SUMMARY

The Health Care Financing Administration (HCFA) and the Department of Defense (DoD) are testing the feasibility of making Medicare-covered health care services available to Medicare-eligible DoD beneficiaries in the TRICARE program and military treatment facilities. This is being done through the Medicare-DoD Subvention Demonstration, which was established by the Balanced Budget Act of 1997 (BBA). The goal of the demonstration is to implement cost-effective alternatives for care for this dual-eligible population while ensuring that total federal costs for either HCFA or DoD are not increased. In response to the BBA, the Secretaries of the Department of Health and Human Services and Department of Defense have executed a Memorandum of Agreement (MOA) that specifies how the subvention demonstration will be designed and operated. The MOA provides for an independent evaluation of the demonstration, which is being conducted by RAND.

The demonstration is testing two subvention models in six demonstration sites:

- **TRICARE Senior Prime** establishes Medicare+Choice health plans operated by DoD, under contract with HCFA, in the six demonstration sites. Senior Prime enrollees choose a military primary care manager (PCM) at a participating military treatment facility (MTF). They receive their primary care at the MTF, as well as other services the MTF provides. For any services not provided by the MTF, enrollees are referred to other MTFs or to civilian providers under contract in the Senior Prime network, depending on facility proximity and enrollee choice.

- **Medicare Partners** provides for formal agreements between Medicare+Choice plans and MTFs in the demonstration sites, under which MTFs would provide specialty and inpatient services for DoD beneficiaries enrolled in the plans. No Medicare Partners agreements have been established thus far, and it remains uncertain whether this model will be implemented.

This Interim Report presents early results from RAND’s evaluation of the Medicare-DoD subvention demonstration, and it begins to examine implications for establishing Senior Prime as a permanent part of the TRICARE program. These evaluation results focus on the early implementation activities of TRICARE Senior Prime. The sites have been generally successful in managing the implementation process in quite a compressed start-up period, and in attracting enrollments by military retirees. However, the Senior Prime payment methodology is complex and creates potentially conflicting financial incentives, which may be interfering with achievement of cost-effective operation of the Senior Prime plans. The sites have been in full operation for only 6 to 10 months, depending on the site, so it is too early to assess the effects of Senior Prime on dual-eligible beneficiaries or on government costs.

BACKGROUND

The Current Military Health System

Over a million U.S. military retirees and their elderly dependents are eligible for Medicare health coverage, and they also are eligible to obtain health care services from military treatment facilities. Under current law, when Medicare beneficiaries obtain health care services at treatment facilities operated by the DoD or Department of Veterans’ Affairs (VA), Medicare cannot reimburse either organization for those services. Furthermore,
individuals who are eligible for both Medicare benefits and benefits from the DoD, the VA, or both, are free to choose where they will obtain their health care.

In 1995, the Military Health Service developed TRICARE as a new health insurance program to cope with rapid changes in the health care environment, including rising costs, base closures, and shifts in the beneficiary population. TRICARE is a managed care program based on civilian models. TRICARE has established priorities for access to MTF health care, under which Medicare-eligible DoD beneficiaries have the lowest priority (following all active-service military personnel, dependents, and other retirees), and they are provided care on a “space-available” basis. Their access to MTF services has declined as TRICARE Prime enrollees have used increasing shares of MTFs’ service capacity. Thus, dual eligibles are obtaining larger portions of their health care in the civilian sector, despite preferences by many of them to use the military health system. Although Medicare-eligible retirees do not have a military option for managed health care, they may enroll in other Medicare health plans serving their local markets.

The Medicare Program

Managed care options have been an official part of Medicare since 1983, and beneficiaries living in areas served by Medicare health plans can elect to join these plans. Medicare plans provide enrollees all standard Medicare-covered benefits, plus some supplemental benefits. The BBA replaced the previous Medicare health plans with the Medicare+Choice program, which allows a variety of managed care organizations to contract as capitated health plans. Contracting plans are paid capitation payments by HCFA, which are county rates adjusted by enrollees’ risk factors. Senior Prime plans are certified by HCFA as Medicare+Choice health plans.

THE MEDICARE-DOD SUBVENTION DEMONSTRATION

A relatively long history precedes the establishment of the subvention demonstration by the BBA, starting with exploration by DoD of various options to expand military health benefits for its older beneficiaries. These initiatives have been stimulated, at least partially, by the activities of military retiree associations, which have placed a high priority on improving access to military health care for dual eligible beneficiaries. These groups are seeking DoD action to deliver on the promise that military personnel would be provided health care coverage for life.

Provisions for Senior Prime

The establishment of a mechanism for financial subvention, which is the transfer of funds from HCFA to DoD, creates opposing financial interests for these two government bodies, even as they share commitments to provide access to quality health care for their beneficiaries. Therefore, a challenge for HCFA and DoD in designing the demonstration was to reconcile their fundamental goals. From HCFA’s perspective, the Senior Prime program needed to (1) protect the solvency of the Medicare Trust Funds, (2) provide for beneficiary choice and protections, and (3) ensure effective plan performance. From DoD’s perspective, the goals were to (1) contribute to fulfilling the moral obligation to provide DoD beneficiaries with lifelong health care, (2) maintain budget neutrality in the military health system, and (3) strengthen the capability to provide cost-effective managed care in the TRICARE program.

Many of these goals are reflected in the BBA provisions for the demonstration. Key provisions include a requirement that Senior Prime plans be certified as Medicare+Choice
plans and several provisions that limit Medicare spending to protect the Trust Funds. As directed by the BBA, DoD and HCFA negotiated a Memorandum of Agreement (MOA) that specifies how they will implement the BBA requirements for Senior Prime and delineates provisions for Medicare Partners. A complex payment methodology was developed that determines capitation payments from HCFA to DoD for services to Senior Prime enrollees. Payment provisions include:

- a methodology to establish the baseline “level of effort” (LOE) spending that DoD must meet before receiving any additional (net) capitation payment from HCFA,
- thresholds for percentages of the LOE (for enrollees or non-enrollees) that determine whether and how much DoD will be paid,
- methods for triggering interim payments to DoD and for determining the amount of the payments, and
- provisions for year-end reconciliation of payments.

Beneficiary participation in Senior Prime is voluntary. Eligible beneficiaries who choose to participate must agree to receive all covered services through Senior Prime. The covered benefits are defined as the “richer of DoD or Medicare benefits.” Enrollees have no cost sharing for services provided by MTFs, but they do pay part of the costs for network provider services.

Site Characteristics and Enrollment

Six sites were chosen for the demonstration: Dover AFB in Delaware, Keesler AFB in Biloxi MS, Madigan AMC in Tacoma WA, the Colorado Springs site consisting of two MTFs, the Region 6 site consisting of two MTFs in San Antonio (Brooke AMC, Wilford Hall MC) and two MTFs in the Texoma area on the Texas-Oklahoma border (Reynolds ACH, Sheppard AFB), and the San Diego Naval MC in California. The sites were selected by the DoD, with approval by HCFA, to represent a diversity of characteristics for the participating MTFs and the Medicare managed care markets where they are located.

At each of the sites, three organizations have important roles in operating Senior Prime. The TRICARE regional Lead Agent (LA) Office serves as the official Plan that HCFA holds accountable for plan performance and compliance with Medicare requirements. The sites’ LA Offices have assumed a leadership role in bringing together the local participants to manage Senior Prime activities. The second organization is the MTF (or MTFs) that participate as the principal service providers for Senior Prime enrollees. The third organization is the region’s Managed Care Support (MCS) contractor, which provides administrative support functions for marketing and enrollment, maintenance of provider networks, quality and utilization management, and claims processing. TMA currently is paying the MCS contractors on a cost-plus basis for Senior Prime functions, reflecting uncertainty early in this program regarding the specific tasks the contractors would be performing and related resource requirements.

The health care markets for the demonstration sites vary considerably (see Table S.1). The larger MTFs tend to be in locations with larger dual-eligible populations and with substantial penetration of Medicare managed care (measured as percentage of total Medicare beneficiaries enrolled in health plans as well as number of health plans). The Dover AFB site is unique in that its MTF is a clinic with no inpatient services and limited specialty services. This site is in a rural market with limited Medicare managed care penetration. The San Diego
site has the largest dual-eligible population, and its market has the highest managed care penetration. The characteristics of the remaining sites are arrayed between these two sites.

Table S.1  
Medicare Managed Care Market Profiles for the Demonstration Sites

<table>
<thead>
<tr>
<th></th>
<th>Number of Dual-Eligible Beneficiaries</th>
<th>1999 Medicare Capitation Rate *</th>
<th>Medicare Plan Enrollment Rates (percentage)</th>
<th>Number of Medicare HMOs &gt;1% Share **</th>
<th>Largest HMO Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dover AFB</td>
<td>3,730</td>
<td>$479</td>
<td>6.1%</td>
<td>1</td>
<td>59.7%</td>
</tr>
<tr>
<td>Keesler AFB ***</td>
<td>7,601</td>
<td>560</td>
<td>12.3</td>
<td>3</td>
<td>78.5</td>
</tr>
<tr>
<td>Madigan AMC</td>
<td>19,565</td>
<td>422</td>
<td>28.2</td>
<td>6</td>
<td>37.2</td>
</tr>
<tr>
<td>Central Region</td>
<td>14,346</td>
<td>426</td>
<td>38.6</td>
<td>6</td>
<td>55.8</td>
</tr>
<tr>
<td>Region 6 San Antonio</td>
<td>35,187</td>
<td>472</td>
<td>33.8</td>
<td>4</td>
<td>41.5</td>
</tr>
<tr>
<td>Texoma area</td>
<td>7,336</td>
<td>381</td>
<td>4.2</td>
<td>2</td>
<td>70.8</td>
</tr>
<tr>
<td>San Diego NMC</td>
<td>36,184</td>
<td>528</td>
<td>49.4</td>
<td>5</td>
<td>62.3</td>
</tr>
</tbody>
</table>


* Average Medicare+Choice base rates for the counties in each catchment area, weighted by number of beneficiaries in each county. These are NOT the base capitation rates for the subvention sites.

** The number of HMOs does not include the Senior Prime plan.

*** The only substantial Medicare health plan enrollment is on the edge of the Keesler service area in Alabama.

Table S.2 reports enrollment figures by demonstration site. As of June 1999, there were 25,627 dual eligibles enrolled in Senior Prime. Enrollment varies considerably by sites, ranging from a low of 705 in Dover to a high of 12,461 in the Region 6 site. Enrollment appears to be leveling off except for the Colorado Springs and San Diego sites, where new enrollments are continuing at a fairly steady pace. All sites, with the exception of Dover, also are gaining new enrollees as TRICARE Prime enrollees age into Medicare eligibility and switch to Senior Prime.

Table S .2  
TSP Enrollments and Percentage of Planned Enrollments, as of June 1999

<table>
<thead>
<tr>
<th>Demonstration Site(s)</th>
<th>Month-Year</th>
<th>All</th>
<th>San Diego</th>
<th>Colorado Springs</th>
<th>Dover</th>
<th>Keesler</th>
<th>Region 6</th>
<th>Madigan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 1999</td>
<td>25,627</td>
<td>3,031</td>
<td>2,995</td>
<td>705</td>
<td>2,745</td>
<td>12,461</td>
<td>3,690</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(75.8)%</td>
<td>(88.1%)</td>
<td>(87.0%)</td>
<td>(88.5%)</td>
<td>(98.1%)</td>
<td>(111.8%)</td>
<td></td>
</tr>
</tbody>
</table>

SUMMARY OF EARLY EVALUATION FINDINGS

The RAND process evaluation documented and performed preliminary assessments of the following activities involved in the initial phase of Senior Prime implementation:

- obtaining Medicare certification for the Senior Prime plans,
marketing and enrollment of beneficiaries,
enrollee intakes and initial service delivery, and
managing and monitoring Senior Prime plan performance.

The evaluation results offer some preliminary perspectives on the implementation strategies and actions, highlighting areas where successes have been achieved and others where modifications might be made to strengthen the program as the demonstration continues. Our evaluation approach responds to the particular interest by HCFA and DoD to be able to apply lessons from the demonstration to a larger Senior Prime program, should the Congress make the program permanent and remove restrictions on the number of sites.

Process Evaluation Methods

During the process evaluation, we collected information about (1) roles and activities for HCFA and TMA staff from the early negotiations through the implementation of Senior Prime, (2) activities and issues at the demonstration sites as their teams implemented Senior Prime, and (3) impacts of Senior Prime on each of the participants in Senior Prime or other stakeholders. We prepared a master list of questions to guide interviews with participants, from which we developed several specific interview guides for particular groups such as HCFA regional staff or TMA staff (see Appendix A). Using individual and group interview techniques, we interviewed 15 staff in the HCFA central and regional offices and 10 TMA staff involved in both the early negotiations and current implementation activities. We also performed on-site visits to the six sites in January through April 1999, where we conducted group interviews with Senior Prime participants, as well as focus groups with primary care providers, specialty providers, and other front-line staff. (A template for the site visits is in Appendix B.)

The Implementation Process

Working within demanding time deadlines, the participants in the subvention demonstration achieved an impressive accomplishment in getting the TRICARE Senior Prime plans designed, certified, and into operation in less than 6 to 9 months. HCFA and DoD invested innumerable hours of effort completing the terms of the MOA and providing direction to the demonstration sites as they prepared for Medicare certification. The sites were committed to the successful operation of Senior Prime, and they applied their military skills to mobilizing efforts to get it done. The Medicare certification process required substantial investment of staff resources, especially due to the relative absence of in-house knowledge of Medicare regulations and operating requirements. With TMA financial support, the MCS contractors hired private consultants with Medicare expertise to support the sites in their implementation tasks. Senior Prime service delivery appears to have been responsive, and efforts are being made to apply care management techniques to avoid unnecessary care.

Presented in Chapter 5 of this Interim Report are summary descriptions of the roles and responsibilities of TRICARE Management Activity (TMA), the organizational structures and provider networks that the sites established for the Senior Prime plans, and the processes through which the sites enrolled beneficiaries and initiated service delivery. Appendix C contains individual site visit reports from the six sites with additional documentation. These reports were reviewed by the sites for factual accuracy before being finalized.
Responses of Beneficiaries to Senior Prime

Positive early responses of the beneficiaries, as reported by site staff and representatives of military retiree associations, testify to the apparent success of the Senior Prime plans in delivering services. Although few of the sites reached their planned enrollments immediately, their enrollment rates generally were faster than Medicare enrollments in many private health plans. Beneficiaries who enrolled in Senior Prime have expressed pleasure regarding their early experiences with the plan and the services they are receiving. Those who chose not to enroll had valid reasons for their decisions, perhaps the most significant one being the short two-year life of the demonstration.

Cost Incentives and Implications

One of the difficult issues emerging from the early phase of the demonstration is the inadequacy of the financial provisions. Two basic problems may be discouraging the sites from managing the cost side of their operations along with the clinical side: (1) the complexity of the payment methods, which makes it difficult for the site staff to understand the effects of payments on their operations, and (2) uncertainty over whether the sites will ever see Senior Prime revenues, even if DoD obtains net payments from HCFA after each year’s reconciliation. Until these issues are resolved, it may be difficult for DoD to achieve budget neutrality for Senior Prime. To the extent that negative financial performance has a detrimental effect for beneficiaries, the basic aims of both HCFA and DoD to serve their beneficiaries may be compromised.

IMPLICATIONS FOR A BROADER SENIOR PRIMECARE PROGRAM

The early demonstration experiences highlight several factors that need to be considered when designing such a program, and they point to ways to strengthen program implementation.

Policy Issues for Program Design

If the Congress passes legislation making Senior Prime a permanent part of TRICARE systemwide, some of the program features may need to be strengthened, building upon lessons from the demonstration, and other features may require modification because they do not generalize well to a larger scale program. We have identified several policy and design issues that HCFA and DoD would need to address in designing a larger Senior Prime program.

Balancing interactions between the readiness mission and Senior Prime. Three aspects of the readiness mission are pertinent to Senior Prime: recruitment and retention of medical personnel, maintenance of clinical skills for readiness sustainment, and medical personnel deployments. Although the sites generally report that serving the older population in Senior Prime contributes to the first two aspects of readiness, there is real tension between deployment demands and ensuring continued services to Senior Prime enrollees. Entering into a Senior Prime contract with HCFA creates an obligation to provide enrollees needed health services. When deployments remove medical resources from MTFs, contingency plans are needed to ensure that services to enrollees are not unduly interrupted. It also is not yet clear how much similarity there is in the mix of clinical skills required for readiness and for serving an older population.
**Structuring and managing Senior Prime effectively.** The configurations chosen for Senior Prime plans for a larger system, and the mix of MTFs that participate in them, will define the system’s profile of enrollees, service delivery, and financial performance. The early results of our process evaluation indicate that medical centers or community hospitals with a balanced mix of primary care and specialty care were able to move into Senior Prime most easily and quickly. Larger medical centers may have more trouble gearing up for Senior Prime than other facilities, unless they already have experience with PCM care management under TRICARE Prime, although their depth of clinical specialty capability enables them to serve most health care needs for enrollees. (This capability is a benefit, however, only if the medical center costs are lower than the prices paid to network providers).

**Creating the desired financial incentives.** The sites have expressed dissatisfaction with many aspects of the payment formula, and they are frustrated by the absence of cash flow to help cover the costs of care the MTFs are providing to Senior Prime enrollees. Such an uncertain financial environment may discourage active management of costs of care, if MTFs believe that their actions have little influence on their financial outcomes and rewards or penalties for performance. Given this, it would be appropriate to re-evaluate the payment system for Senior Prime to seek a design that can (1) reduce uncertainties for the sites regarding their potential financial performance and the consequences for them and (2) align the sites’ incentives so they can focus on providing quality care to enrollees and managing the costs to do so. Any modifications to payment methods should be guided by the financial principles laid out by HCFA and DoD to protect the Medicare trust fund and maintain budget neutrality for the DoD.

**Achieving effective clinical and cost performance.** Both short-term and long-term challenges exist in this area. In the short term (for the remainder of the demonstration), the sites face the challenge to manage care proactively to ensure that MTFs are providing Senior Prime enrollees appropriate and efficient (i.e., cost effective) care. In the longer term, to prepare for a systemwide program, the DoD should continue its efforts to establish consistent practice standards that all MTFs may use, and it should explore ways to provide for greater UM flexibility into MCS contracts. DoD data system capabilities need to be built to generate timely and actionable information for the MTFs’ QM/UM activities and for DoD use to monitor the cost effectiveness of care in its facilities. Careful assessment also is merited for two distinct aspects of administrative costs incurred during the demonstration: the reportedly heavy resource investment made by TMA and the sites to make Senior Prime operational, and costs incurred by MCS contractors to support the program.

**Demonstration Lessons for Effective Implementation**

Several lessons for improving Senior Prime implementation emerged from our site observations, which are summarized in Chapter 7 of the report. These lessons pertain to the enrollment and start-up of service delivery, and to ongoing operation of Senior Prime services. Issues related to achieving adequate program support from data systems operated by DoD and other organizations also were identified.

**Enrollment and startup of service delivery.** Lessons and possible strategies addressed in this area include preparation for enrollment activities, careful definition of enrollment targets, planning and execution of marketing strategies, processing of enrollment applications, use of staged enrollment, preparation of physicians and other staff to participate in the program, and provisions to avoid interruptions in care for new enrollees with existing health problems.
**Early operation.** Although the sites have been in full operation for only a limited time, several items have arisen regarding service efficiency and responsiveness that merit continued attention during the demonstration. These include the desirability of methods to improve the efficiency of Medicare compliance activities, techniques to enhance PCM physician productivity in serving Senior Prime enrollees, dislike by enrollees of automated appointment systems, and the need to monitor changes in activity for ancillary services with the introduction of Senior Prime.

**Data system capabilities.** To perform effectively in Senior Prime (or in other aspects of TRICARE services), the sites require complete, accurate and timely data to support local clinical teams as they monitor and manage service utilization and provider performance. Although DoD is making progress in strengthening its data systems, the sites express frustration that they still are not able to obtain the data they need from these systems. As a result, they are turning for data to their own local systems (e.g., CHCS, ADS), which makes it difficult to compare quality or utilization metrics across sites. Sites also are working on improving the completion of ADS bubble sheets for outpatient visits, and some are training providers on proper coding techniques for diagnosis and procedure codes. In a larger Senior Prime program, it will be especially important to streamline the enrollment processing system, which currently requires MCS contractor staff to work with as many as 4 non-integrated data systems.