

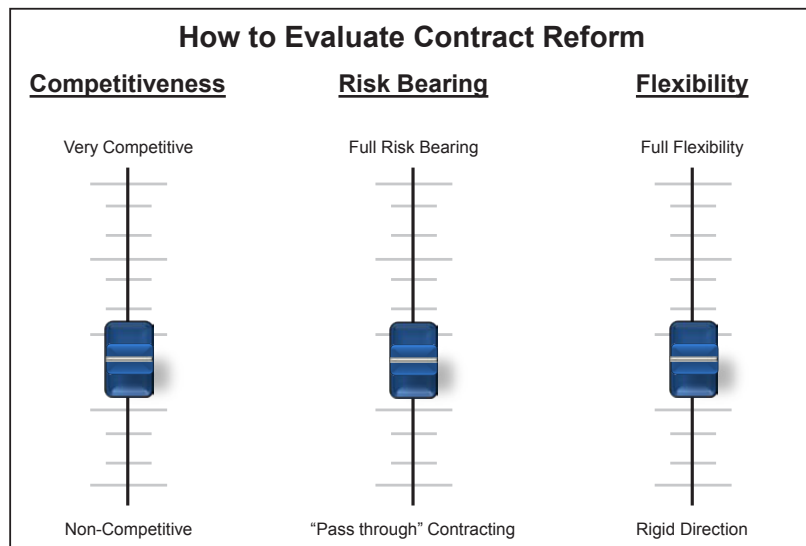
## TRICARE Contract Reform Could Yield Significant Savings

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The Military Health System (MHS) provides healthcare to over 9.4 million beneficiaries. **The majority of this healthcare is purchased from the civilian sector using large regional Managed Care Support Contracts that rely on fee-for-service (FFS) reimbursement.** While FFS was once the dominant reimbursement model in the commercial sector, it has been eclipsed by a new set of “value-based” purchasing practices. **Evidence suggests that value-based purchasing models can reduce costs relative to FFS models while maintaining or improving the quality of care.**

However, the TRICARE program has yet to benefit from these value-based innovations. The current structure of the TRICARE contracts does not incentivize the TRICARE contractors to adopt value-based purchasing over the status quo FFS model. **IDA research identifies three key attributes that should guide TRICARE contract reform to incentivize value-based purchasing for medical care.**

- **Contract competitiveness.** Characterized by the number of contractors/carriers offering competing products (health plans) in a given market area. This form of competition is key for ensuring the carriers focus on the preferences of beneficiaries. TRICARE currently has only two major contractors, both with contract awards lasting five years.
- **Contract risk-bearing.** The degree to which the contractor is at risk for failing to control cost growth. When properly designed, risk-bearing contracts incentivize the carriers/contractors to manage cost and improve outcomes. Because the current TRICARE program is FFS, the contractors bear no risk.
- **Contract flexibility.** The extent to which the contractor is free to design the agreements they enter into with providers and other subcontractors. Flexibility allows the risk-bearing contractor to compete and evolve its suite of tools as the market changes and conditions vary across markets. The TRICARE contractors currently have very limited flexibility.



IDA estimates that the **Department of Defense could save between \$400 million and \$1.5 billion annually** and maintain or improve the quality of care by adopting the value-based purchasing practices now common in the commercial sector.

\* Based on IDA P-5309, *Analysis of Private Sector Care Reform Authorities and Savings*, December 2016. Research sponsored by the Office of the Surgeon General of the Army.