STATEMENT BY

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ESTABLISHMENT AND PURPOSE OF THE FUND

Public Law 106-398, also known as the Floyd D. Spence National Defense Authorization Act (NDAA) of Fiscal Year 2001 authorized the establishment of two new TRICARE benefits for Uniformed Services (Army, Navy, Air Force, Marine Corps, U.S. Coast Guard ((USCG)), U.S. Public Health Service ((PHS)), and National Oceanic and Atmospheric Administration ((NOAA)) retirees, their dependents, and survivor beneficiaries who are Medicare-eligible. Section 711 addressed implementation of the TRICARE Senior Pharmacy Program benefit, and Section 712 established eligibility conditions for CHAMPUS and TRICARE upon the attainment of Medicare eligibility. To provide mandatory funding for these two new health care entitlements, the FY 2001 NDAA also established on the books of the Treasury the Department of Defense Medicare-Eligible Retiree Health Care Fund (MERHCF), also referred to as the Fund, codified in (***Title 10, Subtitle A, Part II, Chapter 56, United States Code***).

- The Fund is used for the accumulation of funds in order to finance, on an actuarially sound basis, liabilities of the Department of Defense (DoD) under uniformed services retiree health care programs for Medicare-eligible beneficiaries.
- The Fund covers certain Medicare-eligible DoD, USCG, PHS, and NOAA **– retirees**, **retiree** family members and **survivors –** not simply “over 65s” and not active duty/dependents who are Medicare eligible.
- It pays directly for Military Treatment Facility (MTF) care, serves as secondary payer to Medicare for purchased care, and pays for pharmacy benefits provided in either setting to Medicare-eligible uniformed services beneficiaries.
- The Fund recognizes the uniformed services’ accrued and future liabilities for the cost of retiree/survivor health care for uniformed service members, their family members and survivors who are Medicare-eligible.

RATIONALE FOR FUND

Using an accrual funding mechanism for the new benefits was consistent with a Congressional belief that decision-makers should be confronted with the full cost of future benefits incurred by current personnel decisions, and that federal agencies should recognize the costs of all compensation and benefits offered to federal employees at the time the costs are incurred.

ASSETS OF THE FUND

Funding of the MERHCF is derived from three sources.

▪ The first source is Treasury unfunded actuarial liability payments. These payments comprise two components.

- The original unfunded liability for service performed prior to the Fund's establishment date of October 1, 2002. This liability is currently being amortized over 45 years starting in FY 2003.
- Deviations from expectations (or actuarial "gains" and losses") and changes to benefit provisions. These liabilities are currently amortized over a weighted-average period that uses 30 years for each year's new gain or loss.

▪ The second MERHCF funding source is annual uniformed services actuarial "normal cost" contributions. These fund the health care liability attributable to service performed in the current year by uniformed service members, and are paid annually by Treasury on behalf of the uniformed services.

▪ The third funding source is investment earnings from investments in Treasury securities. The Fund invests in Treasuries to the extent annual Fund contributions exceed annual health care expenditures.

PAYMENTS FROM THE FUND

The Fund pays for the costs of all uniformed service retiree health care programs for the benefit of members or former members of a participating uniformed service who are entitled to retired or retainer pay and Medicare-eligible, and eligible dependents who are Medicare eligible. The Secretary of Defense annually transfers from the Fund to applicable appropriations of the Department of Defense such amounts as the Secretary determines necessary to cover the costs chargeable to those appropriations for uniformed service retiree health care programs for beneficiaries under those programs who are Medicare-eligible. Such transfers may include amounts necessary for the administration of such programs. Amounts so transferred are merged with and available for the same purposes and for the same time period as the appropriation to which transferred. Upon a determination that all or part of the funds transferred from the Fund are not necessary for the purposes for which transferred, such amounts may be transferred back to the Fund. This transfer authority is in addition to any other transfer authority that may be available to the Secretary. A transfer from the Fund may not be made to an appropriation after the end of the second fiscal year after the fiscal year that the appropriation is available for obligation. A transfer back to the Fund may not be made after the end of the second fiscal year after the fiscal year for which the appropriation to which the funds were originally transferred is available for obligation. The Secretary of Defense, by regulation, establishes the method for calculating amounts to be transferred.

Payments from the Fund support both civilian sector purchased care and care provided in the DoD MTFs.

- ▪ MERHCF purchased care support transactions are expensed, tracked, and reconciled against the Fund on a daily basis for appropriate charges from the Defense Health Agency (DHA) Contract Resource Management Office (CRM) in Aurora, CO. through the Defense Finance and Accounting Office (DFAS) in Indianapolis, IN to the Department of Treasury. MERHCF purchased care support consists of:
    - · TRICARE For Life (TFL) – Medicare is the primary payer with TRICARE as a supplemental last payer (beneficiary must be enrolled in Medicare Part B).
    - · Managed Care Support Contracts – network-at-risk costs reimbursed from the Fund (under 65 retired Medicare-eligible beneficiaries – must be enrolled in Medicare Part B)
    - · TRICARE Senior Pharmacy – includes both retail pharmacy network and mail order pharmacy costs (beneficiary must be enrolled in Medicare Part B)
    - · U.S. Family Health Plans (USFHP) also known as Designated Providers (DPs) – MERHCF covers over 45,000 retired Medicare-eligible beneficiaries enrolled in one of the six remaining plans. The MERHCF pays an agreed upon annual capitation rate premium per enrollee. All care provided to beneficiaries enrolled must be obtained through the USFHP.
- ▪ MERHCF MTF (direct care) support consists of:
    - · Operations & Maintenance (O&M) funds are transferred from the MERHCF to the Services' MTFs on a quarterly basis at the beginning of each fiscal quarter.

The amounts transferred are based on projected eligible beneficiary weighted workload for each MTF. Projected workload is multiplied by the appropriate O&M inflation rates per workload unit.

· Military Personnel (MILPERS) funds are transferred from the Fund to the Services' MILPERS accounts on a quarterly basis at the beginning of each fiscal quarter. The amount transferred is based on projected eligible beneficiary weighted workload for each MTF multiplied by the appropriate inflated MILPERS cost per weighted workload unit.

· Projected workload and costs are developed in a distribution plan and approved by the Office of Management and Budget (OMB) prior to the start of each fiscal year. The approved plan becomes the basis for funds distribution in the new fiscal year with no further overall apportionment changes/modifications allowed in the budget execution year.

· After the close of the fiscal year, a reconciliation is completed on the MERHCF workload accomplished at each MTF. The resulting analysis discloses the level and cost of health care actually provided to uniformed services Medicare-eligible beneficiaries in DoD MTFs compared to projected workload and costs used to formulate the budgeted program. The analysis forms the basis for the subsequent year's distribution. Additionally, excess funding is recouped back into the Fund through the transfer of prior year unobligated appropriations.

BOARD OF ACTUARIES

The FY 2001 NDAA directed the establishment of a Medicare-Eligible Retiree Health Care Board of Actuaries. The Board consists of three members who shall be appointed by the Secretary of Defense from among qualified professional actuaries who are members of the Society of Actuaries. The members of the Board serve for a term of 15 years (with the exception of staggered initial appointments of 5, 10 and 15 years). The Board reports to the Secretary of Defense annually on the actuarial status of the Fund and furnishes its advice and opinion on matters referred to it by the Secretary. The Board reviews the Department's actuarial valuations of the Fund and the Department must receive Board approval for its methods and assumptions.

The Board also reports, not less than once every four years, to the President and Congress on the status of the Fund. The Board includes in these reports recommendations for such changes as in the Board's judgment are necessary to protect the public interest and maintain the Fund on a sound actuarial basis.

DETERMINATION OF CONTRIBUTIONS TO THE FUND

The Board determines the amount that is the present value (as of October 1, 2002) of future benefits payable from the Fund that are attributable to service in the participating uniformed services performed before October 1, 2002. That amount is the original unfunded liability of the Fund. The Board has chosen a 45-year period for the liquidation of this liability, with payments that increase at the assumed rate of military payroll increases. By law these payments are made by the Department of Treasury.

The Secretary of Defense determines, before the beginning of each fiscal year, the total amount of the Department of Defense contribution to be made to the Fund for that fiscal year. This contribution is based on two actuarially determined annual per capita rates, one rate for active duty personnel and one rate for guard and reserve personnel. The rates are multiplied by the expected average force strength for each of the uniformed services to compute the "normal cost" contribution for each of the uniformed services. The annual per capita rates are calculated by the Department based on actuarial methods and assumptions approved by the Board.

The Secretary of Defense also conducts valuations to determine if there have been actuarial "gains" or "losses" to the Fund – and if so, determines an amortization methodology for the liquidation of such gains/losses. Payments to amortize these gains/losses become part of the overall Treasury unfunded liability payment (covering the original unfunded liability as well as new unfunded liabilities arising from gains/losses), and must be determined using Board approved methods and assumptions.

PAYMENTS INTO THE FUND

At the beginning of each fiscal year, the Secretary of the Treasury promptly pays into the Fund from the General Fund of the Treasury—

- The amount certified to the Secretary by the Secretary of Defense, which includes the "normal cost" contribution on behalf of uniformed members of the Department of Defense as well as the amortized payment on the unfunded actuarial liability.
- On behalf of the non-DoD uniformed services, the amount determined by each administering Secretary as the annual "normal cost" contribution to the Fund on behalf of members of the uniformed services under the jurisdiction of that Secretary. That is, the Secretaries of Homeland Security (Coast Guard), Health and Human Services (Public Health Service), and Commerce (NOAA), determine the contribution on behalf of uniformed members under their jurisdiction in a manner comparable to the Secretary of Defense's determination for uniformed DoD members – based on Board-approved per capita rates multiplied by each service's expected average force strength.

INVESTMENT OF THE ASSETS OF THE FUND

The Secretary of the Treasury invests such portion of the Fund as is not in the judgment of the Secretary of Defense required to meet current withdrawals. Such investments are made in public debt securities with maturities suitable to the needs of the Fund, as determined by the Secretary of Defense, and bearing interest at rates determined by the Secretary of the Treasury, taking into consideration current market yields on outstanding marketable obligations of the United States of comparable maturities. The income on such investments shall be credited to and form a part of the Fund.

MR. ROBERT MOSS
BIOGRAPHY

In almost 30 years as an Air Force health care administrator, Mr. Moss was assigned a variety of medical middle management positions, including base-level Resource Management. He served three different assignments as the administrator to hospitals ranging in size from a small 20-bed facility to the 165-bed Medical Center at Wright-Patterson AFB. Additionally, he served in several headquarters positions, including a tour as the Chief, Resource Management Division SAC Surgeon's Office and two assignments in the Air Force Surgeon's General Office as the Chief, Financial Management Division and Director, Medical Programs and Resources. After military retirement, he became the Executive Vice President, TRICARE Business Operations for Anthem Blue Cross and Blue Shield, accountable for a $45M budget, 11 TRICARE Service Centers serving more than 370,000 beneficiaries in four States, establishing a provider network of more than 9,000 civilian providers, and monitoring utilization management activities in the Region. Later, he assumed responsibility for developing Anthem's plan to implement the Senior Pharmacy Benefit and TRICARE for Life (TFL). In 2003 he returned to TMA to serve as the Deputy Director, Financial Studies. As such, he managed operation of the Medicare-Eligible Retiree Health Care Fund, directs the Uniform Business Office (Third Party Billing, MSA, and Tort Liability Collection Programs), and MEPRS operations. In 2012, he assumed the position as Director, Management Control and Financial Studies Division, supporting the TMA CFO in his responsibilities for: DHP Management Control Program (Headquarters and Enterprise), Data Quality Management Control, Improper Payments Information Act annual AFR (Agency Financial Report) reporting, Medical Expense and Performance Reporting Program, Uniform Business Office Program, Medicare-Eligible Retiree Health Care Program, TMA financial systems information technology programs, audit liaison for external audits, e.g. GAO and DoDIG, and producing auditable financial statements. With the establishment of the DHA in October 2013, he was assigned the position of Chief, Budget & Resource Management Division. In this capacity, he is responsible for management oversight of the DHA five-year Defense Program and annual budget execution, accounting and financial integrity, purchased care claims processing, and business information management. He received a Bachelor of Science in Business Administration, The Citadel, Charleston, S.C. in 1968 and a Masters of Health Administration, Washington University, St. Louis, MO. in 1976.