

# ISSUE BRIEF

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## Centralizing Management of the Military Health System

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The Government Accountability Office (GAO) released a paper last month urging the Department of Defense (DOD) to centralize the management of the Military Health System (MHS).<sup>1</sup> GAO has long held the view that the management structure for supervising the MHS is too de-centralized to impose the discipline necessary to make the system efficient.

Generally speaking, the GAO recommendation makes sense. The DOD's health care costs are growing so quickly that they are contributing to an internal imbalance in defense budgets. In the context of forecasted defense budgets that are way too low to meet U.S. national security commitments, these rising health care costs are effectively robbing from the accounts that fund new weapons and equipment for the military.

Accordingly, all proposals that serve to reduce the projected growth rate in military health care deserve appropriate consideration. No stone should be left unturned, including ones related to the management structure for overseeing the MHS.

**By the Numbers.** The GAO calculates that if the DOD had adopted any one of the three centralized management plans under consideration by an internal DOD working group in 2006—including establishing a unified medical command, establishing two related commands (one responsible for operational/deployable medicine and the other for beneficiary care), and designating one service to provide all health services across the DOD—the department could realize efficiencies of between \$281 million and \$460 million (fiscal year 2010 dollars) annually.

As the GAO points out in its paper, these health care costs have gone from \$19 billion in fiscal year 2001 to the \$48.7 billion in the request for fiscal year 2013 and are projected to reach \$59 billion by 2016 and \$92 billion by 2030.<sup>2</sup>

**A Question of Timing.** The Heritage Foundation has proposed gradually moving defense health coverage away from the existing

defined-benefit structure and toward a defined-contribution structure.<sup>3</sup> It is only this kind of systemic reform that would achieve the efficiencies necessary to maintain an overall defense budget that is internally balanced while also providing access to top-notch health coverage options for military service members, retirees, and their families. Management reforms by themselves will not solve the problem.

Even if the higher range of the GAO estimate proves accurate, the efficiencies will save only \$2.3 billion over five years. The Heritage Foundation's systemic reform proposal, by contrast, could save almost \$22 billion in the same time frame.<sup>4</sup>

More importantly, the GAO proposal assumes that the existing defined-benefit approach will be preserved. Adopting the kind of centralized management structure for the MHS recommended by the GAO, therefore, is all but certain to be sub-optimal when applied to a defined-contribution system.

For example, the Heritage plan would provide military service members, retirees, and their families access to health coverage through the Federal Employees Health Benefits Plan, the system that provides health coverage to federal

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This paper, in its entirety, can be found at <http://report.heritage.org/ib3611>

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civilian employees. The GAO recommendation, however, focuses on centralizing the management structure for the MHS under the military command system. Under the Heritage plan, a centralized management system that supervises both military and civilian health coverage at the DOD would be more appropriate and effective.

**Systemic Reform First.**

Systemic reform of the overall program should come first. Only once this kind of reform is adopted and is beginning to be applied would it

be appropriate to establish a more centralized and effective management structure that conforms to the design of the emerging defined-contribution system.

Military service members, retirees, and their families deserve access to top-notch medical services and coverage. Taxpayers deserve an MHS that is run in an efficient manner, including by operating it through an effective management system. While achieving these two goals simultaneously is not easy, it is possible. The solution starts with adopting a basic

design for the MHS that is based on the defined-contribution approach. Adopting an MHS management structure that is tailored to this approach would enhance the efficiency further.

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1. U.S. Government Accountability Office, *Defense Health Care: Applying Key Management Practices Should Help Achieve Efficiencies with the Military Health System*, GAO-12-224, April 2012, <http://www.gao.gov/products/GAO-12-224> (accessed May 15, 2012).
  2. *Ibid.*, p. 1.
  3. Baker Spring, "Saving the American Dream: Improving Health Care and Retirement for Military Service Members and Their Families," Heritage Foundation *Backgrounder* No. 2621, November 17, 2011, <http://www.heritage.org/research/reports/2011/11/saving-the-american-dream-improving-health-care-and-retirement-for-military-service-members>.
  4. *Ibid.*
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