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THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, DC 20301-1200

NOV 19 1996

MEMORANDUM FOR: SURGEON GENERAL OF THE ARMY
SURGEON GENERAL OF THE NAVY
SURGEON GENERAL OF THE AIR FORCE

SUBJECT: Funding Policy for the Proposed Medicare Simulation Project

At our recent conference in San Antonio on the proposed Medicare Simulation Project, several financial issues were identified as potential obstacles. The basic thrust of these issues was that the simulation sites could not continue, or maintain the FY96 Medicare level-of-effort (LOE) investment because funding in FY97 was less than the FY96, additional (but unspecified) start-up costs needed to be financed, pharmacy costs could not be limited, and future budget and personnel reductions were not considered.

Our position is that the three Military Departments are responsible for executing their financial programs and that they were provided appropriate funding levels based on the Defense Health Program (DHP) capitation financing methodology which included an adjustment for anticipated utilization management savings. We assume that the three Military Departments can achieve a Medicare LOE investment at their simulation sites that is comparable to their FY96 base year LOE investment. If this assumption is not correct, please provide the specific justification for each location. Your justification should include the monthly number of admissions/discharges and outpatient visits for Medicare-eligible beneficiaries in FY95, FY96, and FY97 to date. Please provide specific explanations for any substantial changes in the existing level of workload for Medicare-eligible beneficiaries and for any anticipated future changes in Medicare workload.

In addition, if any of your simulation sites have start-up costs that cannot be accommodated within your current authorized fund allocation, please identify the specific start-up requirements and the rationale for not funding them. Please provide me your assessment of each of your simulation sites by November 29, 1996. My point of contact is Mr. Paul Kearns at (703) 681-8448.

Edward D. Martin

Edward D. Martin, M.D.

Principal Deputy Assistant Secretary

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