



## Military Retiree Health Care Faces a Triple Whammy

*Today's Soldiers are tomorrow's retirees*

### Introduction

Quality of life and well-being, especially health care, directly affect the readiness of today's All-Volunteer Force. In addition, today's Soldiers (who are tomorrow's retirees) observe and receive advice from current military retirees; therefore, retirees' quality of life indirectly but powerfully affects the readiness of tomorrow's force by influencing such factors as retention and recruiting of younger generations. Health care remains a key factor in sustaining the All-Volunteer Force.

The profession of arms is unique in comparison to civilian employment; it is more than a job. Military professionals earn unique long-term, deferred compensation in the form of health care benefits in return for their unique sacrifice. However, in three major areas this compensation is rapidly shrinking, and the aggregate impact has begun to yield serious consequences for military retirees at stages of their lives when they have little financial flexibility.

### Medicare

When a military retiree and his or her spouse reach the age of eligibility, the Medicare system assumes responsibility for providing their health care. To receive the full range of benefits that they have earned (especially access to the TRICARE-for-Life system, described below), military retirees have to enroll in Medicare Parts A and B and become subject to the same fees and regulations as those citizens who never served a day in uniform. Military retirees and others enroll in Medicare Part A (in-patient care coverage) at no cost, but access to Medicare Part B (out-patient services) requires that they pay substantial monthly premiums. In 2011, these out-of-pocket costs reached an all-time high of \$115 per person per month for new enrollees—nearly triple the cost in 2000.

Three important trends emerge:

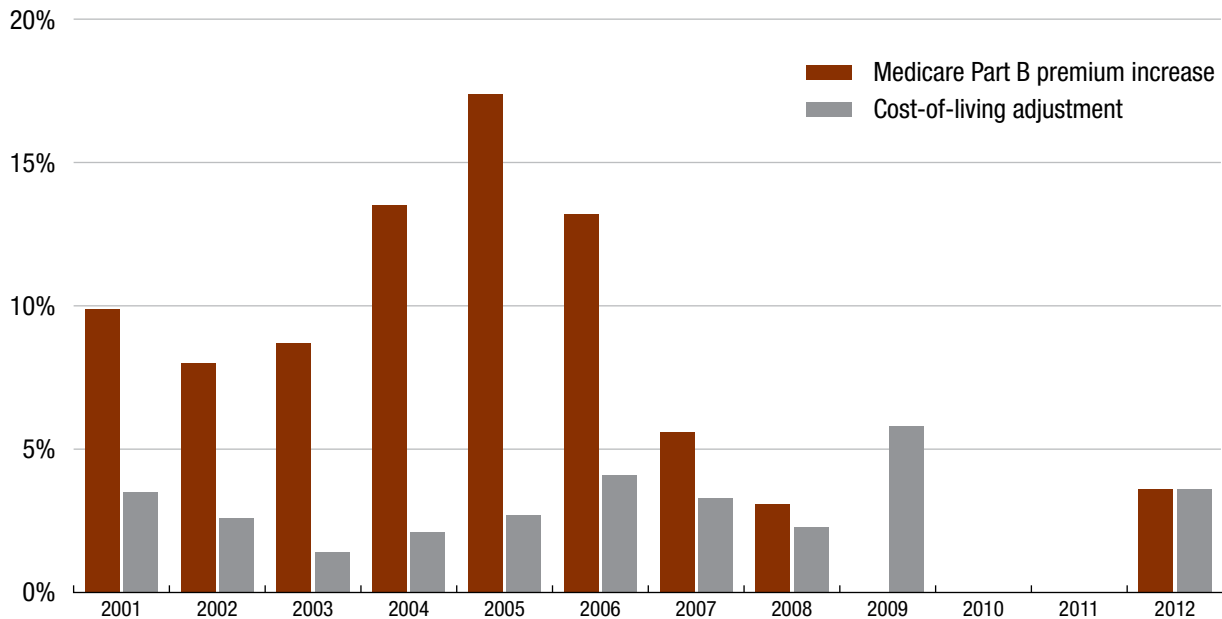
- Annual Part B premium increases have not only been steep but have also proved highly erratic



and unpredictable. Between 2000 and 2011, the average Part B premium increase was nearly 9 percent per year, but it fluctuated considerably, reaching a high of 17.4 percent in 2005 and a low of zero in 2009—before spiking again to 14.6 percent for new enrollees in 2010.

- Annual cost-of-living adjustments (COLAs) to military retired compensation and Social Security benefits have not kept pace with the rapid rise in Medicare premiums. COLA increases averaged only 2.6 percent per year over the same span; in two recent years, 2010 and 2011, retirees received no increase at all. Military retirees therefore see a steadily increasing percentage of their income consumed every year by health care costs for which they have already paid with their careers of service. Further, serious proposals exist in Congress to begin using a different, smaller inflation index to calculate what COLA is owed to retirees—a change that would immediately reduce Social Security benefits and military retired pay.
- Since 2007, Medicare Part B premiums have been “means-tested”; i.e., retirees with higher individual or family incomes pay even higher Part B rates. Effectively, military retirees who achieved higher rank during their service or succeeded in supplementing their post-retirement

## Health Care Cost Increases vs. Cost-of-Living Adjustment



incomes are penalized in the health care system for their success and have no other option for accessing their earned health care benefits. The administration's September 2011 recommendation to Congress for debt reduction suggested increasing these retirees' premiums by an additional 15 percent beginning in 2017.

Further, even as the Part B cost trends accelerate, military retirees' access to quality care is increasingly threatened. In an effort to control costs, existing law has triggered a series of reductions over the past decade to the funds that reimburse health care providers for delivering care to Medicare patients. So far, Congress has passed short-term fixes every year that temporarily postpone the cuts but, at present, a cut of nearly 30 percent is due to go into effect in January 2012. Though

Congress has never actually implemented such a drastic cut to Medicare provider reimbursement, there are serious proposals in Congress today to make some form of reduction in this area soon. Any such reduction can only erode health care providers' confidence in the system and could cause a greater number of them to refuse service to Medicare beneficiaries, thereby reducing the availability of quality care for military retirees and their families—especially for patients who are newly eligible.

In short, rapidly rising Medicare premiums have already had a significant impact on the net incomes of military retirees. Though the recently announced 2012 rates grew at a below-average pace, from \$96.40 to \$99.90 for most, and even dropped for those beneficiaries who enrolled in 2010 and 2011, they do not make up for a decade of frequent double-digit inflation in premiums or yield any reliable predictions for future years.



### TRICARE Enrollment

While on active duty, servicemembers and their dependents receive no-cost health care through military facilities and the TRICARE Prime network of providers. After retiring from military service, servicemembers and their families have the option to continue their enrollment in TRICARE Prime for a flat annual fee—an option exercised by approximately 1.5 million people at present.

TRICARE Prime coverage ends when military retirees become Medicare-eligible, at which time their



health care begins to be provided primarily through Medicare Parts A and B (described above). However, Medicare does not cover 100 percent of its beneficiaries' health care expenses and generally leaves both an annual deductible and a percentage co-pay as out-of-pocket costs for patients. To cover most of these expenses, military retirees automatically qualify for a part of the TRICARE system known as TRICARE-for-Life at no cost. The Defense Enrollment Eligibility Reporting System (DEERS) that keeps retirees' personnel records is electronically linked to the Medicare enrollment system.

Costs for both TRICARE Prime access and TRICARE-for-Life access could begin to trend sharply higher. In October 2011, the annual enrollment fee for TRICARE Prime increased from \$230 per person/\$460 per family to \$260 per person/\$520 per family. On one hand, this represents an increase of only \$5 per month for a family; on the other hand, that is a 13 percent annual increase and, perhaps, the beginning of fee growth not unlike the Medicare Part B premium increases already described. Also, some in Congress and the administration propose instituting a new annual enrollment fee for TRICARE-for-Life (which currently requires no access fee). Though such a fee, if implemented, would probably be modest at first, it too could be crafted to grow incrementally at a pace similar to health care cost inflation, TRICARE Prime fee hikes or some other index and would only add to the already increasing burden of growing Medicare Part B premiums.

The cumulative effect of such fee increases is consuming an ever greater percentage of military retirees' incomes at a stage in their lives when they may not have much financial flexibility. In contrast, the quality and accessibility of their care is simultaneously decreasing;

a 2010 survey by the American Medical Association found that nearly a third of primary care physicians already restrict the number of Medicare (and, therefore, military) patients in their practice and fully half would stop taking new Medicare patients if the government were to substantially cut their reimbursement rates.\* Any policies that tend to push military retirees out of TRICARE Prime and toward plans that more closely resemble Medicare—or any policies that add to the uncertainty of Medicare provider reimbursement rates—will only exacerbate the situation.

### TRICARE Pharmacy Program

All TRICARE beneficiaries—including enrollees in TRICARE Prime, TRICARE-for-Life and several other variations—have access to the TRICARE Pharmacy Program. Beneficiaries may fill their prescriptions free of charge at military pharmacies, but many beneficiaries do not live close enough to military installations for this to be a reasonable option. Instead, they pay flat co-pay fees to fill their prescriptions via mail-order or a large retail network (see table).

#### TRICARE Pharmacy Program Costs to Beneficiaries

Pharmacy Type	Generic Drug Co-pay	Brand-name Drug Co-pay
Military pharmacy	\$0	\$0
Home delivery (mail-order)	\$0	\$9
Retail network	\$5	\$12

At present, out-of-pocket costs for military retirees' prescription drugs are not tied in any way to the actual retail cost of the drugs. In 2011, the program changed modestly to encourage beneficiaries to maximize their

\* American Medical Association, "AMA Online Survey of Physicians," May 2010, <http://www.ama-assn.org/resources/doc/washington/medicare-survey-results-0510.pdf>.



use of generic versions of drugs via the mail-order system; the out-of-pocket cost for medically necessary generics (Tier 1) purchased via mail-order dropped from \$3 to zero, but the cost for medically necessary generics purchased at network retail pharmacies increased from \$3 to \$5 and the cost of brand-name (Tier 2) drugs purchased at network retail pharmacies increased from \$9 to \$12. Out-of-pocket costs for prescriptions deemed not to be medically necessary (Tier 3) increased from \$22 to \$25.

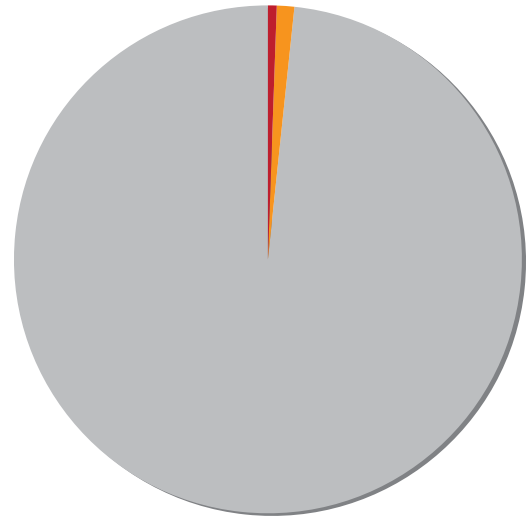
There is growing support for proposals to partially overhaul the flat drug co-pay system. In particular, the administration's September 2011 recommendation to Congress for debt reduction suggested instituting a percentage co-pay, rather than a dollar figure, of 20–30 percent for network retail purchases and a high deductible for brand-name drugs purchased via the mail-order system. Generic drugs purchased via mail-order would continue to be free.

The problem with any such overhaul is twofold: (1) not all medically necessary prescription drugs are available in generic versions, especially if they are relatively new to the market and their manufacturers still hold patents for them, and (2) the mail-order system is not ideal for some patients—for example, if their doctors frequently need to adjust their drugs' dosage. Effectively, those TRICARE beneficiaries who most need quality prescription drug coverage—those patients who need the latest brand-name prescriptions or who are under close medical supervision—would be the ones forced to pay substantially more out-of-pocket under a percentage co-pay system.

Overhauling the TRICARE Pharmacy Program in an effort to achieve greater parity with federal civilian employees' and regular Americans' health care plans would have a minimal overall impact on



## American Population



- Military retirees (0.7%)
- Dependents of military retirees (1.0%)
- All other Americans (98.2%)

reduction of the nation's budget deficit. However, many military retirees would be hit by yet another increase in their out-of-pocket health care expenses—some of them severely—at a time in their lives when they are potentially vulnerable financially.

### Conclusion

To date, no single legislative action or major proposal has placed an unbearable health care burden on the military retiree, but the cumulative effect of numerous small cost increases approaches such a burden. Cost increases have been individually modest but indexed. Collectively, they have already had an impact on retired servicemembers and threaten an even greater impact in the future.

Military careers of sacrifice and civilian employment—and the compensation appropriate for each—are inherently incomparable. The nation can afford to keep its critical All-Volunteer Force and pay for the benefits owed to the select few who earn them. For example, one way of reducing unsustainable growth in Defense Department health care costs without adding further to the burden shouldered by military retirees is to offset any new access fees by reducing retirees' Medicare premiums by like amounts. The nation's debt crisis cannot and should not be alleviated on the backs of those few who answer duty's call.