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Placing a Value on the Health Care Benefit for Active-Duty Personnel

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Summary

The availability of health care for active-duty military personnel and their families is a fundamental component of the services' commitment to support their personnel. It represents a substantial benefit to military members and families, largely freeing them from concern about receiving health care when the need arises. However, despite this clear value, military health care benefits are not routinely counted as an element of military compensation, either in documentation that is provided to individual members or in analyses comparing civilian and military compensation. The end result is that military members may be unaware of the full value of the health care benefits they receive.

Given the extent of the awareness problem among military members, there is a genuine need for the military to find a way to represent the value of health care benefits to military members. This research considers how a reasonable monetary value might be attached to the military health care benefit from the perspective of the individual service member and his or her family. More specifically, it seeks to place a value on the military health care benefit by asking how much similar coverage would cost if it were obtained via civilian employment.

Project Methodology

Our approach is to estimate the expected out-of-pocket cost for health care under TRICARE—the Department of Defense’s regionally managed health care program for the more than six million active-duty and retired members of the uniformed services, their families, and survivors. TRICARE is administered by private contractors who are selected for participation through a competitive procurement process. TRICARE includes three plans: TRICARE Prime (which provides health care to active-duty personnel and their dependents in military treatment facilities (MTFs) and prescription benefits at MTF pharmacies or, alternatively, at network pharmacies), TRICARE Extra (which provides all care to dependents at in-network providers and all prescriptions at network pharmacies for a small co-payment), and TRICARE Standard (which provides care to dependents at out-of-network providers and all prescriptions at network pharmacies).¹ We then compared such costs with those for health maintenance organization (HMO), preferred provider organization (PPO), and point-of-service (POS) plans that are typical for large (Fortune 500) companies in the private sector.²

RAND obtained data on health care claims from Ingenix, a private health information company—specifically from Ingenix’s large (Fortune 500) clients, which give Ingenix access to eligibility data and to the detailed medical, mental health, and pharmacy claims from their sponsored health plans. The dataset used here is for health care use in calendar year 2000 and thus reflects current medical practice. We restricted the Ingenix sample to employees age 18–44 (because active-duty military members—the focus of our analysis—are principally in this age range) and to dependents under age 65, because the

¹ TRICARE Prime automatically covers all active-duty personnel and is also available to their dependents. TRICARE Extra and TRICARE Standard are alternatives available to dependents only.

² “Private-sector” plans include those that serve civilian employees working in government and not-for-profit organizations as well as employees of private businesses.

reference database is less accurate for people after they become eligible for Medicare.

In using the data, we make a number of important assumptions in our analyses: (1) patterns of health care use are held constant across the specific plans examined; (2) chiropractic, dental, and vision care are excluded; (3) the sum of actual patient and plan payments observed in the Ingenix data is used as a proxy for usual and customary charges; (4) all drugs in the Ingenix data are assumed to be obtainable at MTF pharmacies; and (5) the patterns of health care observed in the Ingenix data are assumed to be applicable to military members and their families.

Findings by Health Plan and Household Type

Based on our analysis, we identify a number of components of the value of the military health care benefit.

Members' Share of Premiums

The three TRICARE plans—Prime, Extra, and Standard—do not charge members a premium, whereas the health plan members' share of the premium for the three private-sector plans we study ranges from \$1,600 to \$2,800 per year (calendar year 2003 dollars) for a family with two or more dependents. This is the first component of value from the military health care benefit: A family can expect to pay a premium in the range of \$1,600 to \$2,800 in the private sector, while paying no premium in the military.

Distribution of Total and Out-of-Pocket Costs for Health Care

When we examine the distribution of total and out-of-pocket costs for health care, we find another component of value from the military health care benefit: For a given pattern of health care use, people can expect to pay higher out-of-pocket costs in the private sector than in the military. For about 80 percent of men in this group, this differential is fairly small, because expected yearly out-of-pocket costs are under \$250 even in the private-sector plans. Results for women are

similar, but everything is shifted up a bit because women use more care; similarly, distributions for older men and women (age 35–44) are shifted a bit higher than the corresponding gender group.

When we examine how effective private-sector versus military health insurance is at protecting the family against low-probability, high-cost events, it is evident that families in TRICARE Prime who have all prescriptions filled at MTFs are completely protected against such events: Their out-of-pocket costs are zero. Prime families who fill their prescriptions elsewhere have relatively higher out-of-pocket costs, but those costs are only \$66 a year at the median and \$203 a year at the 90th percentile. Families on TRICARE Extra and Standard have still higher out-of-pocket costs that are comparable to those of the HMO plan. Yearly, median out-of-pocket costs are \$493 for Extra and \$665 for Standard, and yearly 80th percentile out-of-pocket costs for each are \$855 and \$1,280, respectively. Yearly, median and 80th percentile out-of-pocket costs of the HMO plan are \$294 and \$569, respectively. Out-of-pocket costs for POS and PPO plans are generally higher and, in the upper percentiles of out-of-pocket costs, are between several hundred and several thousand dollars higher each year.

Total Out-of-Pocket Costs, Including Premiums

When we combine information on out-of-pocket costs for health care with the health plan member's share of the health insurance premium, we find yet another component of value: Since TRICARE Prime has no premium, single military members would have to pay about \$1,000 a year at the median to attain comparable private-sector coverage; young military families would have to pay about \$3,000 to \$3,500 per year at the median for private-sector plans, while TRICARE Extra and Standard cost them under \$700 and TRICARE Prime costs them nothing.

The estimates of the benefits presented here are also likely to be conservative, since they compare military benefits with those offered by large private-sector employers. The best possible civilian alternative for some military members may be with small employers with lesser health care benefits or in jobs with no health care benefits.

Effects on Military Compensation

What do these premium and out-of-pocket cost numbers mean in the context of military compensation and family income? We use regular military compensation (RMC) as a measure of military compensation. RMC consists of basic pay, basic allowance for subsistence, basic allowance for housing, and the tax advantage derived from the non-taxability of the allowances and accounts for over 90 percent of a member's cash compensation. For single members, the health care benefit discussed above would add about \$20 (after tax) to weekly pay, and for members with dependents, it would add about \$40–\$50 (after tax) per week; as a result, it would move military compensation up a few percentiles in the civilian wage distribution.

Effectively Communicating the Value of the Military Health Care Benefit

Given the military health care benefit, how can its value be best communicated to military members? One way is to provide them with information about the premium for reasonably generous private-sector plans, including expected out-of-pocket costs. With data available on a timely basis, the information can be updated each year.

There are two approaches to communicating such information. The first is to rely on an external source to verify the benefits periodically (e.g., annually), for example, by using a press release, by sponsoring reports that become the source of media stories, and by providing descriptive inserts with military paychecks. A second, complementary, approach would be to provide explicit information about the (expected) dollar value of health insurance premiums and out-of-pocket costs for health care under military plans and under representative private-sector plans. Interactive, computer-based tools are one way to do this.