

**STATEMENT BY**  
**DAVID J. BAKER**  
**PRESIDENT AND CEO**  
**HUMANA MILITARY HEALTHCARE SERVICES**  
**BEFORE THE**  
**HOUSE COMMITTEE ON VETERANS' AFFAIRS**  
**MARCH 29, 2006**

On behalf of the dedicated men and women of Humana Military Healthcare Services Inc., I appreciate the opportunity to provide information to the Committee on the Department of Veterans Affairs efforts to improve the delivery of and access to cost effective health care services to our Nation's veterans through Project HERO.

As a veteran, I want to personally thank the entire Committee for its continued support of veterans programs. And as President and CEO of Humana Military Healthcare Services, I appreciate the opportunity to provide input today.

I also wish to extend my appreciation to the Veterans Health Administration for its excellence in providing health and rehabilitative services to our Nation's veterans, and for seeking to develop and employ proven best business practices advancing future health care services and access. I applaud the Department for its efforts and achievements such as:

- Advancement of state of the art medical records program
- CARES programs, realigning the VA's costs and assets
- Increased efficiency in purchasing care at the same time controlling administrative costs
- Development and implementation of a consistent "fee program" for veteran's care received outside of the VA

- Supporting managed care support contractors (MCSCs), as well as Department of Defense (DoD), in providing specialty care and serving as primary care in many locations across the country for our own TRICARE beneficiaries ; and most importantly;
- Increasing the satisfaction of our Nation's veterans by improving access to care and providing quality services.

I know that experienced companies, like ours, have the potential of substantially supporting VHA in achieving its mission and objectives. Whether it is Humana Military – or another partner – I commend VHA officials for moving forward under Project HERO. We at HMHS appreciated the opportunity to share our thoughts with the VHA at the recent VA-hosted industry day, and we look forward to the opportunity to continue assisting the VA leadership as they develop objectives for Project HERO demonstration programs. We are excited about the possibility of being a part of this potentially transformative project.

## **Company Background**

Humana Military Healthcare Services (HMHS) is a wholly owned subsidiary of Humana Inc., one of the nation's largest health benefit companies. Our subsidiary was formed in 1993 to focus exclusively on delivering military health solutions through the TRICARE program. We were awarded our first TRICARE contract in 1995, and we began serving military beneficiaries in 1996.

Today, under a contract with the DoD, our company supports approximately 2.8 million TRICARE-eligible beneficiaries in DoD's South Region of the United States. The South Region includes the states of Georgia, Florida, South Carolina, Alabama, Louisiana, Mississippi, Arkansas, and Oklahoma, as well as most of Tennessee and Texas. Our company is made up of more than 1,400 employees, many of whom are veterans or beneficiaries of the military health system. Additionally, The Department of Veterans Affairs provides primary care for approximately three thousand of our beneficiaries in Florida, Mississippi and Texas.

Simply put, HMHS is committed to ensuring the military community receives access to high quality cost-effective health services when required care is not available in military

hospitals or clinics. We are pleased with our performance over the years, and we know we are valuable Government partners.

Before I comment on our company's role in providing services to the DoD and how our experiences might be instructive to the HERO initiative, I want to briefly discuss the role of demonstration projects in general in formulating health programs and policies for the U.S. Government.

The current set of TRICARE contracts did not spring from whole cloth. Rather, this second generation of contracts is the result of multiple iterations of the original TRICARE support contracts and the lessons learned from multiple demonstration programs including Catchment Area Management (CAM) demonstrations; the Army's "Gateway to Care" concept; the Northwest Region coordinated care program, and others. Demonstration programs allow the government to make a variety of adjustments to legacy programs, observe the outcomes of those changes and to implement change into current programs based on those outcomes. Demonstration programs best serve the policy process when they test real alternative strategies, across significant numbers of participants, for a sufficient period of time, and when they provide a realistic test of the extent to which alternative programs meet or fall short of meeting their objectives. The little we have seen of the approach to Project HERO is encouraging, and we look forward to learning more about specific program objectives as the VA takes its next steps in this important process.

I will focus my comments on three areas: 1) the objectives of our current contract; 2) elements of performance we provide to achieve those objectives; and 3) special considerations related to health care support contracting.

## **Objectives of Current TRICARE Contracts**

When the Department of Defense established TRICARE in the early 1990s, the primary objectives related to care being purchased under the predecessor program, CHAMPUS, were to: control costs; improve access and service; as well as enhance clinical quality. As TRICARE has evolved, contract objectives have been modified and expanded.

Current contracts contain the following broad statement of objectives: *“The Managed Care Support Contractor (MCSC) shall assist the Regional Director and Military Treatment Facility (MTF) Commander in operating an integrated health care delivery system combining resources of the military’s direct medical care system and the contractor’s managed care support to provide health, medical, and administrative support services to eligible beneficiaries.”* Supporting this broad statement of the Department’s strategic intent are specific objectives:

- Optimize the delivery of health care services in the direct care system,
- Maintain beneficiary satisfaction at the highest level possible, through the delivery of world-class health care, as well as customer friendly program services,
- Attain “best value” in support of the Military Health System mission, utilizing best commercial practices when practical,
- Create minimal disruption of beneficiaries and Military Treatment Facilities during and after transition to the current contracts, and
- Provide ready access to contractor-maintained data to support DoD financial planning, health systems planning, medical resource management, clinical management, clinical research, and contract administration.

These objectives are important to us, and they guide our actions as we discharge our obligations as a TRICARE contractor.

***RECOMMENDATION: Based on HMHS’ experience with past and current Government contracts in which we are responsible for providing superior health care, the VA may consider emulating the TRICARE proposal and coordination process. This can be accomplished by similarly effecting VA’s mission and goals through “Project HERO” demonstration program solicitations.***

## **Elements of Contractor Performance under TRICARE Managed Care Support Contracts**

Like other DoD Managed Care Support Contractors, we perform a wide range of tasks and provide a broad array of contractually-required services to the military community in the South Region of the United States. It may be helpful for the Committee and for the Department of Veterans Affairs to consider the critical components of developing TRICARE services as Project HERO demonstration projects are being designed.

Provider Networks - A key requirement of our contract is the provision of a stable, high-quality, credentialed network of individual and institutional health care providers to complement the clinical services available within MTFs. Networks are critical to achieving access, ensuring clinical quality, controlling costs, delivering best value and promoting high levels of beneficiary satisfaction. Network membership creates a “preferred provider” status that further ensures the delivery of accessible quality services. Our networks have been stable over the years, and that stability fosters collaboration and trust among all stakeholders, including our beneficiaries, military medical professionals, civilian medical staffs, and our company. (The Department of Veterans Affairs plays a significant role as a partner and provider in our network.)

***RECOMMENDATION: To the extent that Project HERO involves the delivery of health care services by non-VA providers, a strong network of community-based medical professionals should be considered. It is imperative to develop and maintain a substantial network of providers and facilities to ensure access to quality health care.***

Medical Management Services - Another element of our managed care support contracts involves the management of clinical services provided to authorized beneficiaries. The variety of these activities includes: utilization management; case management; disease management; and clinical quality management (performed in concert with DoD medical professionals). Our services often complement similar, high quality programs in selected MTFs, so we customize them in various circumstances. Strong TRICARE medical management programs deliver high value by helping to ensure the appropriate care is delivered, in the appropriate setting, at the appropriate time, for the appropriate cost. These programs strategically deliver and elevate quality, as well as enhance beneficiary satisfaction.

**RECOMMENDATION:** *An integrated medical management program must be tailored within each VISN's demographics, and coordinated with the VISN and VA medical professionals.*

Comprehensive Customer Information and Support Services - Today's TRICARE program requires that contractors provide readily accessible customer information services for both beneficiaries and providers, using an array of contemporary channels such as telephone, postal, electronic mail, facsimile and so forth. In addition, our contract requires the operation of walk-in customer service offices called TRICARE Service Centers (TSCs). Each modality drives varying levels of efficiency and cost, balanced against member acceptance and use. The important element is the provision of convenient beneficiary access to our company for information, problem resolution and support.

**RECOMMENDATION:** *We highly recommend that Project HERO demonstrations include a requirement that contractor partners provide multiple avenues of access for the veterans they are serving. By establishing immediate and direct access to health service information, quality of care and access to care will increase exponentially because the correct type of care will be expedited through proper communication.*

Eligibility Verification, Enrollment and Billing - In TRICARE, eligibility for services is maintained and updated by the Government in a system called the Defense Enrollment Eligibility Reporting Systems (DEERS). With appropriate security processes and procedures, contractors are able to access the DEERS data base during the course of their operational activities. However, it is important to note that maintenance of the DEERS system is the responsibility of the Government – not the supporting contractors.

As part of its benefit offering, TRICARE also provides a Health Maintenance Organization (HMO) option called TRICARE Prime. The TRICARE Prime option is the only aspect of the program that requires enrollment (and the payment of enrollment fees) as a pre-condition of beneficiary participation. Managed care contractors, like Humana Military, operate all aspects of the TRICARE Prime enrollment system, from updating various systems (including medical management, claim processing, and DEERS itself) to the collection of required enrollment fees for certain classes of beneficiaries.

**RECOMMENDATION:** *As the Department of Veterans Affairs partners with private industry under Project HERO, it should retain responsibility to establish and maintain the eligibility data base. The Department should carefully consider how enrollment in special programs and eligibility criteria should be managed. Depending on the structure of the Project HERO program, the DoD model may well be a cost-effective option to emulate.*

Claim Processing - The capacity to pay claims for purchased care services quickly and accurately is critical to the development and maintenance of community-based provider networks. In TRICARE, responsibility for payment of institutional and individual provider claims rests with the MCSCs. However, because TRICARE policies are so complex, all MCSCs have subcontracted this function to one of two fiscal intermediaries (Palmetto Government Benefits Administrators [PGBA] or Wisconsin Physician Service [WPS]), both of whom have years of experience in processing TRICARE claims. Inclusion of this requirement in basic TRICARE contracts (as opposed to carving it out in separate, stand-alone claim processing contracts) is a fundamental element of the overall managed care strategy. Integrating claim processing with comprehensive care management is a key enabler of other managed care techniques, including enrollment, medical management, network development, beneficiary responsibility, coordination of benefits (with other insurance), third party liability determinations, etc. The approach brings single-point accountability for performance in an area of extreme complexity and one that requires consistency and excellence in performance.

Accuracy of claim processing is also important from the standpoint of cost-control. TRICARE uses a basic fee schedule (closely aligned with Medicare) as a basis for all claim payments. In the case of network providers, the schedule of TRICARE Maximum Allowable Costs (TMAC) serves as a basis from which discounted payments are negotiated. For non-network providers, TMAC rates represent the limit of the Government's financial responsibility for specific services. Appropriate determination of non-network versus network status is a requirement of TRICARE claim processing, as is the determination of network contract terms in the case of network providers.

**RECOMMENDATIONS:** *With over 10 years of TRICARE experience, we would make the following recommendations to the VA pertaining to claims processing and the payment for community-provided health care services:*

- *The VA should not attempt to accomplish its own claim processing, and should instead include this as a part of its contracted approach to Project HERO;*
- *Responsibility should be assigned to the prime contractor responsible for the provision of integrated claims oversight and service support; and*
- *Payments should be based on one fee schedule. Medicare is the logical model.*

Access to Contractor Data - As noted above, one of the core objectives of the TRICARE program is to ensure the DoD has ready access to contractor-maintained data to support financial planning, health systems planning, medical resource management, clinical management, clinical research, and contract administration. Since the DOD and VA share many common characteristics, it would seem that a similar strategy would apply to Project HERO.

**RECOMMENDATION:** *Project HERO should include a provision related to access to contractor-generated and contractor-maintained information.*

## **Special Considerations Related to Health Care Support Contracting**

Since I have provided insight concerning potential areas of functional overlap between current TRICARE contracts and the Project HERO initiative, an examination of contract structure may also be of benefit. To that end, I offer the following for consideration.

Risk Sharing - Though the form has changed over time, a key element of both the current and previous TRICARE managed care support contracts has involved the sharing of health care cost risk. Risk sharing with private industry experts provides a tangible incentive for contractor partners to assist the Government in controlling costs, and it adds a measure of predictability to the equation. Typically, positive and negative risk sharing has involved balanced percentages; that is, the potential positive effects have typically mirrored the potential negative ones. Depending on the ultimate structure of Project HERO, the VA may wish to consider the inclusion of a risk sharing component.

Objective Standards of Performance - For each functional element noted above, VHA should attach objective measures of outcomes – related to its strategic intents and specific objectives – against which to subsequently measure performance. For example, in TRICARE, there are specific standards related to networks (in terms of adequacy and beneficiary access); customer service (related to telephone responsiveness, waiting times for walk-ins, etc.); claim processing (including speed and accuracy of payment); and so forth. The VA would do well to ensure that any contracts under Project HERO similarly contain objective standards and defined measures of performance. In the process, the Department should avoid the inclusion of performance standards that leave no room for reasonable levels of random variation. Any process that mandates 100% success of inter-related complex systems will be challenged to succeed.

Award Fees and Performance Guarantees - The Federal Acquisition Regulation (FAR) allows for the inclusion of award fees (to reward performance excellence) and performance guarantees (to penalize poor performance) in service contracts. VHA should consider inclusion of both award fees and performance guarantees in any contractual relationships it establishes. In the process it is important to understand that, in order for award fees and performance guarantees to provide meaningful incentives, they must be: balanced; objective; measurable; achievable; and reasonable. The absence of any of these factors can create both distrust and disincentives in achieving performance excellence. Consulting with DoD colleagues regarding the successes and failures associated with establishing award fees and performance guarantees, would serve the VHA well.

Establishing and Maintaining Collaborative Relationships - The key to successfully establishing a successful Project HERO program will be the development of long-term relationships with industry partners. Such relationships should be built on trust, mutual respect, and a willingness to maximize outcomes – together as partners – for the benefit of the Nation’s veterans. As problems emerge (and they *will* emerge), there must be a willingness on both sides to engage in open dialogue and make adjustments for a unified outcome.

## **Conclusion**

In conclusion, please allow me to again thank you, Mr. Chairman and Members of the Committee for the opportunity to appear before you and submit my written testimony. Providing high quality, cost-effective health care service to veterans is imperative during this critical time in our country's history. We, at Humana Military, look forward to working with the Congress and the VA to assist in any way we can.



**DAVID J. BAKER**  
**President and Chief Executive Officer,**  
**Humana Military Healthcare Services (HMHS)**

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Dave Baker serves as President and Chief Executive Officer of Humana Military Healthcare Services.

Following a distinguished active duty career of 27 years in the USAF Medical Service Corps, Dave joined HMHS as the Region 3 Executive Director in 1996. In this capacity, he was responsible for all HMHS field operations in Georgia, Florida, and South Carolina. In 1999, he became the Humana Military's Chief Operating Officer, and in January 2000, he assumed his current position.

Dave holds an MBA in Health and Hospital Administration from the University of Florida and BS degree in Business Administration from the University of Maryland. He is also a graduate of the Executive Program in Health Care Management of the Ohio State University. While on active duty, Dave completed the Interagency Institute for Federal Health Care Executives, Air War College, Air Command and Staff College and Squadron Officer School.

Raised in an Air Force family, he is the only TRICARE CEO who is a life-long beneficiary of the military health system.

**HUMANA MILITARY HEALTHCARE SERVICES – DISCLOSURE STATEMENT  
TESTIMONY BEFORE THE COMMITTEE ON VETERANS’ AFFAIRS  
U.S. HOUSE OF REPRESENTATIVES  
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Contract (Contracting Office) Effective Dates	Contract Number	Amount of Contracts During the Last Three Fiscal Years
TRICARE Regions 3 & 4 (TRICARE Management Activity) 07/1/96 – 7/31/04	MDA906-96-C-0002	\$8,870,000,000
TRICARE Regions 2 & 5 (TRICARE Management Activity) 06/01/01 – 06/31/04	MDA906-97-C-0005	\$4,180,000,000
TRICARE Next Generation of Contracts, South Region (TRICARE Management Activity) 08/01/04 - Present	MDA906-03-C-0010	\$5,060,456,790
TRICARE Puerto Rico (TRICARE Management Activity) 05/01/04 -Present	H94002-04-D-0003	\$9,759,000
Patient Appointment Services - Bridge Contract for Tidewater Area (Army Medical Command Healthcare Acquisition Activity) 07/01/04 - 06/30/05	W81K04-04-P-0026	\$4,586,000
Patient Appointment Services - Bridge Contract for Wright Patterson Air Force Base – WPAFB (Army Medical Command Healthcare Acquisition Activity) 07/01/04 - 06/30/05	W81K04-04-P-0028	\$1,883,000
Patient Appointment Services - Bridge Contract for Keesler Air Force Base (Chief, Acquisition & Material Management, James A. Haley Veterans Hospital, Tampa FL) 07/01/04 - 06/30/05	V673(90F)P0010	\$747,000
Delivery Indefinite Quantity Type (IDIQ) Contract for Patient Appointment Services (PAS) - Basic Contract & Task Orders (T.O.) for Fort Bragg & WPAFB (Army Medical Command Healthcare Acquisition Activity) 04/01/05 – Present	W81K04-05-D-7002  T.O. 0001 for Fort Bragg T.O. 0002 for WPAFB	  \$6,525,000
MATO PAS Task Order (T.O.) for Keesler AFB (81 <sup>st</sup> Contracting Squadron, Keesler AFB) 07/01/05 – Present	W81K04-05-D-7002- RC01	\$4,837,000
MATO PAS Task Order (T.O.) for Colorado Springs Multi- Service Market Office (10 MSG/LGC – Multi-Service Market Office, Colorado Springs) 07/01/05 – Present	FA7000-05-F-0049	\$13,268,000
Multiple Award Task Order (MATO) Barksdale, AFB (2D Medical Group, Barksdale AFB, LA) 09/30/05 – Present	T.O. 6G01	\$1,899,570
General Surgeon Services for Veterans Administration Outpatient Clinic, Austin, TX (Department of Veterans Affairs, Central Texas Veterans Health Care System) 01/08/03 – 03/31/05	V674P-3482	\$118,000
Ireland Army Community Hospital, Ft. Knox, KY –Direct Contract Dermatologist Physician Services (MEDDAC, Property Management, Ft. Knox, KY 10/01/05 – Present	W9124D-05-C-0045	\$247,722
Ireland Army Community Hospital, Ft. Knox, KY –Diagnostic Radiologist Services (MEDDAC, Property Management, Ft. Knox, KY 11/01/05 – Present	W9124D-06-C-0001	\$1,586,870