



National Military Veterans Alliance  
5535 Hempstead Way, Springfield, VA 22151

Phone: (703) 750-2568  
Fax: (703) 354-4380

**Testimony of**  
**The National Military Veterans Alliance**  
**on the**  
**Defense Health Program and DOD Initiatives to Control Costs**

**presented by**

**Major General William M. Matz, USA (Retired),  
President, National Association for Uniformed Services**

**before the**

**Subcommittee on Military Personnel,  
Committee on Armed Services**

**Wednesday, March 29, 2006, 2:00 PM  
2118 Rayburn House Office Building**

Chairman McHugh, Ranking Member Snyder and Members of the Subcommittee:

On behalf of The National Military Veterans Alliance (The Alliance), composed of 29 military organizations and veterans groups representing nearly 3.5 million servicemembers, including active duty, National Guard, Reserve, military retirees, veterans, families and survivors, I thank you for the opportunity to present our testimony at this hearing on “Defense Health Program—DOD Initiatives to Control Costs.”

The Alliance testimony takes into consideration the interests of each individual association in all joint actions and testimony. Working together, we undertake to expand our resources and present a united voice to Congress and the Administration, promoting our goals and objectives concerning a wide-range of military quality-of-life issues including pay, personnel, medical care, survivor benefits, military housing, education and related veteran issues and legislation.

The Alliance receives no federal grants and has no federal contracts.

Member Organizations:

- American Logistics Association
- American Military Retirees Association
- American Military Society
- American Retirees Association
- American World War II Orphans Network
- AMVETS (American Veterans)
- Association of Old Crows
- Catholic War Veterans
- Gold Star Wives of America, Inc.
- Japanese American Veterans Association
- Korean War Veterans Foundation
- Legion of Valor
- Military Order of the Purple Heart
- Military Order of the World Wars
- National Assoc. for Uniformed Services
- National Gulf War Resource Center
- Naval Enlisted Reserve Association
- Naval Reserve Association
- Paralyzed Veterans of America
- Reserve Enlisted Association
- Reserve Officers Association
- Society of Military Widows
- The Retired Enlisted Association
- TREA Senior Citizens League
- Tragedy Assist. Program for Survivors
- Uniformed Services Disabled Retirees
- Veterans of Foreign Wars
- Vietnam Veterans of America
- Women in Search of Equity

## **Introduction**

Chairman McHugh, Ranking Member Snyder and Members of the Subcommittee, the National Military Veterans Alliance would like to express our gratitude for the invitation and the opportunity to present testimony on the Department of Defense Health Care System.

The Alliance thanks you for your continued focus on the numerous and important quality of the life issues, in particular the current state of the military health care system and the proposed initiatives by the Department of Defense to address these issues.

## **The Defense Blueprint for Military Health Care Raises Serious Concern**

The Defense blueprint for military healthcare raises serious concern to The Alliance. DoD recommends saving \$735 million through sharp increases in TRICARE fees and higher copays for pharmaceuticals for 3.1 million retirees under age 65 and their families.

To achieve these savings, Defense officials want to triple annual enrollment fees for TRICARE Prime by October 2007 for officers to \$700 from \$230 a year for individuals and to \$1,400 from \$460 per year for families. For retired E-6 and below, the fee would jump fifty percent to \$325/\$650 from \$230/\$460. For E-7 and above, the jump would more than double to \$475/\$950 from \$230/\$460. For surviving spouses and some disable retirees, the increased TRICARE fee would amount to an even greater proportion of their budget.

The defense budget also requests the establishment of a TRICARE Standard enrollment fee and an increase in the annual amount of deductible charges paid by retirees using Standard coverage. The Standard beneficiary already pays a 25 percent cost share (and an added 15 percent for non-participating providers). Should Congress approve the DoD request to increase deductibles and initiate an annual fee, the value of the benefit earned by military retirees using Standard would be greatly diminished.

DoD officials also recommend changes in TRICARE retail pharmacy copayments. The plan calls for reducing copays for mail order generic prescriptions to \$0 (zero) from \$3; and increasing copays for retail generic drugs to \$5 from \$3 and for retail brand drugs to \$15 from \$9. The copayment for non-formulary prescriptions would remain at \$22. These changes would affect all TRICARE participants.

The assertion behind the proposals is to have working-age retirees and family members pay a larger share of TRICARE costs or use civilian health plans offered by employers. Frankly, we are deeply troubled that DoD would aim to discourage retirees from using their earned benefits with the military medical system. In recent testimony before the appropriations subcommittee, Dr. Winkenwerder indicated that the plan would force more than 100,000 retirees to leave their TRICARE coverage due to added costs.

According to the Pentagon, another key point behind their plan is that the proposed TRICARE changes would “ensure US military capability and national defense,” since dollar “savings”

would be applied directly to critical military requirements. In other words, benefits earned in career military service must be shaved because their costs threaten our national security.

In all candor, we are not comfortable with the direction we are headed under the recommendations submitted by our Pentagon leadership. For example, Undersecretary of Defense for Personnel Readiness David Chu has been saying for more than a year that updated and improved military benefits were damaging national security. Secretary Chu said that earned benefits “have gotten to where they are hurtful. They are taking away from the nation’s ability to defend itself.”

What we see and hear disturbs us, because it is inconceivable that the Department of Defense would propose tripling health care premiums for certain military retirees under TRICARE as a means to help meet the costs of providing for our national defense. We believe the TRICARE increases are excessive by any measure. If this plan were enacted, it would demonstrate that the promised earned benefits of a military career are not viewed as a priority.

It is imperative that the administration and Congress do the right thing. To renege on the commitment to provide adequate funding for benefits earned through a career in armed service would send the wrong signal to those who now serve and have served in America’s Armed Forces, especially in a time of war. Approving such a message would not be well received by the military community, and would greatly influence retention and recruitment.

### **Budget Priorities**

It is clear to The Alliance that if the administration and congressional leadership cannot arrange priorities within a \$2.7 trillion budget to meet the benefits military retirees earned and richly deserve, something is wrong with the priorities being selected.

Our member organizations witness that there is enough money to spend on the Professional Golfer’s First Tee Program, Puxatawney Phil’s Ground Hog Day, the Rock and Roll Hall of Fame Museum, the Cowboy Museum and other projects too numerous to list. Money was even directed to establish a Tropical Rain Forest under a dome in Iowa and to subsidize the GRAMMY Foundation, an organization run by millionaire record producers, recording “artists” and record manufacturers.

According to the Congressional Research Service, the number of earmarks has skyrocketed over the past years, from 4,126 in 1994 to 15,268 in 2005. While individually these earmarks may account for only a small fraction of federal spending, the total cost in fiscal year 2005 was estimated at \$27.3 billion – a 19 percent increase over the previous year. To paraphrase former Senator Everett Dirksen, “A million here and a million there and pretty soon you’re talking about real money.”

Incredibly, there are additional questionable spending priorities as we discuss military health care. What signal, for instance, is being sent when our government enacts a 4-year \$1 billion plan to pay the medical care costs for treating illegal aliens? Is it right to force the Pentagon to suggest that military retirees pay more for their earned benefits, while giving budget

priority to those here illegally in the United States? Does illegal alien health care trump the healthcare benefit provided those who gave a lifetime protecting American freedom and preserving our way of life?

Mr. Chairman, we have faith in our leaders, but we are not blind. Before we begin whacking at our military's earned benefits, let us make certain that we use our best wisdom to select our most important programs over our lesser important ones. And let us not forget, we are at war.

If our defense budget is insufficient to cover our national security requirements, as the joint Chiefs of Staff say it is, then why do we continue to spend billions on non-defense, non-federal and non-essential programs and projects. Let us work together to sort out the matter and use common sense to reach a balanced and reasonable analysis of the situation, especially when our courageous troops are engaged in battle overseas.

### **The Alliance Strongly Recommends HR 4949, a bill to halt the Pentagon plan**

It is important to understand that while the DoD plan is overly aggressive, much of it regrettably, can actually be implemented using current authorities granted under law. Unless challenged by Congress, the increases could go into effect starting October 1, 2006. Therefore, The Alliance fully supports passage of HR 4949, a bill to block DoD authority to raise TRICARE fees.

Mr. Chairman, The Alliance strongly recommends an intervention to halt further progress of the Pentagon plan. We should not allow ourselves to be caught in a self-destructive cycle. We note that recently introduced legislation would remove authority granted the Defense Department to adjust annual premiums for retirees enrolled in the military TRICARE system.

Like any good first step to recovery, we must admit first there is a problem. In this regard, it is apparent that unless challenged, DoD authority would implement this overly aggressive action. Therefore, The Alliance offers its strong recommendation for HR 4949, the Military Retirees' Health Care Protection Act to amend Title 10, United States Code, and give Congress time to block any fee increase unless specifically approved by Congress.

Without congressional action, the Pentagon plan would triple costs of earned benefits for certain retirees and virtually destroy a major career incentive. It would also, according to defense analysts, drive hundreds of thousands of retirees away from a benefit earned through a career in military service. The backlash against the DoD initiative is hard to imagine.

By removing DoD authority to increase TRICARE fees, the Military Retirees' Health Care Protection Act or legislation similar to it would help ensure the Federal government promise of health care for life to the brave men and women who serve a career in military service. Your action in this matter would send the right signal to those who serve, have served or are thinking about serving in America's Armed Forces, especially in wartime.

### **The Alliance Asks Rejection of the DoD Proposed Increase**

Mr. Chairman, The Alliance asks your subcommittee to reject the DoD proposed increases and ensure adequate funding is provided to maintain the value of the healthcare benefit provided those men and women willing to undergo the hardships of a military career.

Your leadership is required to help demonstrate that the promised earned benefits of a military career remain a high priority to this Congress and our country.

One of our great patriots once observed, “Those who expect to reap the blessings of freedom must undergo the fatigue of supporting it.” Patrick Henry’s words echo the clear need for a strong defense and the importance of a benefits package appropriate to maintain a volunteer force that will provide for it.

Today as much as in those first days of our Republic, we need the clarity of wisdom in high office to sort out our national priorities and get things right.

All we ask for is what is best for our service men, women and veterans. The Alliance urges you to confirm America’s solemn, moral obligation to support our troops, their families, military retirees and veterans. They have kept their promise to our Nation, and now it’s time for us to keep our promise to them.

### **Full Funding for the Defense Health Program**

The Alliance applauds the Subcommittee’s role in providing adequate funding for the Defense Health Program (DHP) in the past several budget cycles. As the cost of health care has risen throughout the country, you have provided adequate increases to the DHP to keep pace.

*The National Military and Veterans Alliance urges the Subcommittee to continue to ensure full funding for the Defense Health Program including the full costs of all new programs.*

### **Comparison with Civilian Plans**

The Department of Defense continues toward “civilianizing” the Defense Health Program (DHP) by enforcing “best business practices” upon its purchased care sector, through the hiring of civilian providers in the Military Treatment Facilities and the original formation of the TRICARE Program to attempt to mirror the Federal Health Benefits Program.

The comparison of the two programs is totally inappropriate. Military service, endured for however many years in uniform necessitates a much more robust health care retirement benefit, than the average citizen would need. Our military retirees have earned and should expect a grateful nation to keep the promises made of low-cost or even free healthcare for life as a benefit for their many years of dedicated service. Family members, who move on average, every 2-4 years while on active service, are not allowed the opportunity for continuity of health care. They too deserve some stability in their health care.

*The National Military and Veterans Alliance urges the Subcommittee to ensure that we meet our promises and obligations to these brave men and women and their families and provide them the best healthcare available at the lowest possible cost.*

### **TRICARE Standard Fee**

The Alliance is very concerned with the Department of Defense proposal to implement new enrollment fees and increase the deductible for TRICARE Standard. This earned benefit is more than just a fee-for-service program. Standard is the cornerstone of the military health system's purchased care programs. Standard is the first line of care for our service members and an entitlement.

The program includes many eligible beneficiaries who do not have the option of enrolling in TRICARE Prime, the managed care program. While beneficiaries enrolled in Prime pay an enrollment fee, they also receive greater service, guaranteed access to care and timeliness standards, all at a lower cost to the government and a lower copayment.

We feel that the TRICARE Standard program has been sadly neglected or treated as an unwanted child. Until this year there has been little-to-no education or communication to the beneficiaries. The recruitment and education of providers who reside outside of the Military Catchment areas has been passed along from one responsible entity to another without anyone taking serious responsibility for it. Most important, the cost of the program to the beneficiary is seen as extremely high when compared to TRICARE Prime. This is primarily due to the Standard beneficiary having to pay much more than the 25 percent of the cost share for doctor visits and the extremely high inpatient costs of \$535 per day.

*The National Military and Veterans Alliance urges the Subcommittee to reject the proposed TRICARE Standard enrollment fee.*

### **TRICARE Pharmacy Programs**

The DoD budget proposal also requests a 67 percent increase in retail formulary pharmacy fees for all members and families eligible for military health care. They rationalize this increase as being justified because it costs the government twice as much for a drug through the TRICARE Retail Pharmacy program (TRRx) than it does for the same drug through the TRICARE Mail Order Pharmacy Program (TMOP). DoD believes the rise in the TRRx co-payments will increase revenue and forcefully migrate beneficiaries to the TMOP program, where the costs for their prescriptions are lower.

However, we feel that a primary reason for the higher cost to the Department of Defense in the retail sector is due to DoD not receiving the anticipated Federal Pricing schedule for TRRx. Nor did DoD negotiate other discounts or price breaks with any pharmaceutical companies, which could have saved considerable dollars. TMOP and MTF pharmacy programs did receive these pharmaceutical discounts, therefore their lower costs.

Had DoD aggressively implemented a concerted marketing or education plan to encourage

beneficiaries to use the mail order program, considerable savings would have been found, as it is actually cheaper for the beneficiary as well as the Department to use TMOP.

***The National Military and Veterans Alliance urges the Subcommittee to direct DoD to develop and use an active marketing plan for beneficiary use of the mail order program.***

### **Expectations About the Benefit Package Affects Retention**

The United States provides a robust benefits package to the men and women who serve. These benefits are somewhat of a counterbalance to the sacrifices made throughout a full career in the military and are part of the overall compensation package.

Member organizations of The Alliance report that their military retiree and active duty service members view the proposed increases as an erosion of their benefits, even though the proposals will only minimally impact the active duty service members. They see the DoD initiatives as an adverse action changing the prospect of the benefits they would earn through a full military career.

For many of those service members well into their career at their tenth year or more in service, the discussion of sharp increases in health care benefits is a perceived diminishment in their expectation about the package they would earn at the close of their career. They remember when recruiters told them that if they stayed in service the government would provide them free, lifetime access to health care.

As The Alliance understands, Congress legislated the TRICARE For Life program in order to counter the concerns among the active duty troops who saw how the broken promise of lifetime health care was initially handled. Now our troops see the possibility that the promise may cost them more than they ever anticipated.

***The National Military and Veterans Alliance urges the Subcommittee to ensure that every effort is taken to reassure experienced servicemembers that their promised benefits will be delivered by a grateful nation.***

### **DoD Budgetary Assumptions Questioned**

The National Military Veterans Alliance questions the budgetary assumptions behind the Department of Defense proposals. The Department assumes that these increased enrollment fees and cost shares will increase revenue and save money by forcefully migrating entitled beneficiaries to preferred programs or out of the TRICARE program all together. Thus, the Department of Defense has begun to reduce its budgetary request for health care. However, there is no guarantee that the numbers projected by the Department will actually disenroll. In fact, to the contrary, as civilian health care costs continue to rise at rates above general inflation, more eligible beneficiaries may return to the Defense Health Program.

The Alliance is extremely concerned that if the assumed level of beneficiary migration does not occur, especially as it appears the Department has not fully taken into account additional

beneficiaries under TRICARE Reserve Select, the Defense Health Budget will have a very serious financial short fall.

***The National Military and Veterans Alliance urges the Subcommittee to seriously question DoD budgetary “savings” and assumptions to shift TRICARE costs to retirees.***

**The National Military and Veterans Alliance Appreciates the Opportunity to Testify Before the Military Personnel Subcommittee**

The National Military Veterans Alliance thanks you for your leadership on military health care and for holding this hearing on the Pentagon plan to increase medical costs on retirees and their families.

Over the years, your panel’s leadership has helped make it clear that military health care continues to be a high priority, and you have our appreciation and support in remembering those brave men and women who serve and have served in uniform.

The Alliance is thankful for the work you have done to establish a clear policy of national recognition for those who serve.

Again Mr. Chairman, we sincerely appreciate your vigilance in efforts to improve earned benefits, and we look forward to working with you and others in the House and Senate to protect, strengthen and improve the benefits America’s servicemembers earned and deserve.

This concludes my testimony, and I would be pleased to answer any questions you might have.

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National Association for Uniformed Services  
5535 Hempstead Way  
Springfield, VA 22151  
The Servicemember's Voice in Government



## Major General William M. Matz, Jr. United States Army, Retired



General Matz became President of the National Association for Uniformed Services (NAUS) and Administrator of the Society of Military Widows (SMW) in January 2005. He joined the Association after a career as an infantryman in the Army and in various senior management positions in the defense industry.

General Matz's assignment prior to retiring from the Army in 1996 was Deputy Commanding General of First Corps and Fort Lewis. Prior to that, he served as Deputy Commanding General/Chief of Staff, US Army Pacific. In 1989-1990, he was Assistant Division Commander (ADC) of the 7th Infantry Division, where he supervised the no-notice, rapid deployment of the Division from its CONUS ports to Panama during Operation JUST CAUSE.

General Matz served in six different divisions and in the Army's Training and Doctrine Command as either a commander or staff officer. He served on the Army Staff and as Executive Secretary to the Secretary of Defense. He has extensive experience in joint assignments with the other military services, including a 2-year assignment with the Navy/Marine Corps amphibious forces in the Pacific. His combat tours include infantry company command in Vietnam where he was wounded in action during the first day of the 1968 TET Offensive, plans officer of the Pacific Fleet's Amphibious Ready Group where he participated in amphibious operations along the Vietnam coast and as an ADC in Panama during Operation JUST CAUSE.

Among his awards and decorations are the Distinguished Service Cross; Defense Distinguished Service Medal; Distinguished Service Medal; Silver Star; Defense Superior Service Medal; Legion of Merit (with three Oak Leaf Clusters); Bronze Star for Valor; Purple Heart; and the Combat Infantryman Badge.

After his retirement from the Army, General Matz worked for Raytheon Company in their Washington office as Vice President of Army Programs. Following this, he was Program General Manager for Vinnell/Northrop Grumman's Saudi Arabian National Guard Modernization Program. In this capacity, he was responsible for training/modernizing the Saudi National Guard to enable them to better combat increased terrorist activity throughout the Kingdom.

His education includes a BA degree from Gettysburg College and an MA degree from the University of San Diego. He is also a graduate of the US Army War College and the Senior Executives in Government/Management Program at Harvard University. He is also a graduate of the Army's Airborne and Ranger Courses.

President Bush appointed General Matz to the Veterans' Disability Benefits Commission (VDBC) in September 2005. The purpose of the VDBC is to carry out a study of the benefits under the laws of the United States that are provided to compensate and assist veterans and their survivors for disabilities and deaths attributable to military service, and to produce a report on the study.

General Matz was born in Drexel Hill, Pennsylvania. He and his wife, Linda, reside in Great Falls, Virginia, and are the parents of three married children.

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*NAUS was founded in 1968 to support legislation to uphold the security of the United States, sustain the morale of the Armed Forces, and provide fair and equitable consideration for all members of the uniformed services: active, Reserve, National Guard, veteran, retired and their spouses, widows and widowers. The Society of Military Widows became affiliated with NAUS in 1984. NAUS is the only military association to represent all grades, ranks, components and branches of the uniformed services: Army, Air Force, Navy, Marine Corps, Coast Guard, Public Health Service, National Oceanic and Atmospheric Administration, their families and survivors.*