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DEFENSE HEALTH CARE

Opportunities to Reduce TRICARE Claims Processing and Other Costs

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Defense Health Care: Opportunities to Reduce TRICARE Claims Processing and Other Costs

Mr. Chairman and Members of the Task Force:

I am pleased to be here today to discuss opportunities to reduce claims processing and other costs of TRICARE—the Department of Defense's (DOD) managed health care program. Today more than 8.2 million active-duty personnel, retirees, and their dependents are eligible to receive care under this $16 billion-per-year health care system. As the costs of delivering health care continue to increase and as beneficiaries demand improved and expanded services, significant pressures have been placed on the system, and DOD continues to search for ways to address them.

Since TRICARE's inception, we have reported on the challenges DOD faces in delivering health care. DOD considers health care to be one of its major quality-of-life issues important to maintaining a quality force. As a result, DOD has continually striven to deliver this health care benefit and to respond to suggestions made for improving its health care system. Currently, DOD is facing increasing pressures to improve customer service. Improvements in areas such as claims processing not only have the potential to make the health care system more user-friendly and efficient, but also to reduce costs.

At your request, my testimony today will focus primarily on the cost of processing TRICARE claims. Additionally, I will briefly discuss two other opportunities that potentially can reduce costs and improve service to beneficiaries, namely increased anti-fraud efforts and more joint procurement of pharmaceuticals and medical supplies with the Department of Veterans Affairs (VA). You also asked that I discuss our ongoing study of the process beneficiaries use to make medical appointments. The information I am presenting is based on a substantial body of work we have undertaken over the past several years on TRICARE operations.

In summary, processing TRICARE claims costs several times as much as processing Medicare claims–$7.50 compared to $1.78 per claim on average. However, much of the cost difference appears to be attributable to differences in program design and processing requirements. For example, TRICARE offers three different benefit packages, with reimbursement rates that are established for each provider, and a complex system of authorizations and referrals. The program also experiences frequent changes to coverage and operating policies that make it difficult to administer. Nonetheless, we and others believe that opportunities exist to reduce some of the approximately $225 million spent annually to process claims. In response to the House version of the fiscal year 2001 Defense Authorization bill, and through several of its own initiatives that mirror

private-sector practices, DOD has adopted and is planning several actions to reduce claims processing costs, including increasing electronic claims submission and web-based services to reduce the costs of claims review and to deal with the large number of inquiries received by providers and beneficiaries.

Beyond claims processing, we believe there are other opportunities to reduce TRICARE costs and improve services. For example, although DOD has efforts under way to combat health care fraud and abuse, these efforts have only been marginally effective. Additional opportunities exist to save potentially hundreds of millions of dollars that could be used to purchase care for military beneficiaries. Also, we believe that additional cooperation with the VA to procure pharmaceuticals and medical supplies could yield substantial savings. Lastly, different systems are in place throughout the military health system for making medical appointments, and beneficiaries sometimes are unsure as to how to make such appointments, leading to frustration with TRICARE. We are currently reviewing this process and anticipate making recommendations for improving it at the conclusion of our study.

Background

DOD's primary medical mission is to maintain the health of active-duty service personnel and to provide health care during military operations. DOD also offers health care to non-active-duty beneficiaries, including dependents of active-duty personnel, military retirees, and dependents of retirees, if space and resources are available. The Army, Navy, and Air Force provide most of the system's care through their own medical centers, hospitals, and clinics, totaling about 580 treatment facilities worldwide. Civilian providers supply the remaining care. TRICARE is a triple-option benefit program designed to give beneficiaries a choice among a health maintenance organization (TRICARE Prime), a preferred provider organization (TRICARE Extra), and a fee-for-service benefit (TRICARE Standard).

TRICARE is organized geographically into 11 health care regions administered by five managed-care support contractors. Among the contractors' many responsibilities are claims processing, for which all have subcontracted with one of two companies. DOD requires contractors to meet specific timeliness and accuracy standards when processing claims. The tasks required to process claims include claims receipt, data entry, claims adjudication, and claims payment or denial. During 1999, contractors processed about 30 million health claims submitted by institutions, health care providers, and beneficiaries.

To help safeguard against health care fraud and abuse in its system, DOD established a Program Integrity unit in 1982 to coordinate its antifraud activities. This unit is responsible for developing policies and procedures regarding the prevention and detection of TRICARE fraud and abuse. DOD's Office of Inspector General and the Department of Justice work together with this unit (and sometimes also with the Department of Health and Human Services) to investigate and prosecute alleged health care fraud and abuse. DOD's contracts with its five managed-care support contractors also require them to perform antifraud and abuse activities to help ensure that TRICARE dollars are used to pay only claims that are appropriate.

Program Complexity Impedes Claims Processing Efficiency; Improvements Under Way

Claims processing activities have generated a great deal of dissatisfaction among providers and beneficiaries, as well as among various congressional committees, and DOD recognizes that problems exist. Complaints and frustrations stem from perceived inaccurate and late payments; complex program rules, processes, and reporting requirements; and high costs. All agree that the claims adjudication system needs to be simplified and made more user-friendly, and that it could benefit from increased use of technology. A number of administrative and legislative actions are under way, which, if properly implemented, should reduce TRICARE claims processing costs.

Program Complexity and Size Contribute to High Claims-Processing Costs

In August 1999, at the request of the House Subcommittee on Military Personnel, Committee on Armed Services, we reported on the complexity of the TRICARE program and benefit structure.[1] This complexity manifests itself in many aspects of claims processing such as high rates of manual review, low electronic submission rates, and high customer inquiry rates. These factors, in addition to the relatively small program size when compared with Medicare, increase TRICARE claims processing costs because fixed costs are spread over a smaller number of claims. Currently, TRICARE claims cost an average of $7.50 per claim to process—double the industry average and more than four times the $1.78 Medicare claims processing cost.

Contractors told us that of the many programs they administer, including Medicare and private plans, TRICARE is the most complicated, contributing to claims processing difficulties and high costs. For example,

[1] *Defense Health Care: Claims Processing Improvements are Under Way but Further Enhancements are Needed* (GAO/HEHS-99-128, Aug. 23, 1999).

each of TRICARE's three options has a different array of benefits, copayments, and deductibles. Claims require different adjudication procedures, depending on which option is involved, and contractual requirements for prepayment review further complicate the process. Complexities such as these are manifested as thousands of edits in the adjudication logic of the claims processing system. These edits result in claims being "kicked out" of the system for manual review, which extends processing time and increases administrative costs. Over half of TRICARE's claims are manually reviewed, a rate significantly higher than the industry average of 25 percent.

Program complexities also contribute to numerous beneficiary and provider inquiries, which add considerably to the cost of processing a claim. TRICARE claim inquiry rates average about one for every 4.5 claims—four times higher than Medicare inquiries. Documentation shows that beneficiaries frequently inquire about their benefits and cost shares because they do not understand the program. Providers inquire most often about payment issues primarily because the same services might be reimbursed at different amounts depending on which TRICARE option the beneficiary is using. TRICARE has thousands of unique fee schedules and contracts that change frequently. In contrast, Medicare reimbursement is more consistent because it has national standard physician and hospital payment methodologies. In addition, Medicare inquiries are handled almost entirely by automated systems.

TRICARE's per-claim processing costs are higher than Medicare's also because TRICARE's fixed costs are spread over a smaller claims base. Medicare costs are spread over about 900 million claims per year, whereas TRICARE processes only about 30 million claims per year.

Under TRICARE less than 20 percent of hospital and professional claims are submitted electronically, compared to the Medicare average of about 85 percent. Electronic claim submissions are faster, involve less chance of data input error, and are less expensive to process than paper claims. Paper-based claims require significant front-end handling in the mailroom, document preparation, imaging, data entry, and storage. However, because TRICARE is usually a small percentage of providers' income—often less than 5 percent—providers have no incentive to incur the expense of adapting their computer systems to permit electronic TRICARE claim submission. Furthermore, because 98 percent of claims are paid within timeliness standards, the incentive to submit electronic claims is further reduced.

Nevertheless, we believe that some opportunities exist to reduce the administrative costs associated with processing a TRICARE claim. One of the claims processing subcontractors reported that $4.46 of each claim processed—totaling about $125 million per year—is paid for services provided or processes required by the program above the costs of determining payment outcomes. For example, responding to TRICARE inquiries reportedly costs $1 per claim more than responding to Medicare inquiries. Other costs that we consider to be targets of opportunity include mailroom handling, document preparation, imaging, paper storage, data entry, and certain reporting requirements. A number of initiatives are currently under way or planned that may reduce these costs as described below.

Initiatives Under Way to Improve Claims Processing Efficiencies

Several legislatively directed and DOD-initiated efforts are under way to simplify the claims adjudication process, improve provider and beneficiary education, and increase electronic claims submission. If properly implemented, these actions should reduce TRICARE claims processing costs.

For example, the House version of the fiscal year 2001 Defense Authorization bill would direct that the Secretary of Defense take action to require high-volume TRICARE providers to submit claims electronically, and increase the use of automated voice response systems for provider inquiries on claims status. Also, the bill would direct that certain administrative reporting requirements be reduced.

With the assistance of a consultant, DOD has developed and is implementing a plan that calls for eliminating unnecessary or duplicative processes that interfere with optimal performance, emphasizing the use of commercial best practices and Medicare standards. For example, the plan calls for adopting Medicare's standards for processing timeliness and the elimination of DOD required edits that should help decrease the number of manually reviewed claims. According to one of the claims processing subcontractors, some of these edits are unnecessary while others should be modified or retained. For example, claims for electrocardiograms must be manually reviewed, but in every case so far, the claims have been paid after review. Last year, for one TRICARE contract, almost 14,000 claims for this procedure were submitted. While DOD has issued formal contract modifications for all the changes it wants to make, contractors have not yet had time to implement all of them.

Additionally, DOD is pursuing the possible use of Medicare's provider identification numbers to encourage and facilitate electronic claims

submission. Also, DOD now permits contractors to delay the payment of paper claims (as an incentive for providers to submit electronically) so long as the contractors continue to meet standards. This initiative mirrors Medicare's process for increasing the number of claims submitted electronically. Further, to reduce the number of manual reviews, DOD is encouraging contractors to limit prepayment review of certain types of claims if appropriate.

DOD and the contractors are also looking at ways to use new technology on the World Wide Web to reduce administrative costs and increase provider and beneficiary satisfaction. Currently, TRICARE claims processing subcontractors have developed comprehensive Web sites containing information on policy and benefits, electronic claims submissions, and claim status.[2] In addition, DOD and contractor officials are considering future use of the Internet as a means to submit claims for processing. This method, which is similar to that used for electronic claims, might provide a more expedient, less expensive means of handling claims. However, before this Web-based technology can be utilized, the government must define security requirements to ensure privacy.

Nonetheless, because TRICARE makes up such a small percentage of most providers' business, neither Web-based nor electronic claims submissions are likely to significantly increase in volume without specific incentives or mandates. However, mandates may increase providers' reluctance to participate in the program. In the future these problems may be mitigated as a result of industry-wide requirements to adopt uniform standards for electronic health care transactions, including claims.[3] Uniform standards for electronic claim submissions will enable providers to submit claims for any health insurance plan in the same filing format.

[2]One subcontractor's Web site (*www.mytricare.com*) allows beneficiaries to access claim status while the other subcontractor's site (*www.wpsic.com*) gives providers access. Both sites are designed to ensure the privacy of beneficiary information.

[3]The Health Insurance Portability and Accountability Act of 1996 (P.L. 104-191) requires the industrywide adoption of uniform standards for electronic transactions, including claims filing.

DOD Could Save Hundreds of Millions of Dollars With a More Effective Antifraud Program

While DOD does not know the precise extent of fraud and abuse in its health care system, it estimates potential annual losses to its TRICARE program to be in the hundreds of millions of dollars. In addition to the financial loss, health care fraud and abuse also affects the quality of care provided and may cause serious harm to patients' health. Despite its responsibility to prevent and detect health care fraud and abuse, DOD has not been effective in doing so, recovering less than 3 percent of its estimated losses to fraud and abuse between 1996 and 1998. DOD has the opportunity to improve its antifraud efforts by developing clear and measurable goals and ensuring that contractors comply with the antifraud requirements in their contracts.

DOD estimates that losses due to fraud and abuse could account for 10 to 20 percent of military health care expenditures. These ranges are consistent with estimates of other public and private-sector organizations, such as the Health Care Financing Administration, the U.S. Chamber of Commerce, the Health Insurance Association of America, and the National Health Care Anti-Fraud Association. Given TRICARE's expenditure of about $2.9 billion for contracted civilian-provided care in fiscal year 1999, DOD could be losing between $290 million and $580 million annually to fraud and abuse. DOD officials acknowledged that they could be more effective in combating fraud and abuse if their TRICARE contractors were more proactive in identifying and referring potential fraud cases. They also agreed that they should expedite the implementation of revised antifraud policies and requirements that place greater demands on contractors to identify and prevent fraud and abuse. However, although DOD provided contractors with antifraud software, not all contractors are using the software. Further, DOD required contractors to develop and submit antifraud plans, but most contractors' initial antifraud plans were deficient. Current statistics do not indicate any significant improvements in DOD's antifraud efforts. Out of over 40 million claims processed from January 1999 through April 2000, only 17 fraud referral cases from the contractors have been accepted by DOD for investigation.[4]

[4] These 17 cases all involved high dollars or had the potential to cause patient harm. In addition, contractors submitted numerous small dollar cases that DOD has returned, believing they should be handled as overpayments rather than as fraud.

Additional Joint Procurement of Pharmaceuticals With VA Would Yield Substantial Savings

We recently testified that DOD and VA would benefit through additional cooperative efforts to procure pharmaceuticals and through the use of VA's Consolidated Mail Outpatient Pharmacy (CMOP) for DOD's prescription refill workload.[5] As the largest direct federal drug purchasers, the Departments already enjoy varying, though significant, discounts on their drug purchases. The expectation is that, as the two agencies buy more of a particular drug, their leverage—particularly under competitively bid contracts—would permit them to obtain even greater discounts from drug manufacturers and to save funds for both Departments. Currently, the two agencies have awarded 18 joint and 51 separate national contracts representing 19 percent of their combined drug expenditures of $2.4 billion in fiscal year 1999. We believe that VA and DOD could potentially save $150 to $300 million more each year by jointly purchasing other medications they both use.

Further, additional savings could be achieved by utilizing VA's mail-out pharmacy program to handle DOD's annual refill workload of about 23 million prescriptions. For example, VA has the capability for mail order refills through its CMOP and documentation shows that CMOP refills cost about one-half of DOD's current costs of refilling prescriptions at military pharmacies. CMOPs potentially could reduce military pharmacy refill dispensing costs by about $45 million annually.

Improving the Medical Appointment Process Would Likely Increase Beneficiary Satisfaction

Since the inception of TRICARE, beneficiaries have complained about the difficulties they encounter in making appointments for health care. For years beneficiaries seeking to make appointments in military treatment facilities accessed care by calling the desired clinic directly. Over the past several years however, DOD has been moving towards a centralized appointment system. In some military medical facilities an appointment center has been created and beneficiaries call that center to schedule various types of appointments. In four TRICARE regions though, TRICARE contractors have established regional appointment centers which beneficiaries call to schedule appointments with physicians in military medical facilities. The contractors perform this function as part of their administrative tasks under their contracts with DOD. We are currently reviewing the appointment making process in TRICARE.

We are finding that the lack of uniform appointment names and requirements for scheduling appointments has resulted in confusion for

[5] *DOD and VA Health Care: Jointly Buying and Mailing Out Pharmaceuticals Could Save Millions of Dollars* (GAO/T-HEHS-00-121, May 25, 2000).

both appointment clerks and beneficiaries, with beneficiaries sometimes being transferred from the appointment center to the military clinic, or told to call the clinic themselves.

Thus, what is meant to be a simplified, more user-friendly appointment process appears to be a complex and confusing process, where beneficiaries are unsure as to whether to call the contractor or the military medical facility to schedule appointments. We expect to be making recommendations at the conclusion of our work.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer questions you or other Task Force members may have.

GAO Contacts and Acknowledgements

For more information regarding this testimony, please call Stephen P. Backhus at (202) 512-7101. Key contributors include Michael T. Blair, Jr., Lois L. Shoemaker, and Bonnie W. Anderson.

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