October 19, 2005

The Honorable John Warner
Chairman
The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Duncan L. Hunter
Chairman
The Honorable Ike Skelton
Ranking Minority Member
Committee on Armed Services
House of Representatives

Subject: *Defense Health Care: Health Insurance Stipend Program Expected to Cost More Than TRICARE But Could Improve Continuity of Care for Dependents of Activated Reserve Component Members*

Since the September 11, 2001, terrorist attacks, the Department of Defense (DOD) has increased its reliance on its National Guard and reserve forces to support the Global War on Terrorism, and particularly Operation Iraqi Freedom. Congress has been interested in making improvements and enhancements to compensation and benefit programs for reserve component members.[1] When reserve component members are activated for more than 30 days under federal authorities, they are covered under TRICARE, DOD's health care system.[2] While reserve component members are automatically covered by TRICARE when activated, their spouses and other dependents have the option of using either TRICARE or their private health insurance. However, our prior work[3] found that

[1] DOD's reserve components include the collective forces of the Army National Guard and the Air National Guard, as well as the forces from the Army Reserve, the Naval Reserve, the Marine Corps Reserve, and the Air Force Reserve. The Coast Guard Reserve is a service in the Department of Homeland Security, except when operating as a service in the Navy during times of war or national emergency.
[2] DOD provides health care through TRICARE, a regionally structured program that uses civilian contractors to maintain health care provider networks that complement health care provided at military treatment facilities.
[3] GAO, *Defense Health Care: Most Reservists Have Civilian Health Coverage but More Assistance is Needed When TRICARE Is Used*, GAO-02-829 (Washington, D.C.: Sept. 6, 2002).

dependents of reserve component members who had dropped their private health insurance reported problems accessing the TRICARE system—such as difficulty finding a health care provider, establishing eligibility, understanding TRICARE benefits, and knowing where to go when questions and problems arise. In addition, maintaining continuity of care with the same health care providers, especially for dependents with chronic medical conditions, may be problematic after switching to TRICARE. To address these concerns, some legislative proposals would give reserve component members the option of accepting a stipend from DOD to help defray the cost of continuing their private health insurance for their spouses and dependents when they are activated for more than 30 days.

The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005[4] requires us to determine the cost and feasibility of providing a stipend to members of the Ready Reserve[5] to offset the cost of continuing their current private health insurance coverage for their dependents while they are on active duty. Specifically, we (1) examined whether the implementation of a health care stipend program would be likely to increase or decrease the cost to DOD of providing health care to the spouses and dependents of reserve component members and (2) identified the potential implications of a stipend program on members and their families, DOD, and the members' employers.

To determine the cost of a stipend program, we requested the Congressional Budget Office (CBO) to prepare an estimate of cost for a stipend program for varying rates of participation since it is not within our purview, but rather CBO's, to develop cost estimates associated with legislative proposals. CBO also prepared an estimate of cost to DOD for spouses and dependents of activated reserve component members using TRICARE instead of receiving the stipend.

To identify the potential implications of a stipend program on recruitment, retention, and medical readiness,[6] we discussed and obtained documentation from DOD's Office of the Assistant Secretary of Defense for Reserve Affairs and Office of the Assistant Secretary of Defense for Health Affairs and representatives of selected military service organizations—the Enlisted Association of the National Guard of the United States, the Reserve Officers Association of the United States, and the Military Officers Association of America. We also analyzed the November 2004 DOD survey of reserve component members to identify those factors reserve component members consider important for retention. We also discussed the potential implications of a stipend program with representatives of two organizations representing employers—the National Federation of Independent Businesses and the National Association of Manufacturers. For more detailed information on our scope and methodology, see enclosure I. We performed our

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[4] Pub. L. No. 108-375, § 702 (2004).
[5] The Ready Reserve accounts for about 98 percent of nonretired reserve component members and consists of individuals who are subject to activation under the provisions of 10 U.S.C. § 12301 and § 12302.
[6] For this report, we defined medical readiness as the medical fitness of servicemembers to perform their mission.

work from February 2005 through September 2005 in accordance with generally accepted government auditing standards.

Results In Brief

Offering a health care stipend to reserve component members could cost DOD from $365 million to $735 million over a 5-year period—fiscal years 2006 through 2010—exclusive of program administration costs, for a specific range of reserve component member participation rates. CBO officials cautioned that in the absence of specific legislative language that describes the design of a proposed stipend program in detail, CBO's estimates should be considered preliminary. Final CBO estimates would reflect actual legislative language and CBO's then current baseline assumptions. For example, in preparing this estimate of cost, CBO assumed that the amount of the stipend would equal the average worker contribution for family health plans. However, for deployments of more than 30 days, employees may be liable for the full health insurance premium, including the employer share, plus an additional 2 percent for administrative costs. This amount may be significantly higher than the amount of the stipend used by CBO in preparing the estimate of cost. In addition, DOD estimated that it would cost about $10 million for startup costs in the first year of implementation and $20 to $25 million annually to administer stipend payments to participating reserve component members. Since the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 did not identify the specific design features of a stipend program, it was difficult to identify a reliable anticipated participation rate for a stipend program. Using CBO's cost estimate of a 75 percent participation level by eligible servicemembers and including DOD's estimate of administrative costs, it could cost DOD $230 million (45.5 percent) more to provide health care stipends to spouses and dependents of activated reserve component members over a 5-year period (fiscal years 2006 through 2010) than to provide TRICARE to these individuals.

The most significant potential impact of a health care stipend program could be to improve continuity of care for spouses and dependents of reserve component members because the availability of a stipend would potentially allow more reserve component members to continue their private health insurance while they are activated. Continuation of their private health insurance would help family members avoid disruption in ongoing medical treatment caused by switching to TRICARE for their health care coverage, by enabling them to keep their current health care providers. Civilian employers of reserve component members may also benefit from the availability of a stipend since this amount will help to offset the burden on those employers who choose to pay the full contribution for their activated employees. However, DOD officials are unaware of any evidence to support that a stipend would have any impact on several other issues affecting the reserve components, including medical readiness, recruitment, or retention of reserve component members.

Background

There are seven reserve components: the Army Reserve, Army National Guard, Air Force Reserve, Air National Guard, Naval Reserve, Marine Corps Reserve and the Coast Guard Reserve. Reserve forces can be divided into three major categories: the Ready Reserve, the Standby Reserve, and the Retired Reserve. The Ready Reserve had about 1.1 million National Guard and reserve members as of July 2005, and as of September 2005, members of the Ready Reserve have been the only reserve component members subject to mobilization under the partial mobilization authority[7] declared by the President on September 14, 2001.[8]

Under federal mobilization authorities, members of the reserve component may be activated to move the military from its peacetime posture to a heightened state of readiness to support national security objectives in times of war or other national emergencies. In recent years, DOD has dramatically increased its reliance on reserve component members for military operations, particularly those in Afghanistan and Iraq. Between September 2001 and May 2005, DOD mobilized more than 436,000 reserve component members. The average number of days a reserve component member spent on active duty for three ongoing operations (Operations Noble Eagle, Enduring Freedom, and Iraqi Freedom) as of March 2004 totaled 342 days.

The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 included several provisions to enhance health care benefits for reserve component members and their dependents—which includes spouses, children, and others who qualify—to help with their transition from civilian status to active duty status. Generally, these provisions provided for the following:

- Permanent authority for reserve component members and their dependents to be eligible for TRICARE benefits when they receive a delayed-effective-date order for activation up to 90 days before activation.
- Permanent authority to provide transitional health care benefits to certain service members and their dependents for up to 180 days following separation from active duty.
- Authorized waiver of certain deductibles required by certain TRICARE programs for dependents of certain reserve component members who are called or ordered to active duty for a period of more than 30 days.
- Exemption for dependents of reserve component members who are ordered to active duty for a period of more than 30 days from paying a health care provider any amount above the TRICARE maximum allowable charge.

[7] The partial mobilization authority limits involuntary mobilizations to not more than 1 million reserve component members at any one time, for not more than 24 consecutive months during a time of national emergency.
[8] Executive Order 13223 of September 14, 2001.

Also, the Act gave those reserve component members called up on or after September 11, 2001 an opportunity to purchase TRICARE health care coverage for themselves and their family members after they demobilize.[9] This program, known as TRICARE Reserve Select, requires the member to agree to continue serving for a period of one year or more in the Selected Reserve after their active duty service ends.

A reserve component member is covered by TRICARE while activated. The member's dependents, who qualify, have the option of using TRICARE at no premium or continuing to use health insurance that may be provided by the member's employer, which may include a cost to the member. TRICARE eligible dependents can obtain health care through DOD's direct care system of military hospitals and clinics, commonly referred to as military treatment facilities, and through DOD's purchased care system of civilian providers. DOD uses managed care support contractors to develop networks of providers to complement care available in military treatment facilities. The Office of the Assistant Secretary of Defense for Health Affairs establishes TRICARE policy. DOD's TRICARE Management Activity, under the Assistant Secretary of Defense for Health Affairs, is responsible for procuring, administering, and overseeing the health care contracts for purchased care.

Under the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA),[10] activated reserve component members' employer-provided health benefits are protected. Specifically, for absences of 30 days or less, health benefits continue as if the employee had not been absent. For absences of 31 days or more, coverage stops unless (1) the employee elects to pay for the coverage, including the employer contributions,[11] or (2) the employer voluntarily agrees to continue coverage.[12] Under USERRA, employers must reinstate reserve component members' health coverage upon reemployment.

In May 2003, about 87 percent of reserve component members with dependents reportedly had health insurance before they were mobilized. Of these members, only about 54 percent reportedly continued their health insurance during their activation.[13]

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[9] Reserve component members may be eligible to purchase TRICARE "after the member completes service on active duty to which the member was called or ordered for a period of more than 30 days on or after September 11, 2001, under a provision of law referred to in section 101(a)(13)(B), if the member (1) served continuously on active duty for 90 or more days pursuant to such call or order; and (2) on or before the date of the release from such active-duty service, entered into an agreement with the Secretary concerned to serve continuously in the Selected Reserve for a period of one or more whole years following such date." See Pub. L. No. 108-375 § 701.

[10] Codified at 38 U.S.C. §§ 4301- 4334, as amended.

[11] For deployments of 31 days or more, USERRA permits the employer to assess an additional 2 percent administrative fee if the reserve component members elect to continue with private health insurance and pay the full premium, including the employer share.

[12] When the employer elects to continue mobilized reserve component members' health insurance, the reserve component member may continue to be liable for the employee portion of the premium. However, some employers pay the full premium.

[13] Based on responses to DOD's May 2003 Status of Forces Survey of reserve component members. DOD officials told us that the May 2003 survey represented a more accurate portrayal of this information than the November 2004 survey.

Estimated Costs For Providing a Health Care Stipend Higher Compared to TRICARE

Providing a health care stipend program to activated reserve component members to enable their dependents to maintain their private health insurance would likely cost more than TRICARE, according to CBO's estimates prepared for this study. In September 2005, CBO estimated that offering a health care stipend program to reserve component members would cost DOD from $365 million to $735 million over a 5-year period—fiscal years 2006 through 2010—exclusive of program administration costs, for a specific range of reserve component member participation rates. CBO officials cautioned that in the absence of specific legislative language that describes the design of a proposed stipend program in detail, CBO's estimates should be considered preliminary. Final CBO estimates would reflect actual legislative language and CBO's then current baseline assumptions. For example, in preparing this estimate of cost, CBO assumed that the amount of the stipend would equal the average worker contribution of family health care plans. Since the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 did not identify the specific design features of a stipend program for our review, it was difficult to identify a reliable anticipated participation rate for a stipend program. In addition, DOD estimated that it would cost about $10 million for startup costs in the first year of implementation and $20 to $25 million annually to administer stipend payments to participating reserve component members. Adding the DOD administrative cost estimates to the CBO program cost estimates and comparing them to CBO estimates for TRICARE shows that a stipend program would cost DOD $230 million (45.5 percent) more than TRICARE over a 5-year period (fiscal years 2006 through 2010). (See enclosure II for estimate of cost assumptions.)

CBO Estimate of Cost for a Health Care Stipend Program

CBO developed an estimate of cost for a stipend program at varying rates of participation by reserve component members in the program. In consultation with CBO analysts, we agreed that CBO would prepare an estimate of cost for a stipend program equal to the employee's share of health insurance, excluding federal employees. Since the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 did not identify the specific design features of a stipend program for our review, it was difficult to identify a reliable anticipated participation rate for a stipend program. As proxies for varying rates of participation, we requested CBO to prepare an estimate of cost at three levels of participation: low range (45 percent of eligible population), medium range (75 percent of eligible population), and high range (90 percent of eligible population). We selected the low range of participation (45 percent) as a marker representing the percentage of activated reserve component members with spouses and dependents that had private health insurance before the members activated and chose to continue this insurance coverage while they were activated and after excluding those members expected to participate in the TRICARE Reserve Select program. Similarly, we selected the medium range (75 percent) as a marker representing those reserve component members with dependents that had private health insurance before they were activated

and also after excluding those members expected to participate in the TRICARE Reserve Select program. We selected the high range (90 percent) rather than 100 percent since full participation in a program is rarely achieved.

Using a range of specified participation rates in a stipend program, CBO estimated that DOD's cost for a stipend program, exclusive of administrative costs, ranged from $365 million to $735 million for fiscal years 2006 through 2010, as shown in table 1.[14]

Table 1: CBO Estimate of Cost for a Health Care Stipend Program At Varying Rates of Participation, Exclusive of Administrative Costs, Fiscal Years (FY) 2006 – 2010[a]

Dollars in millions

Rates of Participation in Stipend Program	FY 2006[b]	FY 2007	FY 2008	FY 2009	FY 2010	Total Cost For FY 2006-2010
Low range (45 percent of eligible population)	60	105	85	60	55	365
Medium range (75 percent of eligible population)	100	170	140	110	90	610
High range (90 percent of eligible population)	120	205	170	135	105	735

Sources: Estimate of cost from CBO; rates of participation provided by GAO.
[a]CBO officials cautioned that in the absence of specific legislative language that describes the design of a proposed stipend program in detail, CBO's estimates should be considered preliminary. Final CBO estimates would reflect actual legislative language and CBO's then current baseline assumptions.
[b]CBO's estimate assumed that costs would be less in 2006 as the first year of the program because it takes time for potential participants to become aware of and actually enroll in the program. For this reason, CBO estimated that participants would receive the stipend for only part of the year in the first year of the program.

Administrative Costs

DOD officials believe that the method of paying the stipend—directly to reserve component members, to employers, or to insurance companies—would affect DOD's administrative costs. Office of the Assistant Secretary of Defense for Reserve Affairs (OASD/RA) officials commented that there would be administrative costs to establish and administer the payment system, regardless of which method is mandated. However, OASD/RA officials believe that the administrative costs might be smaller if the payments were provided directly to the reserve component member. This would avoid the need to establish a new, unique process to handle payments/claims from hundreds or thousands of employers/insurance companies.

If stipend payments are made directly to the reserve component member, OASD/RA officials commented that some members may use the payments for expenses other than health insurance unless appropriate internal control processes are incorporated. In addition, CBO advised us that the decision to pay stipends directly to the reserve component member could affect participation rates, and therefore, program costs.

[14] We did not assess the implications of making a stipend payment taxable or non-taxable to the reserve component member. If the stipend is taxable to the member, any taxes would effectively reduce the net cost to the government and the amount available to the member for defraying the cost of his or her private health insurance. We did not determine whether taxing the stipend would significantly affect the extent to which members would participate in a stipend program.

In order to calculate administrative costs for a stipend program, DOD officials commented that the requirements of the stipend program would need to be defined, including the eligibility rules, portion of the premium to be covered by stipend, and required documentation.

DOD's TRICARE Management Activity estimated that administrative costs for a stipend being paid directly to the member would approximate $10 million in startup costs and $20 to $25 million annually to administer the program. We were told that DOD had not estimated administrative costs for stipend payments being paid directly to employers or health insurance companies.

Comparative Costs Under TRICARE

We compared the estimated cost to DOD of providing health care for dependents of activated reserve component members under a stipend program and under TRICARE. For this comparison, we used the medium range, or 75 percent participation rate, for a health care stipend program.[15] Based on CBO's estimate of cost at the 75 percent participation level and DOD's estimate of administrative costs, a stipend program could cost DOD $735 million compared with estimated costs of $505 million to provide TRICARE to reserve component members' spouses and dependents. Thus, the net cost of providing a stipend to reserve component members is estimated to be $230 million (45.5 percent) more expensive than TRICARE over the 5 year period (fiscal years 2006 through 2010), as shown in table 2. This net difference will vary depending on the participation rate.

Table 2: Estimated Costs to DOD for Health Care Stipend Program Compared to TRICARE

Dollars in millions

	FY 2006	FY 2007	FY 2008	FY2009	FY 2010	Total Costs For FY 2006-2010
Under Stipend Program At 75 Percent Participation Rate including Administrative Costs[a]	125	195	165	135	115	735
Under TRICARE[b]	150	120	100	75	60	505
Difference	<25>	75	65	60	55	230

Source: Estimate of cost for stipend program and under TRICARE from CBO; estimate of administrative costs from TRICARE Management Activity.
[a]For this comparison of estimated costs, we used $25 million each year for administrative costs.
[b]See enclosure II for CBO assumptions in the estimate of cost under TRICARE.

[15] DOD officials also expressed concern that a stipend payment may represent a dual benefit to the reserve component member if the stipend includes a portion for the member even though the member is already covered by TRICARE while activated.

Stipend Program Could Improve Continuity of Health Care For Reserve Component Members' Families, But May Have Minimal Impact On Other Reserve Issues

Implementing a stipend program to help defray a family's cost of maintaining their private health insurance when a reserve component member is activated for duty may have positive implications in terms of continuity of care and decreased costs for civilian employers; however, DOD officials do not believe that other factors—such as recruitment, retention, and medical readiness—would likely be significantly affected. By providing a stipend for health coverage to reserve component members, fewer families may experience disruptions in medical treatment. In addition, civilian employers may decide to reduce their contribution for the reserve component members' private health insurance while the member is activated if a stipend is available. However, a stipend is not likely to cause more individuals to join or remain in the reserve components, or improve the medical readiness of activated reserve component members.

Health Care Stipend Program Could Improve Continuity of Care and May Decrease Civilian Employer Costs

A DOD health care stipend program could improve the continuity of care for families of reserve component members and may decrease costs for civilian employers while the member is activated. Officials with the Office of the Assistant Secretary of Defense for Health Affairs commented that payment of a stipend might enable families to avoid disruption in ongoing medical treatment caused by families shifting to TRICARE when the reserve component member is ordered to active duty for a period of more than 30 days because, with a stipend, dependents would be able to keep their same health care providers. Officials pointed out that the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 provides authority for waiving TRICARE deductibles and enabling higher payments to physicians who do not accept TRICARE payment rates, which would also increase the likelihood that family members can continue receiving care from the same health care providers. According to an official in the Office of the Assistant Secretary of Defense for Reserve Affairs (OASD/RA), DOD is still in the process of rule-making for these provisions; however, in the interim, a demonstration project for reserve component family members with these provisions has been extended until October 2007. Officials with the Military Officers Association of America and the Enlisted Association of the National Guard of the United States told us that switching to TRICARE may cause disruption of health care because some reserve component members live in areas that are not close to military treatment facilities and where health care providers may not accept TRICARE patients. In July 2003, we also reported that DOD and its contractors have reported long-standing health care provider shortages in some geographic areas and that a lack of health care providers in certain

geographic locations, low reimbursement rates, and administrative requirements contribute to potential civilian provider network inadequacy.[16]

OASD/RA officials commented that the implications of a health care stipend program for employers would depend on how such a program is designed. DOD's survey of reserve component members conducted in November 2004 found that employers for 42 percent of the respondents paid the entire premium for their private health insurance and another 43 percent paid a portion of the insurance premium while the member was activated. Because increasing employee health care costs are a major concern for employers, we believe that the availability of a stipend may encourage employers to transfer all or a portion of their cost for continuing the employer-based health insurance to DOD. While there is no empirical evidence that describes employer reactions, OASD/RA officials believe that employers who paid some portion or all of the premium payments for reserve component members who continue their private health insurance while activated are unlikely to continue making such payments if the federal government covers the expense. If employers reduce their contribution for the premium because of the availability of a stipend, the employee's share could increase and, therefore, the potential cost of a stipend program may increase if the amount of the stipend is linked to the employee's share.

Neither the National Association of Manufacturers nor the National Federation of Independent Businesses had surveyed their employer memberships about the proposed stipend program. Similarly, neither had taken any positions on legislative proposals to provide stipends to reserve component members. However, officials from both organizations commented that they believe the vast majority of their members would prefer that stipends be made to employees or insurance companies rather than to employers. They added that most employers do not like the idea of dealing with the federal government because of the various reporting and verification requirements that usually accompany such a program. Also, most of their member-employers are relatively small companies with small human resource staffs that would likely have additional responsibilities associated with a stipend program.

Less Impact on Other Reserve Component Issues

DOD officials are unaware of any evidence to support that a stipend would have any impact on several other issues affecting the reserve components, including medical readiness, recruitment, or retention of reserve component members. Representatives of three military service organizations we contacted had mixed views about the effects of a stipend program on recruitment but two of the three organizations believed that it could positively affect retention in the reserve component.

- *Recruitment:* OASD/RA officials commented that DOD has no evidence that any form of medical benefits or the prospect of such benefits during future periods of

[16] GAO, *Defense Health Care: Oversight of the TRICARE Civilian Provider Network Should Be Improved*, GAO-03-928 (Washington, D.C.: July 31, 2003).

active duty affect individuals' decisions to join the reserve component. Officials commented that it is very unlikely that the potential for future medical benefits is an important factor in the decision of non-prior service recruits to join the reserve component. However, officials commented that a stipend program may contribute positively to the decision of prior-service recruits to join the reserve component because their families would be able to remain in the same health care system and keep the same providers while the members are on active duty. Officials with the Reserve Officers Association of the United States commented that they do not believe a health care stipend program would draw more people to the reserve component. Similarly, officials with the Military Officers Association of America said that they are not sure of the extent to which a stipend program would impact recruitment. However, officials with the Enlisted Association of the National Guard of the United States commented that they believe a stipend program may positively impact the recruitment of older individuals with families but have less of an impact on younger members without families.

- *Retention:* Although DOD has not surveyed reserve component members to determine the effect a stipend might have on retention, OASD/RA officials believe that it is unlikely that a stipend program would appreciably affect overall reserve component member retention. Officials cited recent surveys of National Guard and reserve members that found health care, in general, was ninth in relative importance in their decision to continue to participate in the reserve component. Only four percent of the respondents placed health care as the most important factor affecting their decision, and fewer than 15 percent placed it in their top three considerations. Some factors that were more important than health care for members' decision making as to whether to continue to participate in the reserve component were pay and allowances, military retirement, and predictability, frequency, and duration of deployments. Officials with the Enlisted Association of the National Guard of the United States said that a stipend program could positively impact retention of reserve component members since it would improve the continuity of care for families. Officials with the Reserve Officers Association of the United States said that they believe a stipend program would have a positive impact on retention because the lack of control in choosing health care insurance coverage is one of many reasons cited by reserve component members who leave military service. Officials with the Military Officers Association of America were unsure of the extent to which a stipend would impact retention but said that health care disruption is one of many factors causing retention problems.

- *Medical readiness:* DOD officials commented that it is difficult to understand how a stipend program for dependents would improve the medical readiness of reserve component members. They added that the only possible impact of a stipend program on medical readiness is the peace of mind achieved through the knowledge that members' families would be able to continue their private health insurance. However, officials commented that they are not aware of any study that supports the assumption that the member, while deployed, may enjoy

increased peace of mind knowing their family members have health care coverage through private health insurance rather than TRICARE.

Concluding Observations

DOD officials believe that making stipend payments directly to the reserve component member would be more efficient than making such payments to the members' employers or health insurance plans. Further, CBO points out that making stipend payments directly to the member could increase the rate of participation in a stipend program and thus increase the cost of the program. We believe that making stipend payments available to the member creates some risk that the funds may not be used for the intended purpose. To mitigate the risk of abuse, appropriate internal controls are important in implementing a health care stipend program.

Agency Comments And Our Evaluation

DOD provided written comments on a draft of this report, which are found in enclosure III. The Assistant Secretary of Defense for Reserve Affairs commented that the estimated cost of a stipend program could be substantially more than the CBO estimate of cost, depending on the specific requirements included in proposed legislation. Factors the Assistant Secretary said could significantly increase the cost of a stipend program included:

- Continued deployment of reserve component members at fiscal year 2006 levels rather than assuming a decreasing number of deployed members;
- Payment of a stipend amount higher than the average worker contribution for health insurance for employed workers; and
- Payment of a stipend during the period before and after the member is activated.

We agree that the cost of the stipend program could be significantly more than the CBO estimate. As noted in our report, the actual cost of a stipend program would depend on the number of reserve component members activated over the next five years and the specific design of a stipend program. CBO's estimate of cost is based on the assumptions provided in enclosure II.

Changes were made to the report, where appropriate, to respond to technical comments.

We are sending copies of this report to the Secretary of Defense and other interested parties. We will provide copies of this report to others upon request. In addition, the report is available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact me at (202) 512-5559 or stewartd@gao.gov. Key contributors to this report are listed in enclosure IV.

Sincerely yours,

Derek B. Stewart
Director, Defense Capabilities and Management

Scope and Methodology

To meet our objectives, we interviewed responsible officials and reviewed pertinent documents, reports, and information, when available, related to the cost and effects of providing a stipend to activated reserve component members obtained from officials at the Office of the Assistant Secretary of Defense for Reserve Affairs; the Office of the Assistant Secretary of Defense for Health Affairs; the TRICARE Management Activity; the Defense Manpower Data Center (DMDC); representatives of selected military service organizations—the Enlisted Association of the National Guard of the United States, the Reserve Officers Association of the United States, and the Military Officers Association of America; representatives of two organizations representing employers—the National Federation of Independent Businesses and the National Association of Manufacturers; DOD's National Committee for Employer Support to the Guard and Reserve; and Humana Inc.

To determine the cost to DOD for providing a stipend to activated reservists, we requested CBO to prepare an estimate of cost for fiscal year 2006 through fiscal year 2010 for varying rates of participation in a stipend program since developing cost estimates associated with legislative proposals is not within our purview, but rather CBO's. In consultation with CBO analysts, we agreed that CBO would prepare an estimate of cost for a stipend program for a stipend equal to the employee's share of health insurance, excluding federal employees, for the specified participation rates, utilizing those assumptions that CBO considered most appropriate and its expertise in preparing cost projections.[17]

Since the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 did not identify the specific design features of a stipend program, it was difficult to identify a reliable anticipated participation rate for a stipend program. To identify reasonable markers for participation rates in a stipend program, we analyzed recent data obtained from the May 2003 Status of Forces survey administered to members of the reserve component regarding the percentage that have health insurance other than TRICARE and the percentage that maintained this coverage when they were activated. Based on discussions with DOD officials, we chose the May 2003 Status of Forces survey instead of the more recent November 2004 survey for three reasons: (1) the series of questions related to other health insurance in the May 2003 survey seemed more straight-forward than in the November 2004 survey, which did not ask an overall question on the percentage of families with insurance prior to their most recent activation; (2) the May 2003 survey response percentages for other health insurance coverage were consistent with our prior analysis of this issue from 2000 survey data; and (3) quality control checks were possible on the May 2003 survey that were not possible on the November 2004 survey. In addition, DMDC officials had not analyzed the November 2004 survey data to

[17] CBO officials cautioned that in the absence of specific legislative language that describes the design of a proposed stipend program in detail, CBO's estimates should be considered preliminary. Final CBO estimates would reflect actual legislative language and CBO's then current baseline assumptions.

the same degree that the May 2003 survey data had been analyzed. We found estimates from the May 2003 Status of Forces survey to be sufficiently reliable for the purposes of this report.

As proxies for varying rates of participation, we requested CBO to prepare an estimate of cost at three levels of participation: low (45 percent of eligible population), medium (75 percent of eligible population), and high (90 percent of eligible population). We selected the low level of participation (45 percent) as a marker representing the percentage of activated reserve component members with dependents that had continued their private health insurance while they were activated and after excluding those members (17 percent) expected by the TRICARE Management Activity to participate in the TRICARE Reserve Select program. Similarly, we selected the medium level (75 percent) as a marker representing those reserve component members with dependents that had private health insurance before they were activated and also after excluding those members expected by the TRICARE Management Activity to participate in the TRICARE Reserve Select program. We selected the high level (90 percent) as a marker, recognizing that full participation in a program is rarely achieved.

At our request, CBO also prepared an estimate of cost to DOD for dependents of activated reserve component members using TRICARE instead of receiving the stipend. For the estimate of cost for TRICARE, CBO used the average TRICARE cost per dependent based on fiscal year 2003 TRICARE costs for active duty dependents. We did not independently verify the data used by CBO in preparing its estimate of cost. Enclosure II shows the assumptions used by CBO in preparing its estimates of cost for a stipend program and comparative costs under TRICARE.

We discussed administrative and management considerations for DOD in implementing a stipend program with DOD officials and obtained related documentation. We also obtained an estimate of the cost to administer a stipend program from the TRICARE Management Activity. We did not independently assess the reliability of DOD's estimate for administrative costs.

To identify the potential implications of a stipend program on recruitment, retention, and medical readiness, we discussed and obtained documentation from DOD's Office of the Assistant Secretary of Defense for Reserve Affairs and Office of the Assistant Secretary of Defense for Health Affairs and representatives of selected military service organizations—the Enlisted Association of the National Guard of the United States, the Reserve Officers Association of the United States, and the Military Officers Association of America. We also analyzed the November 2004 DOD survey of reserve component members to identify those factors they consider important for retention.

We discussed the potential implications of a stipend program on continuity of care for dependents with pre-existing health conditions with DOD officials and obtained related documentation. We also discussed the prevalence of special medical needs within the TRICARE dependent population with a Humana Inc. official since Humana Inc. has the contract for administering the TRICARE program for about 2.8 million beneficiaries in the 10-state South region.

We also discussed the potential implications of a stipend program for employers with representatives of two organizations representing employers—the National Federation of Independent Businesses and the National Association of Manufacturers—with officials representing DOD's National Committee for Employer Support to the Guard and Reserve, and with DOD officials. We also obtained related documentation, when available, from these organizations and officials.

We performed our work from February 2005 through September 2005 in accordance with generally accepted government auditing standards.

Assumptions Used In CBO Estimate of Cost For the Stipend Program and Comparative Costs Under TRICARE

In developing the estimate of cost for the stipend program at specified participation rates, CBO used the following assumptions:

- Based on an analysis of the number and types of reserve component members currently activated, CBO estimates that 165,000 reserve component members will be activated in 2005. CBO assumes that force levels and overseas operations for 2006 will remain at levels expected for 2005 and decline gradually over several years. If the number of reserve component members called to active duty were to remain at current levels over the 2006 through 2010 period, the cost of this program would be significantly higher. Costs are based on the following numbers of reserve component members being activated for more than 30 days:

Table 3: Number of Reserve Component Members Activated For More Than 30 Days, Fiscal Years 2006 Through 2010

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Reserve component members activated for more than 30 days	165,000	130,000	100,000	75,000	55,000

Source: CBO.

- The stipend is available only to activated reserve component members with dependents. Sixty percent of the activated reservists would have dependents based on 2005 data from DOD's Reserve Component Common Personnel Data System.

- No cost was included for the 11 percent of reserve component members with dependents who are assumed to be enrolled in the Federal Employee Health Benefits Program based on 2005 data from DOD's Reserve Component Common Personnel Data System and 2004 data from the Office of Personnel Management Central Personnel Data File.

- Amount of the stipend is the average worker contribution of family health insurance premiums based on 2004 data from The Kaiser Family Foundation and Health Research and Education Trust.

- Health insurance premiums would increase at an annual inflation rate of 7 percent.

In calculating the estimated costs for the dependents of the activated reserve component members under TRICARE, CBO used the following assumptions:

- Only 30 percent of activated reserve component members with dependents move their dependents to TRICARE when activated.

- The average number of dependents per activated member is 2.3 based on 2005 data from DOD's Reserve Component Common Personnel Data System.

- Average TRICARE cost per dependent is based on the fiscal year 2003 TRICARE costs for active duty dependents.

- TRICARE costs per dependent will increase annually by CBO's Consumer Price Index—Medical component forecast.

Comments From the Department Of Defense

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1500

RESERVE AFFAIRS

OCT 13 2005

Mr. Derek B. Stewart
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Stewart:

This is the Department of Defense (DoD) response to the Draft GAO report "DEFENSE HEALTH CARE: Health Insurance Stipend Program Expected to Cost More Than TRICARE But Could Improve Continuity of Care for Dependents of Activated Reserve Component Members" dated October 3, 2005 (GAO Code 350659/06-128R). Written recommendations and comments attached.

Should you have any questions reference this response, please direct them to my point of contact, Colonel Kathleen Woody at 703-693-2296 or by email at Kathleen.woody@osd.mil.

Sincerely,

T. F. Hall

T. F. Hall

Attachment:
As stated

GAO DRAFT REPORT – DATED OCTOBER 3, 2005
GAO CODE 350659/GAO-06-128R

"DEFENSE HEALTH CARE: Health Insurance Stipend Program Expected to Cost More Than TRICARE But Could Improve Continuity of Care for Dependents of Activated Reserve Component Members" (GAO-06-128R)

DEPARTMENT OF DEFENSE RESPONSE AND RECOMMENDATIONS TO DRAFT REPORT

1. Recommend GAO expand on the limitations of the methodology of the study and incorporate footnote 7 on page 3 into the main body of the text.

Rationale: DoD is concerned that the estimated cost of this proposed program could be substantially more than CBO estimated depending on the requirements that may be included in any proposed legislation. While the CBO provided a range of estimates based on participation rates, changes in other assumptions could significantly affect the cost.

a. The number of deployed reserve members is projected to decline by two thirds. Continued deployments at FY 2006 levels could easily triple these estimates.
b. The amount of the stipend was estimated using the average worker contribution among employed workers. Unless there is a cap on the stipend, the possibility exists that employers would discontinue providing their portion of the premiums, knowing that the RC member would be compensated for the additional cost. Given that employees typically pay only one-fourth to one-third of their premiums, the estimate could easily be tripled or quadrupled.
c. Since the period during which the stipend is to be paid is unknown, there is uncertainty as to whether this payment would be continued during the pre and post-deployment periods which could again significantly increase the estimated cost.
d. The report does not reflect the cost of providing a dual benefit to those RC members who elect the stipend program (the member would continue to receive care through the military health care system while also receiving a stipend for civilian health insurance) which impacts the overall cost to the program. Recommend this be incorporated into the report.

2. Change last sentence in the last paragraph under "Results in Brief" (Page 4) to read: "There is no evidence to support that a stipend would have any impact on medical readiness, recruitment or retention of RC members."

Rationale: Sentence should be rephrased to reflect an objective rather than subjective statement.

3. Delete last sentence in last paragraph, on Page 11 beginning with "In addition, civilian employers may benefit by paying less to cover reserve component member's private health insurance while the member is activated.

Rationale: There is no requirement under the law for employers to pay anything for coverage of members when activated. Further, COBRA and USERRA both provide an additional 2% to be added to the full premium of coverage to defray any administrative costs suffered by the employer for providing the continuation of coverage. If employers choose to absorb the costs of continued coverage or continue to pay some or all of the premium payments, rather than passing it along to the former employee, it is their own independent decision.

GAO Contact and Staff Acknowledgments

GAO Contact Derek B. Stewart (202) 512-5559 or stewartd@gao.gov

Acknowledgments In addition to the individual named above, Brenda Farrell, Assistant Director; Steve Fox; Joseph Applebaum; Timothy Carr; Alissa Czyz; Jennifer Popovic; William Mathers; Elisha Matvay; Terry Richardson; Clifton Spruill; John Van Schaik; and Michael Zola made key contributions to this report.

(350659)

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