

Point Paper
on
Using NHE per Capita for Indexing Prime Enrollment Fees

Issue: The FY 2012 President's Budget proposes that TRICARE premiums be increased by \$5/month in 2012 and then indexed each year thereafter to "health care cost increases." The issue was what index would be used and what would be the basis for such an index?

Criteria: After discussion with stakeholder groups, the Department identified a set of criteria it would use for the selection of an appropriate index:

- Relevant to Prime retiree enrollees' health care costs – Does the index measure health care costs that are pertinent to the types of health care received by this population?
- Externally Derived – Is the index produced by an external agency rather than the DoD?
- Transparent – Is the index published publicly and is the methodology available?
- Easy to Understand – Is the calculation of the index straightforward?
- Fair – Does the index keep the relative cost share of Prime retirees consistent with the cost share for the Medicare Eligible retirees?

Proposed Index: To determine what index would be used, the Department assessed multiple indices based on the criteria above. Although no index met all of the criteria, some were clearly preferable to others. The National Health Expenditures (NHE) per Capita most closely aligned with the Department's stated criteria.

- NHE per capita represents a broad spectrum of demographics across the United States and includes a wide range of health care expenditures. While not a perfect match, retirees and their families also constitute a broad spectrum of non-elderly demographics and the Prime benefit is fairly comprehensive in its scope.
- NHE per capita is produced annually by the Centers for Medicare and Medicaid Services (CMS)
- NHE per capita has been published annually since 1960. The most recent release in January 2011, reported an increase of 3.1% for 2009.
- NHE per capita consists of "annual U.S. expenditures for health care goods and services, public health activities, government administration, the net cost of health insurance, and research and other investment related to health care" divided by the U.S. population
- NHE per capita is not based on a Medicare population so the linkage between this index and Medicare Part B is not direct. However, some of the same health care cost trends will affect both indices
- Link to CMS website for an overview and related data to NHE
http://www.cms.gov/NationalHealthExpendData/01_Overview.asp

Other Indices Considered:

- Consumer Price Index– Medical (CPI-M): Based on a market basket of medical goods and services.
 - Determined by a fixed market basket and does not reflect changes in the utilization of medical goods and services which historically accounts for roughly half of the increase in health care costs

- DoD Cost per Enrollee or Per Member Per Month (PMPM): Performance measure using DoD data to reflect the cost of taking care of the health care needs of the Prime population
 - PMPM is a DoD internally calculated figure which has some assumptions made in deriving costs.
- Medicare Part B Premiums: Based on a fixed percentage of the health care costs associated with outpatient care for the Medicare population
 - Reflects costs for a Medicare population, not an under 65 population and only reflects physician costs, not hospital nor pharmacy costs.
- Medicare Cost per Beneficiary: Based on inpatient and outpatient cost per beneficiary,
 - Reflects costs for a Medicare population, which may not be comparable to the TRICARE Prime retiree population. It does not include pharmacy costs
- Adjusted Medicare Cost per Beneficiary: Use average of Part A Medicare Cost per Beneficiary and Part B Medicare Cost per Beneficiary weighted by DoD's proportion of costs associated with inpatient and outpatient care and combine with DoD pharmacy increases
 - It is not externally published and would be more complex to explain. It includes some internal calculation, e.g. pharmacy
- Federal Employees Health Benefit Plan (FEHBP): Based on average percentage premium increase across all plans with the FEHBP
 - Subject to considerable year to year variation due to changes in mix of plans as well as adjustments to insurance reserve requirements

Index Average Increases 2004-2009

