spending.
- It also determined, on the basis of currently available research, that DoD may have used relatively conservative assumptions about TRICARE beneficiaries' responses to some of the changes in the 2009 proposal and that the actual reductions in spending could be larger than DoD has foreseen.

1. The FYDP is a database that comprises a historical record of defense forces and funding as well as DoD's plans for future programs. The historical portion of the FYDP shows costs, forces, and personnel levels since 1962. The plan portion presents DoD's program budgets (estimates of funding needed for the next five or six years, based on the department's current plans for all of its programs).
2. Congressional Budget Office, *Long-Term Implications of the Fiscal Year 2009 Future Years Defense Program* (January 2009), pp. 7–8.

- CBO also found, however, that DoD did not include in its estimates the effects that increased cost sharing for TRICARE might have on other federal programs—such as Medicaid and the Federal Employees Health Benefits (FEHB) program—and on revenues.[3] Those effects would decrease, though to a relatively small degree, the reductions in spending that might be realized from increasing TRICARE beneficiaries' costs.

3. The FEHB program is the health insurance program offered to civilians who work for or have retired from the federal government.