

# GAO Highlights

Highlights of [GAO-14-684](#), a report to the Committee on Armed Services, U.S. Senate

## Why GAO Did This Study

DOD provides health care to about 9.6 million eligible beneficiaries through its TRICARE program. The department contracts with MCSCs to administer TRICARE's benefit options in three regions across the United States. Separately, DOD contracts with six USFHP designated providers to offer TRICARE Prime—the managed care option—to enrollees in certain locations across the country.

Senate Report 112-173, which accompanied a version of the National Defense Authorization Act for Fiscal Year 2013, mandated that GAO review DOD's health care contracts, citing concerns with the growing costs of these contracts, including the USFHP. For this report, GAO examined (1) the role of the USFHP within the MHS, and (2) the extent to which the USFHP affects DOD's health care costs. GAO analyzed information about the USFHP and the MCSCs, reviewed available USFHP cost data, and interviewed officials from DOD, the designated providers, and the MCSCs.

## What GAO Recommends

Congress should terminate DOD's authority to contract with the USFHP designated providers in a manner consistent with a reasonable transition of affected USFHP enrollees into TRICARE's regional managed care program or other health care programs as appropriate. DOD confirmed that GAO's factual determinations about the USFHP are correct and agreed that this program is duplicative and results in unnecessary costs and other inefficiencies. DOD reiterated the importance of carefully transitioning USFHP enrollees to other health plans if the USFHP were eliminated.

View [GAO-14-684](#). For more information, contact Debra A. Draper at (202) 512-7114 or [draperd@gao.gov](mailto:draperd@gao.gov).

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## DEFENSE HEALTH CARE

### US Family Health Plan is Duplicative and Should be Eliminated

## What GAO Found

The role of the US Family Health Plan (USFHP) within the Department of Defense's (DOD) current military health system (MHS) is duplicative because it offers military beneficiaries the same TRICARE Prime benefit that is offered by the regional TRICARE managed care support contractors (MCSC). The USFHP is an association of six health care providers, referred to as designated providers, which took ownership and control of U.S. Public Health Service hospitals in 1982 when Congress enacted legislation that made these facilities part of DOD's health care system. During the implementation of TRICARE in the 1990s, Congress required the designated providers to offer the TRICARE Prime benefit to their enrollees. While the USFHP is a relatively small program—approximately 134,000 enrollees—there is significant overlap with the MCSCs in several key areas, including benefits, geographic service areas, and provider networks. For example, four of the six USFHP designated providers have more than 80 percent of their service area zip codes included in areas where the MCSCs offer TRICARE Prime. Furthermore, the USFHP remains a distinct statutory program that is not integrated with the rest of the MHS. This limits DOD's ability to increase efficiency by maximizing the use of its direct care system of military treatment facilities (MTF), which USFHP enrollees are generally precluded from using because the USFHP's payment structure is intended to cover all enrollees' health care costs. The role of the USFHP has not been reassessed since TRICARE was implemented in the 1990s. However, DOD officials told us that there is not a function that the USFHP designated providers serve that the MCSCs could not perform. Furthermore, officials from all three MCSCs—which together serve over 4.5 million Prime enrollees—said that they would likely have the capacity and capability to provide TRICARE coverage to all current USFHP enrollees, if needed.

Because the USFHP's role of offering TRICARE Prime is duplicative of the role of the MCSCs, DOD has incurred added costs and inefficiencies. Although DOD would incur health care costs for the USFHP enrollees regardless of with whom they are enrolled, DOD pays administrative costs and profits to two different groups of contractors for providing the same TRICARE Prime benefit to the same population of eligible beneficiaries in many of the same areas. However, outside of the negotiated payment amounts, no one knows the designated providers' actual costs for administering the program since the USFHP contracts are characterized in statute as commercial item contracts. This means that the designated providers are exempt from sharing certified cost or pricing data with DOD, and they have been unwilling to share uncertified cost or pricing data when requested. As a result, DOD does not know how much of the approximately \$1.1 billion it pays the USFHP designated providers annually actually goes toward their administrative costs and profit versus the cost of health care services. DOD also incurs other expenses for the USFHP through support contracts, including a \$21 million data support contract, and through the management of various aspects of the program. Eliminating this statutorily required program would not only eliminate unnecessary costs and inefficiencies, but would also free up departmental resources that could be better used to manage other aspects of the TRICARE program.