

**TESTIMONY BY
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PRESIDENT
HEALTH NET FEDERAL SERVICES, INC.
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SUBCOMMITTEE ON MILITARY PERSONNEL
UNITED STATES HOUSE OF REPRESENTATIVES**

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INTRODUCTION

Mr. Chairman and distinguished members of this Subcommittee, I would like to thank you for once again inviting us to share our experiences in the TRICARE Program, and offer Health Net Federal Services' (Health Net) perspectives as the managed care support contractor for the TRICARE North Region. Health Net is honored to be an integral part of serving our military and consider this hearing an excellent opportunity to provide insight for Congress, the Department, and other interested parties reviewing the military health system.

Health Net has had the privilege of being involved in military health care for over 17 years. We take pride in our accomplishments, especially our collaboration with the Government from the first tentative steps of the CHAMPUS Reform Initiative to today's highly evolved TRICARE programs.

On behalf of Health Net, I would also like to thank you for your ongoing support and commitment of this complex program and the population it serves. Our beneficiaries and their families have continued to step up to the plate on this country's behalf, in locations such as Iraq, Afghanistan, and most recently the Gulf States. Since the start of our current contract, our beneficiaries have been waging a war on terrorism abroad, as well as ensuring a safe place here at home. It is their dedication and service that helps motivate our team and drive exceptional service and performance for this contract and our beneficiaries.

Health Net's business focuses on high-level customer service, integrating quality throughout our operations. We continually assess what works today, what doesn't, and how we can perform better and plan for new and exciting services and technologies that will elevate the program and benefit our customers in the future.

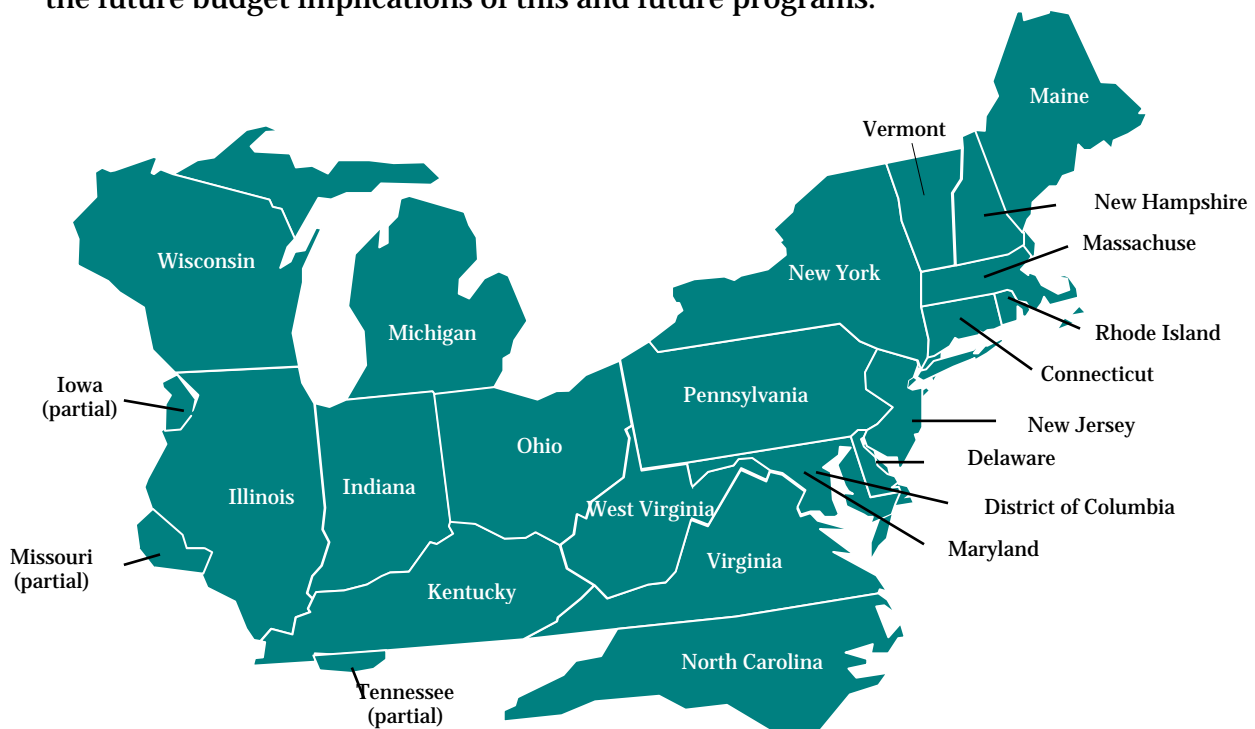
Where We Have Been

Health Net has been partnering with the Department of Defense (DoD) since the start of the TRICARE Program, previously known as CHAMPUS. In 1988, we were

awarded the first CHAMPUS Reform Initiative (CRI) contract in California and Hawaii, which later incorporated five TRICARE Regions and the State of Alaska, covering over 2.5 million eligible beneficiaries. In 2003, Health Net was proudly awarded the TRICARE North Region contract to provide healthcare services to 2.9 million members of the uniformed services, their families and retirees and their families in 23 states.

In addition to our TRICARE North Contract, Health Net is honored to provide Behavioral Health services to active duty members and their family abroad. Health Net is also privileged to partner with the Department of Veteran’s Affairs (VA) and is currently the largest VA health care contractor in the nation holding 34 VA contracts across the nation.

In this testimony, Health Net will convey why “quality” is an integral component through out our operations, ensuring high performance for all of our contracts. Also included are lessons learned from the 2004 TRICARE transition, which we believe will be helpful when considering future changes and enhancements to the current program. As we look ahead for what is to come for this program, Health Net is energized at the prospect of expanding our service to Guard and Reserve members, and lastly, we will review the successes Health Net has achieved in the DoD/VA sharing arena, and discuss the future budget implications of this and future programs.



CONTRACT TRANSITION DEBRIEF

Health Net welcomes this opportunity to review its experiences gained through the transition from the previous Legacy TRICARE contracts to the new generation of TRICARE contracts. The collective achievement of transitioning a national, complex health care delivery system from seven contracts and 12 regions, to an entirely new program of three contracts and a complete program overhaul was an unprecedented event. While all three MCSCs demonstrated their full commitment, and continue to do so, project of this magnitude does not come without difficulty and many lessons learned – both in deficiencies and in successes.

The transition phase of the new TRICARE contracts was an unprecedented event that occurred in record time and with great success. In the span of 10 months, DoD and the MCSCs moved from contract award to initial implementation of the new contracts. The extraordinary collaboration between Humana, TriWest and Health Net, as experienced contractors, provided the facilitation and implementation support necessary to accomplish this task. Health Net extends its sincere appreciation to both Humana and TriWest for their willingness to partner with us, collaborating closely on transition activities to ensure we deliver a seamless transition for our beneficiaries.

All eight million plus TRICARE beneficiaries were converted to the new regions from June 1 through November 1 2004, a mere 5 months. Although there were a few unanticipated events that flawed early stage operations, including customer service telephone access and referrals and authorizations communication, beneficiaries received timely access to quality medical care and were supported by efficient administrative operations. In retrospect, the potential for adversity was considerable and the partnership of DoD and the experienced MCSCs effectively mitigated this risk.

Importance of Collaboration Between Government and Contractors

The transition and early operations of the new TRICARE contracts reinforced the value of close coordination and collaboration between MCSC personnel and their government counterparts at all levels. Collaboration and the building of working

relationships to serve the customers' ultimate objectives has long been a hallmark of Health Net's approach to this business. Once again, in this new contract implementation, Health Net immediately deployed its field and corporate resources to establish early communication channels and vehicles for frequent interactions among the TMA, TRO-North, Multi-Services Markets, and the MTFs. In the absence of these early relationships, the difficulties encountered would have been magnified significantly. The TRO-North staff and Health Net moved early to arrange and conduct a series of medical management seminars at each MTF to develop a contingency plan for referral and authorization processing in the absence of the EWRAS application. In another example, there was an anticipated on-line enrollment application on TRICARE-On-Line that did not materialize and operational adjustments had to be made. As a final example of this point, each and every MTF in the North Region has its unique needs around enrollment and care capabilities that needed to be considered in Health Net's service support of their facility and surrounding civilian network complement. These local needs are memorialized in a Memorandum of Understanding established between the individual MTF and Health Net. This "playbook" between the MTF and Health Net guides operational support and rules that improves overall support levels and is updated every year. The lesson learned is one that includes transparent and frequent interactions between government and MCSC, which foster understanding and effective problem solving leading to success for the Managed Care Support Contracts and all stakeholders involved.

Governance Structure

The successful implementation of the new contracts depended upon a clear and comprehensive work plan between the MCSCs and the government. This was achieved for the most part as a result of extensive project management coordination between Health Net and the government. We want to take this opportunity to recognize our first TRO Regional Director, MG Nancy Adams (ret), for her 30 years of service to the military and the critical role she filled in leading this period of transition with all of its challenges. At the same time, we are genuinely excited to have someone of Mr. Ed Koenig's caliber, as the new SES TRO Regional Director, to lead the way in the next

phase of operational execution in this program. His experience and problem solving skills are already having a positive effect on the North Region.

From the beginning of the post-award transition planning activities, there were ambiguities and a lack of definition around roles and responsibilities within the government that led to delays in decisions and as a result, timely actions. The specific issues concerned oversight of the contract, and the coordination of contract activities among the MTFs, Multi-Service Markets, service branches and TRO or TMA. Today, there is a specific effort underway on the part of the TMA/TRO Regional offices to solve this issue. Health Net remains hopeful that this will clarify the way for the administration of the contract and that it will lead to an even higher level of performance and complete attainment of contract objectives.

Procurement and Request For Proposal Phase

The initial release of the Request For Proposal (RFP) for the next generation of TRICARE contracts came in August 2002. An integral step in this phase of the project was the question and answer exchange between the prospective bidders and the government. As more than a thousand questions were generated at this early stage, a few of the design elements of the new work statement emerged as problematic for industry. Specifically, requirements around the provision of Clear and Legible Specialty Reports from civilian providers to Military Treatment Facility (MTF) providers, the 100% requirement for electronic claims submission by network providers, and several other 100% standards received large numbers of questions and input on practical difficulties with implementation. The collective expertise from industry in these areas, and the substantive obstacles raised to government officials, did not influence a material change in contract requirements. In these instances, the most challenging requirements were unchanged and left problematic and largely unresolved between government and contractors in today's operations. The lesson learned from this experience is a recommendation that government give more credence to industry concerns where significant levels of questioning and issues exist in the development stages of contracts.

Government-Provided Technology Systems Readiness

A fundamental assumption used in the RFP and subsequent contract design involved the provision of an automated transaction application, called the Enterprise Wide Referral and Authorization System (EWRAS), between the Government's Composite Health Care System (CHCS) and the contractors' medical management information systems. This was an important assumption that influenced bidders' workflow design, staffing models and pricing. In fact, due to the number of anticipated daily transactions associated with referral and authorization requests, the design and provision of EWRAS was critical to efficient processing of referrals and authorizations in the new contract.

The newly awarded MCSCs were asked to participate in the project teams for EWRAS development, and voiced serious concerns about the risks of EWRAS not being ready for Day 1 of operations. Contractors were instructed to proceed on the assumption of EWRAS until March 2004, when the Government belatedly requested contractors develop an EWRAS Contingency Plan with the MTFs. A contract change order did not come from the government until May 20, 2004, with the first region starting health care delivery on June 1, 2004. The delayed planning combined with greater than projected volumes of referral/authorization requests being handled is essentially a manual process, which resulted in missed performance standards and lower levels of service to beneficiaries and providers at the onset of program implementation. In result, a ripple effect ran throughout contractors' operations and the MTFs, leading to higher than projected phone call volumes, TRICARE Service Center (TSC) visits, written inquiries, and strained workforces.

Based on the information furnished in the RFP and the TRICARE Systems Manual, bidders expected a production ready TRICARE Encounter Data system to which to submit completed claims in the form of a TRICARE Encounter Data (TED) record. Instead, numerous delays in making this system available to MCSCs resulted in adversely affected cash flow and reduced contract timeliness and accuracy performance, as measured by DoD. For the record, MCSCs have had their own issues to resolve with regard to the creation and submission of TEDs.

Finally, the government indicated in the TRICARE Systems Manual that a beneficiary self-service option would be provided to TRICARE eligible beneficiaries to perform enrollment activities online. Initially, this automated capability was to be available at the start of the contract, however, in January 2004 (5 months following contract award) the government announced a delay in the availability of the web application. To date, the MCSCs have not been given an implementation date for this functionality. The result of the unavailability of this online system is increased workload for the MCSCs due to the submission of hardcopy enrollment applications.

The lesson learned from this situation is to assure availability of support systems in the formation of work requirements and build contingencies earlier in the planning process that can mitigate risk of failure in implementation where new systems are involved.

Continuity of Coverage through Civilian Networks in Transition

There is no more important issue for a TRICARE beneficiary who has been accessing care in this program and who is going through a transition such as the one in 2004, than the continuity of linkage with their care provider. Health Net recognized early on that the North Region represented a completely new geography for us, and that we needed to focus on the continuity of care for over 2.9 million beneficiaries by delivering the highest quality and most accessible network of civilian physicians and facilities possible. To do this, Health Net conducted a thorough analysis of the data available through the government, and set an action plan for development of a complete network. Health Net also contacted the outgoing MCSCs in the North geography. Health Net chose to acquire these pre-existing networks from the previous contractors, thereby avoiding significant risk of transition and providing a near seamless transition for beneficiaries and providers. Health Net also evaluated these networks for adequacy in meeting the projected healthcare needs of the North Region beneficiaries. Identified gaps in network provider coverage were overcome through direct contracting of the needed providers. The proof of success in this approach is that virtually all beneficiaries were able to retain their primary care physician at the time of transition, an

extraordinary accomplishment in light of the numbers of beneficiaries across the 23 states we serve.

Unanticipated Work Volumes and Data Assumptions

The process of preparing the Statement of Objectives and Requests for Proposal for “T-Nex”, or the next generation of TRICARE began in 2001. The time period for collection of data and trends that went into the bidders’ projections was prior to September 11, 2001, and the lead up to war in Iraq. As is widely understood, today’s world events and the operational tempo of our military in support of the Global War on Terror (GWOT) are quite different from pre-9/11. However, the transition and first option period of the new TRICARE contracts did not account for an overall increase in military personnel deployment, including military medical personnel. Nor did the planning anticipate the activation of the National Guard and Reserves, all of which had an impact on levels of work for MCSCs. At the same time, military facility capacities and capabilities were being restrained or even reduced. The effect has been an increasing dependency on civilian care, and higher service support levels for military family members that remain behind and who need our help. The result of these dynamics has been experienced in tangible ways across our operations, including substantially increased numbers of phone calls, higher requests for referrals and authorizations, and more requests for enhancements to the civilian network in proximity to MTFs. To meet the demand for network providers, Health Net has grown its network by approximately 10% or 7,100 providers in the last six months. Health Net understands the nature of this unexpected workload, and is proud to support our military in every way we can, but also expects the resource requirements and operational levels of effort to be reflected in its contract, so we can continue to meet the needs of the program and deliver service performance at the levels we committed in our original bid.

The successful transition, with minimal disruption to TRICARE constituents, may not have been possible without the full and collaborative cooperation of long tenured Managed Care Support Contractors acting in partnership with the government. The dimensions of TRICARE are vast and require no less than steadfast commitment from those responsible for ensuring the healthcare needs of all beneficiaries are met.

ACCESS TO CARE

The primary underpinning of the TRICARE Program is beneficiaries' access to healthcare. Health Net is constantly making provisions to ensure access to healthcare is available and monitors providers' behavior to verify access is real. With more than 81,000 network providers, the Prime Service Areas (PSAs) have evidenced little, if any, difficulty in meeting access to care requirements. The expansion of Health Net's provider network is never ending to continue to complement the dynamic direct care delivery system. At regular intervals, Health Net conducts "secret shopper" telephone surveys to ascertain whether network providers are, in fact, making themselves available to serve the TRICARE beneficiary population. Survey results to date largely substantiate that access is indeed available to Prime enrollees. In limited instances (e.g., single specialty) where the survey results suggest that the existing network providers do not have enough capacity to treat beneficiaries within access standards, additional providers are contracted to ensure that access is available. Perhaps most remarkably, less than 1% of network providers annually elect to terminate their relationship with Health Net and TRICARE.

Timely and accurate adjudication of claims remains the single most important factor in retaining network providers and ensuring that non-network providers are also available to deliver health care services to TRICARE beneficiaries. Health Net is processing approximately 1 million claims per month with more than 99.9% of claims adjudicated within 30 days of receipt. Better than 50% of all claims received and processed are electronic, which is more than double Health Net's experience in the prior TRICARE contracts. The significance of electronic claims is more expedient payment for providers, enhancing provider satisfaction with TRICARE given the relatively low reimbursement rates. Even though network providers deem reimbursement levels unacceptably low, Health Net continues to experience less than 1% attrition annually within its network. When attrition does occur, Health Net is able to supplement its network with additional providers to ensure that access to medical care is uninterrupted.

In non-PSAs, Health Net also closely monitors beneficiaries' ability to access healthcare. During the first 12 months of the contract, more than 280,000 non-network providers treated TRICARE beneficiaries across the North Region as is evidenced by the submission of claims for payment. When beneficiaries are unable to locate a provider to obtain healthcare, Health Net offers assistance through its "locate a provider" toll-free telephone service, which is available 7 days per week, 24 hours per day. Customer Service Representatives are specifically trained to utilize multiple sources of information to identify both network and non-network providers from whom beneficiaries may obtain healthcare. Health Net also employs the "secret shopper" survey to verify non-network providers accept TRICARE patients. Surveys of non-network providers are conducted using local telephone directories as the source of providers practicing in the area being surveyed. Again, results have generally been favorable regarding access to healthcare. Health Net uses ongoing newsletters and bulletins to keep non-network providers informed of the TRICARE Program and benefits.

RESERVE COMPONENT HEALTH CARE

As has been highlighted in the media and in our daily interaction with the men and women of the Armed Forces we serve, members of Guard and Reserve Units who are called to active duty have found themselves suddenly removed from their civilian lives and, in many instances, placed in harm's way. Many have been called to serve on foreign soil, while still more provide support services here at home – all the while concerned about sustaining a delicate balance between civilian and military life. One of the most important contributions we can make to the reserve component service member being activated and to the family members staying behind is the peace of mind knowing that the health care needs of family members will be met through the auspices of TRICARE.

In FY 2004, certain members of the Reserve Component (RC) and their families became eligible for TRICARE benefits up to 90 days prior to reporting to active duty. The introduction of this new benefit allowed Health Net to reach RC members and their families much earlier in the deployment process. Taking advantage of the additional time, we were able to better support the Department's Fitness for Duty requirements, include more beneficiaries in the education of their new health care benefits and hopefully offer piece of mind to the soldiers leaving their loved ones at home.

In FY 2005, as activation of reservists escalated, Health Net shared TRICARE Program information with nearly 64,000 reserve component personnel and their families through 698 briefings. These briefings have been held in cities and rural areas across the North Region, sometimes on a schedule spanning 7 days a week.

With the implementation of TRICARE Reserve Select (TRS) in April 2005, Health Net has been laying the groundwork for accommodating Reserve Component personnel and their families with the TRICARE benefit. To date, 4,757 beneficiaries have been enrolled in TRS by Health Net. Health Net's provider network is of sufficient size to deliver the full array of health care services where the Prime benefit is offered. In non-Prime areas, non-network providers have exhibited a willingness to treat TRICARE beneficiaries, especially during GWOT. In those isolated instances

where beneficiaries are unable to secure needed health care services, Health Net stands ready to offer assistance in obtaining care. Health Net's enrollment processes and the government's DEERS/DOES automation system have been proven through the implementation of TRS. Extending enrollment to a larger segment of the Guard and Reserve can be accomplished given sufficient time to enroll up to 800,000 beneficiaries to whom this benefit may be extended.

DEPARTMENT OF DEFENSE/VETERAN'S AFFAIRS SHARING AND HEALTH NET

In addition to Health Net's 17 years of experience in assisting DoD/TRICARE in achieving their program objectives, Health Net also has 8 years of experience with VA health programs and currently holds 34 VA contracts across the nation. Health Net has the unique distinction of having applied its managed care expertise in support of both agencies, as well as building communication channels at the field level between VA and DoD.

Health Net has implemented several best practices from our DoD/TRICARE experience across VA Integrated Service Networks (VISN) and medical centers. As a direct result of applying these best practices with the VA, we have saved or recovered over \$105 million dollars since 1999 that would have otherwise been expended out of VA health care operating budgets.

Specifically, Health Net has leveraged its managed care program expertise to support VA services in the following areas:

- Established a national civilian provider network for preferred pricing that obtains discounts for civilian healthcare services performed VA's Fee Basis Program;
- Audited and recovered Diagnosis Related Group based-claim dollars paid to civilian institutions inappropriately due to improper coding;
- Successfully contracted with all VA Medical Centers in the North Region as network providers for the delivery of health care services to TRICARE beneficiaries on a space-available basis, and;
- Worked closely with VISNs and VA Medical Centers in our TRICARE service regions to educate them about TRICARE Program elements and how to efficiently submit claims under the TRICARE Program. This has eased administrative issues and encouraged the VA's participation in TRICARE.
- Established and operate 19 VA Community Based Outpatient Clinics that provide primary care services to Veterans in a convenient setting typically near to their

home, and linked to the VA Medical Center system that can serve the more advanced or specialty care needs of the Veteran.

Health Net works collaboratively with each VA Medical Center in the North Region to ensure its involvement with TRICARE is efficient and effective TRICARE Program, that we respond to service issues, and encourage VA providers to treat TRICARE beneficiaries wherever space is available. We will continue to strengthen this collaborative effort.

In summary, Health Net has worked to ensure that these two vital government health care systems can benefit from one another. While there are challenges in funding mechanisms and in differing missions between the two systems, Health Net can, as a principle contractor for both systems, serve an important role to encourage and advance the mission of each system. We continue to look for ways to work closely with the TRO-North VA/DoD Sharing function, and to realize the many benefits of collaboration and sharing medical assets across the two systems.

MANAGED CARE SUPPORT OPERATIONS

Quality Management

Quality is a key component to Health Net's operations and is critical to our success in performance-based contracts, including our current TRICARE North Contract. A core value integrated into the foundation of our operations, quality management helps Health Net perform at high levels and guarantee exceptional performance levels for our customer, which, most importantly, results in increased satisfaction from our beneficiaries. To ensure we meet or exceed our goals and our customers' standards, Health Net maintains a Quality office that ensures quality management is integrated and formalized into all our business practices.

Health Net has an independent Quality Office that is responsible for the Quality Management and Quality Improvement Program. The Quality Program has as its framework, the principles and requirements of the ISO 9001:2000 Quality Management standard. Health Net is committed to the principles of the standard and attained ISO 9001:2000 Certification in December 2004. The quality program is further enhanced by compliance with the benchmarked, industry standards of URAC, a national health care accrediting agency. Health Net earned full accreditation to the URAC Health Network Standard in June 2005, and is currently working toward two additional accreditations—URAC Case Management and URAC Health Utilization Management.

The executive leadership of Health Net is committed to quality and plays an integral role in the Quality Program. The leadership team serves as the Quality Steering Committee and establishes quality direction for the company. The leadership team is focused on performance and meets monthly with business process owners to assess actual performance measured against a robust set of performance metrics. The leadership team also holds a quarterly Management Review to assess customer feedback, internal and external audits and assessments, and corrective and preventive actions.

The Quality Office performs Internal Quality Assessments throughout the organization to ensure compliance with ISO, URAC, regulatory and customer requirements. The assessments enable the identification of best practices and ensure sharing of those practices across the enterprise. Other results of the assessments include the identification of opportunities for improvement and issuance of corrective and preventive action requests. Health Net has a 7-step process for corrective/preventive action that includes two separate verifications of the effectiveness of the actions. The two verifications are designed to determine that actions taken resulted in real and sustained process improvement.

Health Net has a Quality Monitoring Program that requires regular reviews of transactions for accuracy and consistency. In addition to providing individual associates with information about their performance, the Quality-Monitoring Program helps to identify process issues and training deficiencies and promotes the consistency of process performance.

The Health Net Quality Improvement Committee is comprised of business process owners throughout the company. The purpose of the committee is to enable communication and to achieve cross-functional process improvements. The committee maintains a portfolio of improvement initiatives and charters quality improvement teams to support the initiatives. The improvement teams follow the Health Net “Roadmap” for Quality Improvement that outlines a consistent process for the teams to follow on the “road” to process improvement.

Well-trained associates are critical to a high-performing organization. Health Net Associate Training and Development is an important branch of the Quality Office. The formalized training approach employed provides an environment of continuous learning. Course curricula are comprised of competency based learning tracks and are presented through multiple delivery channels—leader-led, one-on-one, floor support, distance learning and on-line—to appeal to various learning styles. The emphasis of our training program is on increasing associate commitment, performance and quality of services delivered. Training at Health Net is an on-going and dynamic process that

evolves to meet needs identified through quality monitoring, process performance and customer feedback.

Contract Performance

Health Net is committed to delivering the highest quality, cost effective, and efficient managed care support services to more than 2.9 million beneficiaries residing in 23 states and the District of Columbia. Every day there is a tremendous amount of operational activity that occurs to fulfill this commitment and is evidenced in the following chart.

Typical Day's Work in North Region		Annualized
TRICARE Service Center Walk-in Visitors	1,971	496,692
Customer Service Telephone Calls Received	19,496	4,912,992
Written Inquiries Received	1,039	261,828
Authorizations Requested	3,081	776,412
Claims Received	51,562	12,993,624
Enrollment Applications Received	1,805	454,860

The value of the daily work is realized in the attainment of the government's goals: Optimization of the MTFs; Highest levels possible of beneficiary satisfaction; Best value health care; and Access to data. Each of these goals is presently being met in the North Region.

Enrollment

Enrollment of Active Duty Family Members, Non-Active Duty Family Members, TRICARE Prime Remote Active Duty Family Members and TRICARE Reserve Select (TRS) beneficiaries in Prime totals 963,959. An additional 412,985 TRICARE Prime Remote and Active Duty Service Members are enrolled in Prime bringing total enrollment to 1,376,944 beneficiaries. Prime enrollment growth from September 2004 to September 2005 was 4%. The implementation of TRS in April 2005 qualified specific

Reserve Component personnel and their families for TRICARE benefits subject to an annual enrollment fee. To date, Health Net has enrolled 4,757 beneficiaries in TRS. The TRS enrollment by branch of service is as follows:

TRICARE Reserve Select Enrollment as of April 2005		
Branch	Enrolled	Percent Of Total Enrolled
Army	3,101	65%
Air Force	1,155	24%
Navy	302	6%
Marines	148	3%
Coast Guard	49	1%
Other	2	---

Enrollment trends indicate highly satisfied beneficiaries with the Prime benefit that exceeds the access, choice and quality expectations of the beneficiary population. Projections of future Prime enrollment suggest that it will continue to increase as the preferred TRICARE option.

Call Center

Health Net responds to nearly 425,000 telephone inquiries each month from more than 2.9 million beneficiaries, 81,000 network providers and 280,000 non-network providers. Since July 2004, Health Net has received and responded to over 6.3 million calls. Health Net answers more than 94% of all calls within 20 seconds and provides information requested, and resolves issues or problems presented by callers during the first call 99% of the time. Busy signals are virtually non-existent for TRICARE constituents who have the need to call. Health Net extended its Call Center operating hours to 12 hours per day (Monday – Friday, excluding holidays) to better fulfill the needs of its TRICARE stakeholders. Health Net’s ability to deliver prompt,

consistent and accurate information is a key determining factor in attaining the highest levels possible of customer satisfaction.

TRICARE Service Centers

TRICARE Service Centers are one of the primary means used by beneficiaries to obtain program information and service support from knowledgeable representatives who can directly solve problems or ensure issues are addressed within the military health system and its support contractors. Health Net had 501,596 personal visits to its TSCs during FY 2005. The number of walk-in visits has remained relatively constant over the first two option periods of the new contract. Based on a statistically valid sample size of service feedback forms completed by visitors to Health Net's TSCs, the services we provide are fulfilling beneficiaries' expectations. There were 39,245 surveys completed that scored overall satisfaction with services provided as 6.85 on a scale of 7 being the highest rating. Commonly cited reasons for positive opinions involve the personal level of caring and service provided by the Health Net TSC representatives. Overall, the principle reasons for visiting a TSC involve enrollment transactions, such as receiving applications or enrollment fees, processing portability applications when beneficiaries are moving, changing a PCM, and adding or changing family members. Other reasons include service assistance, general program information, authorization or referral for services, and help with claims. It is notable that claims issues in general have decreased from our experience under the prior TRICARE contracts, representing less than 5% of walk-ins.

Congressional Inquiries

Congressional inquiries receive priority attention at Health Net. Our government relation's staff, with a collective 67 years of TRICARE experience, is wholly focused on responding to congressional inquiries. They also work collaboratively with the TRICARE Region North office, TMA, local military facilities and other government agencies to resolve escalating issues.

It is due to our partnerships and strong program knowledge that we are experiencing a monthly average of 58 inquiries per month under the TRICARE North

Contract – a monthly average consistent with the statistics under our Legacy Contracts at the height of high performance levels.

Health Net offers many avenues for congressional offices and caseworkers to obtain help and information. We host a secure Government Relations page on our Web site, www.healthnetfederalservices.com, to address the most frequently raised issues and offer solutions that will support local district offices in resolving problems. Our staff is also available via a toll-free telephone number, to personally assist congressional staff should immediate assistance be required. Our Field staff is available to visit local congressional offices should the need arise.

Additionally, Health Net is focused on finding new avenues that will aid in the reduction of congressional inquiries. Every inquiry received is an opportunity for education. We use our “lessons learned” in a myriad of ways, from drafting new call center scripts and Web site content to external beneficiary and provider newsletters and bulletins.

Provider Network

Health Net’s civilian provider network complements the Military Health System (MHS) to produce a complete health care delivery system for TRICARE beneficiaries. There are more than 81,405 network providers currently in the North Region, categorized as follows:

Network Providers in the North Region	
Hospitals and Facilities	1,536
Primary Care Managers	12,340
Specialty Care Providers	46,365
Ancillary/Allied Providers	10,102
Behavioral Health Professionals	11,062

TRICARE reimbursement rates greatly contribute to providers’ general unrest with the program. Health Net is able to overcome some measure of this dissatisfaction

through prompt and accurate payment of TRICARE claims. Even though network providers deem reimbursement levels unacceptably low, Health Net continues to experience less than 1% attrition annually within its network providers. When attrition does occur, Health Net is able to supplement its network with additional providers to ensure that access to medical care is uninterrupted.

Health Net continues to deliver a comprehensive provider network that complements the MHS and adeptly responds to MTF capacity and capability changes brought about by deployments of direct care clinical staff and other military health care decisions.

Authorizations and Referrals

Since the start of health care delivery, Health Net has reviewed more than 870,000 authorizations and referrals to ensure that beneficiaries receive quality medical care rendered by qualified physicians or providers in an appropriate setting. Each month, Health Net identifies over 2,400 opportunities to recapture medical care into the MTFs based on previously agreed upon guidelines that specify each MTF's capability and capacity to render care. Health Net's management of this component of medical care results in optimization of the MTFs and provides effective stewardship of TRICARE Program dollars.

Case Management

Health Net offers case management services to TRICARE beneficiaries with specific diseases or high-cost conditions. The purpose of this vital program offering is to promote efficient, effective services designed to reduce unwarranted variation in practice, improve clinical outcomes and enhance both beneficiary and provider satisfaction. Since the inception of the North Region contract, Health Net has managed over 1,200 beneficiaries in this program. An average of 80 new cases each month meet the criteria for case management services and are accepted into the program.

Program Management through TRO-North Regional Director

Health Net has benefited from the strong leadership of the TRICARE Regional Director in the North Region (TRO-North). This new office and its role in managing the delivery of the TRICARE Program under the new contracts have been critical to the success of transitioning from the old contracts. Health Net fostered a strong working relationship from the beginning with the TRO-North Regional Director and the business unit chiefs within the TRO-North office. Together, we successfully met numerous challenges in the implementation phase, and since then, in operations where several issues persist that require close collaboration with our customer. As the accountable TRICARE Program Officer for DoD, the TRO-North Regional Director plays a critical role in the oversight and management of our contract. The collaboration between the TRO-North and Health Net, as MCSC, ensures the proper focus on resources, processes and policies that will result in successful attainment of contract objectives. We value this important linkage and the ability for Health Net and the government to maintain open communications at all times, particularly when confronting important issues or challenges.

Military Treatment Facility Optimization and Resource Sharing

In alignment of the Government's goal to optimize services provided within the MTF, Health Net designed its capabilities to support the optimization of the MTFs and improve upon these efforts when needed. At a fundamental level, Health Net has arranged for an on-site program manager to be available to each and every MTF Commander and his/her staff. Furthermore, we have developed an extensive set of tools to help us identify, analyze and pursue optimization opportunities in collaboration with the MTFs, Multi-Service Market Offices of the National Capital Area and Tidewater, and the TRO-North office. At a fundamental level, Health Net's organizational structure is designed to ensure a face-to-face accountable program manager is assigned to each and every MTF Commander and his/her staff. We have developed an extensive set of tools to identify, analyze and pursue optimization opportunities in collaboration with the MTFs, Multi-Service Market Offices of National Capital Area and Tidewater, and with the TRO-North office.

There have been several new resource tools developed since the previous contracts concluded, such as Clinical Support Agreements, MHS Support Initiatives, and other direct contracting options. We continue to believe that the Resource Sharing Program, or similarly intended support initiatives, is vital strategic tools for optimizing the MHS and supporting its readiness mission. We also believe that such programs enhance the quality and continuity of care delivered to TRICARE beneficiaries. It is unfortunate that funding for these programs and tools available to recapture work in the MTF setting have been slow to materialize in the new contracts. Health Net looks forward to engaging with the Services and TMA to reinstate these activities which will optimize the direct care system, and thereby support the mission of military medicine.

Claims Processing

Upon full implementation in the North Region, Health Net is processing approximately 1 million claims per month with more than 99.9% of claims adjudicated within 30 days of receipt. From contract inception through September 30, 2005, more than 12 million claims have been processed. Better than 50% of all claims received and processed are electronic, which is more than double Health Net's experience in the prior TRICARE contracts. The significance of electronic claims has reduced administrative cost to the government and provided more expedient payment for providers, enhancing provider satisfaction with TRICARE given the relatively low reimbursement rates. Timely and accurate adjudication of claims remains the single most important factor in retaining network providers and ensuring that non-network providers are also available to deliver health care services to TRICARE beneficiaries.

BEHAVIORAL HEALTH SUCCESSES

Since August 2003, Health Net Federal Services and its subsidiaries have been pleased to participate in two programs designed to support and enhance the mental health of our active and reserve troops and their families. The two programs, Troop and Family Life Counseling and Domestic Abuse Victim Advocacy started as pilot initiatives with the intent to supplement existing military family life resources and have grown rapidly to include a variety of service models both CONUS and OCONUS with demonstrated positive results.

Troop and Family Life Counseling

Health Net has been actively engaged in providing short-term, solution focused on-medical family and daily living counseling to military personnel and their families, including active National Guard and Reserve personnel in the States and abroad. While the stressors of war and deployment are a constant theme, the need for counseling varies significantly from one location to the next, depending on deployment cycles and the mission of each installation. While support has been made available to all service branches, the largest utilization has been with the Army followed by the Marine Corps.

The program is preventative in nature and designed to reach out to service personnel and their families as early as possible to offer assistance as they cope with the stressors of deployment and reunion. Counselors support existing installation resources that include medical, social services, alcohol and substance abuse programs, chaplains and more, in order to complement and enhance support for personnel and families.

As benefits are realized, the program continues to expand to a number of locations and settings around the world. Abroad, we offer support to members in installations throughout Germany, Italy, Belgium, and The Netherlands. To date, support has been provided to over 30,000 service members and their families through individual, family, and group counseling.

In the States, counselors are supporting military families at Fort Dix, Fort Bragg, Fort Benning, Camp Shelby, Fort McCoy, Fort Buchanan, Fort Riley, Fort Wainwright, Fort Carson, and Scofield Barracks.

Attention is also focused on the large numbers of Guard personnel as they return to their home state. Counselors often await soldiers returning from combat zones, greeting them as they came down the “green ramp” in the middle of the night.

In addition to serving National Guard and Reserve personnel on the installation, counseling support is available to them closer to home. One such effort, coordinated with Fort Bragg, resulted in sending 32 counselors during the same weekend to National Guard drill centers across North Carolina, offering family counseling support to soldiers and their families.

As the positive impact of the program became known, NATO command requested that we develop a program of support for the many Geographically Separated Units (GSUs) of NATO military personnel throughout Europe. This resulted in the 2005 launch of a small mobile team of counselors to AFNorth, AFSouth and SHAPE, who visit GSUs providing individual and group counseling support as needed.

An integral component of our program involves responding on short notice to requests for counseling support, as noticed in the high number of casualties from a particular unit or the displacement and trauma of families that resulted from Hurricanes Katrina and Rita.

Shortly after Hurricane Katrina struck, we deployed counselors to a number of installations where military personnel and families as well as civilian employees suffered major disruption to their lives. Health Net arranged for counselors to assist at Fort Polk, Tyndall Air Force Base, Jackson Barracks, Camp Shelby, naval installations at Fort Worth and Corpus Christi, Gulfport, and Camp Beauregard, as well as several other locations.

In addition, during the summer of 2005, we dispatched counselors to support Marine Reserve families in Columbus, Ohio, who were profoundly affected by the loss of 14 of their Marines in a relatively short period of time.

Domestic Abuse Victim Advocacy

Since early 2004, Health Net has worked on a program to support victims of domestic violence and sexual assault. The Domestic Abuse and Victim Advocacy program provides placement of advocates at 45 of military installations stateside to augment and expand support of off-base for victims of domestic violence and sexual assault across the four services. The Air Force has requested victim advocacy coverage at 24 additional bases.

Advocates provide important support to victims of abuse that include safety planning, evaluation of the victim and their family's needs accompaniment to medical appointments and law enforcement agencies, and ongoing support as needed to ensure the victim has the opportunity to use all available resources. Advocates also work closely with the installations and surrounding community, participating in awareness and prevention initiatives.

During August 2005, our advocates worked with 317 newly reporting victims. This workload included over 6,800 contacts with reported victims and accompanying the victims 475 times to needed services such as medical treatment and law enforcement.

NOTABLE ACCOMPLISHMENTS

Throughout the past 16 months while we have worked hard to ensure operations were stable and sure, Health Net achieved noteworthy achievements that not only benefited the TRICARE Program, but our beneficiaries, providers, the DoD customer and our own operations.

Health Net has integrated quality into all aspects of our organization, and in doing so, has been accredited and certified with a URAC accreditation titled Utilization Network, and currently working to add two others - Case Management, and Utilization Management. Health Net has also been awarded ISO 9001:2000 certification, and DITSCAP, the DoD's Information Technology Security Certification and Accreditation Process, Approval to Operate. Each accreditation process was considerable, and in turn, noteworthy as they substantiated the solid foundation that we have established through our efforts since the time of contract award.

We have made considerable advancements to our online capability and access to information by allowing beneficiaries, providers, and other interested parties to access such items as electronic claims submission, referral and authorization and enrollment tools, education materials, and government related data. Currently, we have found that online visitors are increasing as new and more convenient services are being developed and added to our website. This will continue to be a great tool for many of our beneficiaries and providers.

We believe a personal touch is critical when serving health care services, especially to a population such as the military family. Health Net experiences this through our field and call center operations each day. However, it is usually in unfortunate times when more is needed. A recent example illustrates Health Net's compassionate outreach. In August, the tragic loss of 14 soldiers of the 3rd Battalion, 25th Marines in Iraq generated a unique need for Health Net to support a devastated unit of both active duty service members as well as surviving family members. During the intervening weeks since the tragedy occurred, Health Net's TRICARE Community

Reps from these areas established and stayed in contact with the units, offering guidance to surviving family members and to demobilizing service members and their families. Service members desiring to use their TRICARE benefit were able to do so with minimal administrative burden.

THE DEFENSE HEALTH PROGRAM - FUTURE BUDGET IMPLICATIONS

The Military Health System continues to face tremendous challenges. The number of beneficiaries served is over nine million worldwide and growing. These figures will continue to rise as continued mobilizations in the GWOT entitle Guard and Reserve members and their families TRICARE access. Congressionally mandated expansion of Reserve Component benefits such as TRICARE Reserve Select will increase enrollees as well. Retirees are turning to TRICARE with its low premiums and robust pharmacy benefit as they face increased out of pocket costs in the commercial sector. In addition, improvement in the service delivery and quality of the TRICARE Program has made the benefit a more attractive option for retirees and their families who would otherwise be covered by employer sponsored health plans.

We have seen in the National Capitol Area of the North a large influx of retirees seeking to enroll in TRICARE Prime. Because of operational requirements and the large number of new enrollees, the direct care system has not been able to accommodate retiree enrollment. We have been able to meet this expansion by providing an adequate number of civilian network PCMs and specialists to meet the needs of these enrollees.

During the past two years, Health Net has noticed an annual trend in at-risk health care costs in the TRICARE North Region in excess of 23%. This non-industry norm health care cost trend is due primarily to the following:

- Natural underlying health care cost trend
- Activation of Guard and Reserve, including the implementation of TRICARE Reserve Select
- Deployment of DOD's medical assets OCONUS
- Increase use of the TRICARE benefit and less reliance on other commercial insurance because of the attractiveness of the benefit
- Returning injured
- Increased need for mental health services and

- A new “baby boom”

Short of the natural health care cost trend and the pure advantageous economics of the TRICARE benefit, the majority of these costs increases in the North Region can be directly tied to the War on Terror. As we prepared for this new contract, this impact could not be estimated. Thus, we have worked collaboratively with our customer to work through the impact on our workload and ensure we were capable of filling in the gaps when our patients needed to rely more on the civilian community for their care needs. One area that is still unresolved for the contracting community is the substantial increase in health care costs in the first option period over the original estimates. We are working with our customer to resolve this inequity through the request equitable adjustment process.

The MHS continues to respond superbly to its diverse missions of medical readiness and force health protection while also caring for active duty family members, retirees and their families, and survivors. The GWOT mobilizations continue to strain the direct care system as providers are mobilized worldwide. Recently, the MHS has had to focus on an additional mission taking a role in national medical emergency preparedness supporting hurricane victims stateside.

Continued operational tempo has not only taken its toll on service members, but their families as well. In addition to the day-to-day dangers faced in combat, families have found the unpredictability of the length and frequency of deployments to be a tremendous stressor. The critical time is not just during the deployment, but the difficult adjustment period during the return and reunion stage. The stress continues even when the service member returns to their duty station as increased operation tempo requires supporting others in the field or gearing up for another deployment cycle. There is no longer any “downtime” for service members and their families.

The Department of Defense has made great strides in addressing the needs of service members and their families during deployment and reunion. The recently mandated mandatory health assessments will identify service members who may need

more transition assistance. This will be beneficial, as post-deployment problems may not become known for months after the deployment concludes. We are pleased that Health Net has been able to provide counseling and support worldwide to service members and their programs through our aforementioned mental health services programs.

The cost of providing health care to the nation's military personnel and their family members has nearly doubled in the past 4 years. Today you have heard testimony identifying several factors responsible for this growth, including the expansion of TRICARE eligibility for members of the Guard and Reserve and the rising costs of providing care to military retirees and their families. Given the constraints on the Direct Care System, the DoD must increasingly rely on the civilian sector to accommodate growing demand for services. This makes it critical for DoD and its MCSCs to work collaboratively on initiatives to control the growth of health care spending.

Health Net has identified an exciting opportunity to mitigate health care cost trend while improving the quality of service and care for an important segment of the military family – those beneficiaries who are eligible for both TRICARE and Medicare.

Today, 1.8 million Americans – about one out of every 25 Medicare beneficiaries – are eligible for benefits under the TRICARE for Life (TFL) Program. These beneficiaries enjoy the best of both the TRICARE and Medicare benefits, receiving their health care under fee-for-service Medicare with wraparound coverage provided by DoD. In practical terms, TRICARE and Medicare dual-eligible beneficiaries have virtually unrestricted access to care with no out-of-pocket costs for most services and no additional premium.

The cost to both DoD and the Medicare program is considerable – the Office of the Secretary of Defense has estimated DoD's share alone to be \$5.4 billion in FY 2005. Moreover, the lack of cost controls and underlying Medicare cost trends (from utilization, severity of illness, new technologies, etc.) make health spending for senior

military retirees the fastest growing component of military health expenditures — projected to more than double by the year 2015. The DoD has recently expressed concern over the long-term viability of the TFL benefit as it is structured today, and has acknowledged that the Defense Health Program as a whole is "increasingly out of step with the benefit design approaches and trends of the private sector."

We believe that the challenges of the TFL Program present a unique opportunity for DoD, the Department of Health and Human Services (DHHS) and the TRICARE MCSCs to partner in delivering higher quality, more cost-effective health care to TFL beneficiaries by offering Medicare Advantage Regional PPO (MA RPPO) plans specifically tailored to their unique needs. Under this model, TFL beneficiaries would elect to either keep the TFL benefit they have today (but under a program that allows DoD to take advantage of the Contractor's network discounts) or choose a PPO plan with enhanced benefits and higher out-of-pocket costs when the beneficiary seeks services outside the PPO network. This approach has the potential to improve quality of care through the introduction of chronic care improvement and disease management programs and by improving coordination across the entire spectrum of care.

At the same time, the program should yield overall savings to DOD and DHHS in excess of \$1 billion annually. More importantly, however, the proposed program would closely coordinate the TRICARE and TFL Programs, "keeping the promise to those who served" by creating a single integrated health care delivery system, establishing true "cradle-to-grave" care coordination for TRICARE beneficiaries, and providing a seamless transition from TRICARE to TFL when the beneficiary becomes eligible for Medicare.

America owes a great debt to the men and women who risk their lives in defense of the nation. In the current fiscal environment, it is increasingly important to find innovative, collaborative programs like the one described above to ensure we can continue to deliver our commitment of providing them with high quality health care coverage for life.

CLOSING COMMENTS

Again, thank you for giving Health Net the opportunity to provide you with a front-line perspective of the TRICARE Program and our thoughts as we move forward.

Through the years, our TRICARE efforts have been made easier by the collaborative efforts of our fellow contractors, and our partners in the military and the government. We have been fortunate to forge relationships that we hope will continue for years to come.

Health Net will continue to look for ways to make meaningful and measurable contributions to the TRICARE Program and our beneficiaries. With quality a key component to our work ethic, we expect to continue to raise the bar on the DoD's behalf. In addition, we would like to continue to partner with you to help make the future of military health the best it can be.

Our job has not been just a job – it has been a source of pride for all of us at Health Net. In times of peace or conflict, from Operation Iraqi Freedom to Hurricane Katrina – we are honored to play a role in supporting our country's efforts.

Thank you again Mr. Chairman for the opportunity to offer our views of the TRICARE Program.