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September 17, 2020

The Honorable James M. Inhofe  
Chairman  
The Honorable Jack Reed  
Ranking Member  
Committee on Armed Services  
United States Senate

The Honorable Adam Smith  
Chairman  
The Honorable Mac Thornberry  
Ranking Member  
Committee on Armed Services  
House of Representatives

### **Defense Health Care: Implementation of Value-Based Initiatives in TRICARE**

In fiscal year 2019, the Department of Defense (DOD) offered health care services to approximately 9.6 million eligible beneficiaries worldwide through TRICARE, its regionally structured health care program.<sup>1</sup> Beneficiaries may obtain health care services through DOD’s direct care system of military hospitals and clinics—referred to as military treatment facilities—or from its purchased care system of civilian providers. In each of its two TRICARE regions (East and West), DOD contracts with private sector companies—referred to as managed care support contractors—to develop and maintain networks of civilian providers and perform other customer service functions, such as processing claims, enrolling beneficiaries, and assisting beneficiaries with finding providers for its purchased care system. In fiscal year 2019, purchased care accounted for 55 percent of the total costs for health care services delivered to TRICARE beneficiaries.<sup>2</sup>

Within DOD, the Defense Health Agency (DHA) administers the TRICARE program, which includes awarding and overseeing the managed care support contracts and setting policy for both the direct and purchased care systems, among other responsibilities. The National Defense Authorization Act for Fiscal Year 2017 (NDAA 2017), enacted in December 2016,

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<sup>1</sup>Eligible beneficiaries include active duty servicemembers and their dependents, medically eligible National Guard and Reserve members and their dependents, and retirees and their dependents and survivors, among others. Active duty personnel include Reserve component members on active duty for at least 30 days.

<sup>2</sup>Department of Defense, *Evaluation of the TRICARE Program: Fiscal Year 2020 Report to Congress, Access, Cost, and Quality Data through Fiscal Year 2019* (Feb. 29, 2020).

required a number of changes to the TRICARE program through its contracts.<sup>3</sup> Specifically, it required DOD to develop and implement value-based initiatives that, among other things, link payments for health care providers to improved performance with respect to quality, cost, and reducing the provision of inappropriate care.

Value-based health care is a health care delivery model in which providers, including hospitals and physicians, are paid based on patient health outcomes. Value-based health care seeks to reward value over volume, with value generally measured in terms of improved health outcomes, enhanced experience of care for the patient, and reduced health care costs over time. It differs from a fee-for-service (FFS) approach, in which providers are generally paid based on the amount of health care services they deliver, regardless of the quality of the care or effect on the patient's health.

In a 2018 report to Congress, DHA indicated that it is beginning to transition from the standard FFS payment model to new value-based payment models.<sup>4</sup> That report also stated that the FFS model could fragment the delivery of health care and inadvertently reward providers for providing low-value tests, services, or procedures that were not correlated with positive health outcomes. In contrast, in value-based health care, providers are paid based on how well a particular service, procedure, or medication helps keep patients healthy or returns them to a higher state of health.

The NDAA 2017 included a provision for us to review the value-based initiatives DHA developed and implemented. This correspondence provides an overview of the value-based initiatives DHA has developed for its TRICARE program and the status of each of the initiatives, as of June 2020, the most recent information available for our analysis.

To describe the initiatives DHA has developed and the status of each, we interviewed knowledgeable DHA officials and analyzed available documentation on each initiative, including decision papers, congressional reports, and Federal Register notices. We conducted this performance audit from February 2020 to September 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **DHA Has Implemented Five of the 20 Value-Based Initiatives It Developed for the TRICARE Program**

DHA has developed 20 value-based initiatives for the purchased care component of the TRICARE program. Five initiatives have been implemented (two complete, three underway). For the remaining 15 initiatives, DHA officials told us that

- three will be implemented in the future—two with anticipated 2020 start dates are currently on hold due to the department's need to focus on the response to the

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<sup>3</sup>Pub. L. No. 114-328, 130 Stat. 2000 (2016).

<sup>4</sup>Department of Defense, *Report to the Armed Services Committees on Pilot Program on Incorporation of Value-Based Health Care in Purchased Care Component of TRICARE Program Section 701(h)(3) National Defense Authorization Act for Fiscal Year 2017 (Public Law 114-328) and Implementation Plan – Value-Based Incentives Under Section 705(d) National Defense Authorization Act for Fiscal Year 2017 (Public Law 114-328)* (Washington, D.C.: Jan. 31, 2018).

Coronavirus Disease (COVID-19) pandemic and one is expected to be implemented in January 2021;

- eight are still under review; and,
- four will not be implemented.

As of June 2020, DHA’s preliminary results were available for four of the five implemented initiatives:<sup>5</sup>

- Two of the initiatives—(1) Bundled Payments for Lower Extremity Joint Replacement and (2) Network Requirements and Standards for Urgent Care Centers—have not resulted in reduced costs.<sup>6</sup>
- Initial data for one of the initiatives—Medication Adherence Pilot—show it has not impacted beneficiaries’ medication adherence, as intended.
- The fourth initiative with available data—the Performance-Based Maternity Payments Pilot, designed to create incentives for high-quality maternity care—is in the process of making the first year of payments with 12 percent of the 3,640 hospitals receiving incentive payments.

See table 1 for more information on DHA’s implemented initiatives.

**Table 1: Value-Based Initiatives Implemented by Defense Health Agency (DHA), as of June 2020**

Initiative name	Description	Implementation dates	Results from DHA evaluations
Bundled Payments for Lower Extremity Joint Replacement (LEJR)	<ul style="list-style-type: none"> <li>• Encouraged hospitals, physicians, and post-acute care providers to work collaboratively on an episode of care for surgeries to reattach lower extremities or for major joint replacement without major complications or comorbidities<sup>a</sup></li> <li>• Hospitals received incentive payments or incurred financial penalties based on their quality score and the total cost of care</li> </ul>	May 23, 2016-May 23, 2019	<p>No reduced costs or improved quality as a direct result of the demonstration</p> <ul style="list-style-type: none"> <li>• Data for first 2 years show that costs for LEJR surgeries were 11 percent higher than those at comparison hospitals</li> <li>• Few episodes of care in first two years made it difficult for DHA to draw meaningful conclusions about the impact on cost trends</li> <li>• Data for third year expected in 2020<sup>b</sup></li> </ul>

<sup>5</sup>For the fifth implemented initiative, the Accountable Care Organization Demonstration, DHA will settle costs for each year beginning in May of the following year. Thus, the first analysis will begin in May 2021.

<sup>6</sup>According to DHA, the Bundled Payments for Lower Extremity Joint Replacement initiative had a low number of episodes of care, meaning a few episodes could sway average costs. As a result, DHA is unable to draw meaningful conclusions about cost trends.

Initiative name	Description	Implementation dates	Results from DHA evaluations
Network Requirements and Standards for Urgent Care Centers (UCC)	<ul style="list-style-type: none"> <li>National Defense Authorization Act for Fiscal Year 2017 eliminated preauthorization requirements for certain beneficiaries visiting UCCs</li> <li>Goal was to decrease more costly network emergency room (ER) visits by improving access to UCCs</li> </ul>	Implemented as a permanent change nationwide on January 1, 2018	<ul style="list-style-type: none"> <li>No net cost savings</li> <li>Unlimited self-referred network UCC visits did not reduce network ER visits as beneficiaries went to both</li> <li>Overall utilization for health care services increased, increasing costs</li> <li>The net annual cost increase from fiscal year 2018 to fiscal year 2020 is projected to be \$134 million for both network ER and UCC visits</li> </ul>
Medication Adherence Pilot	<ul style="list-style-type: none"> <li>Promotes adherence to medication regimens by waiving co-payments for two medications to treat chronic conditions (diabetes and high cholesterol)<sup>c</sup></li> <li>Targets beneficiaries with more than one chronic medical condition who take more than one medication</li> </ul>	February 1, 2018-December 31, 2022	No measurable impact on medication adherence for either medication, according to DOD's data to date
Performance-Based Maternity Payments Pilot	<ul style="list-style-type: none"> <li>Provides incentive payments to hospitals that achieve and maintain excellence in four maternity care quality metrics (early elective deliveries, Cesarean sections, episiotomies, and maternity care processes)<sup>d</sup></li> <li>Hospitals that fully meet targets for three of the four quality metrics are considered "value" and receive a payment bonus equal to 1 percent of allowed charges and a special designation in the provider directory</li> <li>Hospitals that fully meet targets for all four quality metrics are considered "high value" and receive a payment bonus equal to 2 percent of allowed charges and a special designation in the provider directory</li> </ul>	April 1, 2018-March 31, 2021	<ul style="list-style-type: none"> <li>In first year of the pilot: <ul style="list-style-type: none"> <li>Approximately 12 percent (444) of 3,640 participating hospitals were eligible to receive incentive payments</li> <li>280 hospitals were in the value tier</li> <li>164 hospitals were in the high-value tier</li> <li>More than 14 percent (63) of the 444 value and high value hospitals eligible to receive an incentive payment will receive an additional payment for fully meeting the target for high-risk deliveries</li> </ul> </li> </ul>

Initiative name	Description	Implementation dates	Results from DHA evaluations
	<ul style="list-style-type: none"> <li>"Value" and "high value" hospitals that also meet additional target for high-risk deliveries receive another incentive payment, equal to 1 percent of allowed charges, and an additional special designation in the provider directory</li> </ul>		
Accountable Care Organization Demonstration	<ul style="list-style-type: none"> <li>Accountable care organization (Kaiser Permanente in Atlanta, Ga.) is paid a negotiated, per-month per-member rate for health care delivery to enrolled TRICARE beneficiaries and bears the risk for costs and quality</li> <li>Incentives may be paid to Kaiser Permanente based on program savings and on whether it exceeds established metrics related to beneficiary experience and quality</li> <li>Compares results against health outcomes of geographically overlapping beneficiary populations not in the demonstration to assess whether this model can reduce spending and/or improve quality</li> </ul>	January 1, 2020	None available at this time <sup>e</sup>

Source: GAO analysis of information on Defense Health Agency's value-based initiatives. | GAO-20-695R

Notes:

<sup>a</sup>An episode of care is a set of services to treat a defined medical event, within a period of time, and across a continuum of care. Each episode-based payment begins with hospital admission and ends 90 days after the patient is discharged from the hospital.

<sup>b</sup>The LEJR pilot ended in May 2019, but, to evaluate the final year, DHA requires public release of certain data from the Centers for Medicare & Medicaid Services (CMS). CMS has not yet released finalized data for the most recent performance year. Once the finalized data is made public, DHA will complete the analysis and create a final report for LEJR.

<sup>c</sup>The two medications selected were the Lantus pen, to treat diabetes, and rosuvastatin, to treat high cholesterol. DHA determined that increased adherence to these medications could lead to improved patient outcomes for the identified conditions.

<sup>d</sup>An episiotomy is a surgical incision of the perineum during childbirth to facilitate delivery.

<sup>e</sup>For this initiative, DHA will settle costs for each year beginning in May of the following year. Thus, the first analysis will begin in May 2021.

Three of the value-based initiatives DHA identified have been approved for future implementation. In June 2020, DHA announced that the Low Back Pain and Physical Therapy demonstration would begin in January 2021. The other initiatives are currently on hold as a

result of DHA's COVID-19 response, and DHA does not have an anticipated start date for either of these. See table 2 for more information.

**Table 2: Value-Based Initiatives with Future Implementation by Defense Health Agency, as of June 2020**

Initiative name	Description
Low Back Pain and Physical Therapy	<p>Three-year demonstration scheduled for January 2021 through December 2023</p> <p>Waives cost-sharing for three physical therapy visits for beneficiaries with low back pain to encourage the use of physical therapy services for the treatment and management of acute, sub-acute, and chronic low back pain</p> <p>Will measure physical therapy use and its impact on the use of lower-value services such as opioids and surgery</p>
Home Health Value-Based Purchasing	Adopts Medicare's program, which moves home health agencies away from the traditional fee-for-service reimbursement model to an outcomes-based reimbursement model with the aim of providing better care and patient outcomes at a lower cost <sup>a</sup>
Hospital Value-Based Purchasing	Adopts Medicare's Hospital Value-Based Purchasing program with the aim of rewarding acute-care hospitals with incentive payments for health care delivery, process improvement, and increased patient satisfaction, when compared to other hospitals <sup>a, b</sup>

Source: GAO analysis of information on Defense Health Agency's value-based initiatives. | GAO-20-695R

Notes:

<sup>a</sup>Medicare is a federal health insurance program for people who are aged 65 and over, certain individuals with disabilities, and individuals with end stage renal disease.

<sup>b</sup>An acute-care hospital provides inpatient medical care and other related services for surgery, acute medical conditions, or injuries (usually for a short term illness or condition).

DHA has eight other initiatives it is still reviewing to determine whether and when to implement them. According to DHA officials, there is currently no timetable as to when these determinations will be made. These initiatives are detailed in table 3.

**Table 3: Value-Based Initiatives under Review by Defense Health Agency (DHA), as of June 2020**

Initiative name	Description
Alternative Payment Models	<p>Would allow TRICARE contractors to establish alternative payment models to move from episodic and fee-for-service payments towards shared accountability arrangements with providers focused on quality and value<sup>a</sup></p> <p>Alternative payment models would be subject to DHA approval and certain data collection requirements</p> <p>Would remove prohibition on capitated payment models—a provider reimbursement model which pays a per-member rate and shifts some or all of the risk of health care costs and outcomes to health care providers</p>

Initiative name	Description
Behavioral Health Initiative	Leverages alternate payment methods and value-based arrangements with network facilities within the contiguous United States to speed up the air evacuation process for active duty servicemembers who require an air evacuation from an overseas location due to a behavioral health crisis
Emergency Triage, Treat, and Transport	<p>Provides a flexible payment model for ambulance care teams to assess the needs of beneficiaries seeking emergency care and to bring beneficiaries to alternative destinations (urgent care, primary care) or to provide treatment in place with a qualified health care partner (either on scene or connected using telehealth), when deemed appropriate</p> <p>Aims to improve quality and lower costs by reducing avoidable transports to the emergency departments and unnecessary hospitalizations following those transports</p>
Episode-Based Bundled Payments	<p>Combines physician, hospital, and other health care provider services included in an episode of care into a single payment for the following eligible inpatient procedures: major joint replacement of the lower extremity (hip/knee), cervical spinal fusion, non-cervical spinal fusion, percutaneous coronary intervention, sepsis, and major bowel procedures<sup>b</sup></p> <p>Hospitals with actual costs below the target costs and that meet quality metrics are eligible for incentive payments resulting from the costs savings</p>
Low-Value Care	<p>Holds managed care support contractors accountable for reducing the delivery of low-value care—services that are medically unnecessary, may be harmful to the patient, and/or may lead to further unnecessary testing or treatment</p> <p>Uses two alternative payment models, capitation and risk sharing, to manage low-value medical interventions with the contractor<sup>c</sup></p> <p>Contractor would identify a list of low-value services, using claims data</p> <p>DHA would establish targets for the use of each low-value service</p> <ul style="list-style-type: none"> <li>• Contractors that meet the set target for the low-value service would be entitled to financial incentives</li> <li>• Contractors that do not meet the set target for the low-value service would be subject to financial disincentives</li> </ul>
Physician-Administered Drug Reform	<p>Designed by Centers for Medicare &amp; Medicaid Services to help ensure the Medicare program pays comparable prices for certain prescription drugs relative to other economically similar countries</p> <p>Goals for the program include: reducing selected expenditures and beneficiary cost-sharing for certain prescription drugs, removing provider incentives to prescribe higher-cost drugs, create revenue stability, minimize supply chain disruptions, and increase value to reduce federal spending, among other things</p>

Initiative name	Description
Primary Care First	<p>DHA is considering participating in the second year of this program, which was designed and implemented by the Centers for Medicare &amp; Medicaid Services</p> <p>Program aims to replace fee-for-service payments with a new payment model, including performance-based adjustments, to support delivery of primary care</p> <p>Program goals include reducing spending by preventing avoidable inpatient admissions and improving the quality of and access to care</p> <p>Clinical quality and beneficiary experience measures would be used to assess quality of care delivered</p>
Results-Oriented Reimbursements for High-Cost Orphan Drugs	<p>Value-based payment methodology that ties payment to results for certain high-cost orphan drugs (drugs designated to treat rare diseases or conditions), such as gene therapies</p> <p>DHA is evaluating how this methodology could be applied to high-cost drugs and biologics that have a disproportionate impact on TRICARE beneficiaries when compared with the Medicare population, such as gene therapies treating deadly genetic conditions primarily affecting children</p>

Source: GAO analysis of information on Defense Health Agency's value-based initiatives. | GAO-20-695R

Notes:

<sup>a</sup>The Alternative Payment Models initiative uses a framework established by the Centers for Medicare & Medicaid Services Health Care Payment Learning and Action Network, an initiative to speed the adoption of best practices. The network seeks to provide a forum for generating evidence, developing common approaches to the design and monitoring of alternative payment models, and removing barriers to health care transformation.

<sup>b</sup>An episode of care is a set of services to treat a defined medical event, within a period of time, and across a continuum of care. Each of the six episode-based bundled payment categories begins with a patient's hospital admission and ends 90 days after that patient is discharged from the hospital.

<sup>c</sup>Capitation is a type of provider reimbursement model that provides a set per-member cost and shifts some or all of the risk of health care costs and outcomes to health care providers. For this initiative, specific low-value interventions identified by DHA would be capitated annually. Where a capitated type of payment is not appropriate, a risk sharing methodology—for example, setting a target cost with positive or negative incentives based on specified metrics relevant to the type of care—would be applied.

DHA developed four other value-based initiatives, detailed in table 4, that it does not plan to implement for various reasons, such as estimated cost. For two of the initiatives—the Diabetes Prevention Program and the Obesity/Weight Management Program—DHA officials explained that health care savings resulting from potential disease prevention or amelioration are long-term and are difficult to reliably estimate. Furthermore, because the savings are often long term, and expenses are short term, there may be an initial negative return on investment, according to officials.



**Table 4: Value-Based Initiatives Developed by Defense Health Agency (DHA), but Not Implemented, as of June 2020**

Initiative name	Description	Rationale for not implementing
Diabetes Prevention Program	Intended to focus on the pre-diabetic population, providing online educational resources and coaching assistance to prevent disease progression into diabetes	<p>Positive return on investment was not anticipated, and was required by DHA to conduct the pilot</p> <p>Difficult to develop reliable estimates of long-term savings based on potential prevention or amelioration of disease</p>
High-Value Primary Care Provider	Intended to promote better health outcomes with incentives for primary care providers who exceed certain quality thresholds, and incentives for beneficiaries who engage with them	<p>Was to be implemented at a single Air Force clinic for cost and feasibility reasons</p> <p>Clinic was selected because it had a shortage of primary care managers, but pilot was not implemented because the staffing shortage was unexpectedly resolved</p>
Obesity/Weight Management Program (Pediatric Obesity Model Pilot)	Intended to address pediatric diabetes by targeting healthy weight loss and management participation milestones	<p>Positive return on investment was not anticipated, and was required by DHA to conduct the pilot</p> <p>Difficult to develop reliable estimates of long-term savings based on potential prevention or amelioration of disease</p>
Pre-Surgical Decision Support Pilot	<p>Intended to assess the impact of non-cost share related beneficiary incentives—a \$25 gift card in return for participating in the program—focused on a potential surgical procedure</p> <p>Pilot would help beneficiaries decide on, prepare for, and recover from surgery by explaining treatment options and providing information on the surgery process</p> <p>Health outcomes to be evaluated were surgery rate per thousand, average cost per event, and program return on investment</p>	<p>Did not move forward due to specific concerns, including</p> <ul style="list-style-type: none"> <li>the awarding of a gift card or other financial incentive not directly tied to health care</li> <li>and a National Defense Authorization Act for Fiscal Year 2017 requirement that beneficiaries participate during the year prior to an incentive being provided—which would have been difficult since it was designed for a single episode of care</li> </ul>

Source: GAO analysis of information on Defense Health Agency's value-based initiatives. | GAO-20-695R


## Agency Comments

We provided a draft of this report to DOD for review and comment. DOD provided a technical comment that we incorporated as appropriate.

## GAO Contact and Staff Acknowledgments

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact me at (202) 512-7114 or by e-mail at [draperd@gao.gov](mailto:draperd@gao.gov). Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report were Bonnie Anderson (Assistant Director); Erin C. Henderson (Analyst-in-Charge); Jennie F. Apter; and Jacquelyn Hamilton.

A handwritten signature in black ink, appearing to read 'Debra A. Draper', is positioned above the typed name.

Debra A. Draper  
Director, Health Care

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