JUL 2 5 2005

TO: Bill Winkenwerder

CC: Gordon England
David Chu
m p Peter Berkson

FROM Donald Rumsfeld

SUBJECT: Medical Ideas

Your **July *20* memo on medical ideas, based on Newt Gingrich's initial input, is excellent.**

Please press forward across the board and give me an update in 60 days.

Thanks.

Attach.
7/20/05 ASD(HA) memo to SD re: Medical Ideas from Newt Gingrich [OSD 14195-05]

DHR:dh
07240511TS

Please respond by **September 25, 2005**

JUL 2 5 2005

OSD 21605-05

THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D. C. 20301-1200

HEALTH AFFAIRS

OFFICE OF SECRETARY OF DEFENSE

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INFO MEMO

Robert Re

FOR: SECRETARY OF DEFENSE

PROM: William Winkenwerder, Jr. MD, ASD (Health Affairs)

SUBJECT Medical Ideas from Newt Gingrich

- You asked for my views regarding Newt Gingrich's ideas for transforming the Military Health System (MHS). I have attached an in-depth assessment (TAB A) of Gingrich's ideas, and the status of our efforts to transform the MHS. I strongly encourage you to read this.

- Regarding Gingrich's specific recommended actions:

  - Meet with TRICARE CEO's – I and my staff have already been having regularly scheduled meetings with the CEO's. These are ongoing discussions of how to incorporate private sector best practices, and improve contractors' performance against benchmarks. At our next meeting we will spend an entire day discussing how to implement disease management models (the kinds Gingrich discusses).

  - Paperless medical records – Our current electronic records system IS built by the very best private companies – IBM, Microsoft, Cisco, Oracle and others. We meet with these companies on a regularly scheduled basis. The system was built to our specs. It has received very high marks from the top IT consultants (Accenture). It is 25% installed and will be 100% completed by the end of 2006.

  - The Bridge to Excellence (UPS, Proctor and Gamble) contracting models – We have not done this, but we will. It sounds like a good idea.

  - Health Reimbursement/Savings Account – RAND has been working with us for 9 months to help us evaluate how DoD could implement this concept. I have also asked RAND to subcontract with one of the top benefits consulting firms (Mercer, Wyatt, etc.) to refine a model for how this might be incorporated into a servicemember/retiree's benefit plan.

  - Bureaucracy-overhead – There is opportunity here, but most of it is with the Services' three Surgeons General offices. Nearly all the TRICARE administration is already contracted out, as we have only about 1,000 employees for a $36 billion/year program. The proposal (PBD 712) for a joint

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medical command, and the BRAC plan calling for joint medical facilities, could eliminate thousands of redundant positions. We are pursuing these plans now.

- Prevention/wellness programs – Great ideas. We can and should push harder. I have policy proposals to reduce smoking and *b i i* alcohol *drinking.* I welcome your support because these proposals will require commitment and political support from many quarters.

- We have met and briefed the Defense Business Board. I anticipate their report will recommend many changes *that* are *consistent* with *actions* I believe we should take. The DBB has done a good job looking *at* the issue.

- I would be glad to meet to bring you further up-to-date with our efforts, and with an emerging package proposal of changes.

THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301-1200

HEALTH AFFAIRS

INFO MEMO

FOR: SECRETARY OF DEFENSE

FROM: William Winkenwerder, Jr., MD, ASD (Health Affairs)

SUBJECT: Medical Ideas from Newt Gingrich

- You asked for my views regarding Newt Gingrich's ideas for transforming the Military Healthcare System (he uses the term TRICARE, which is actually the name of our health coverage plan) (TAB A).

- In my view, Gingrich's assessment of the problems of the US healthcare system is largely correct—the focus on illness and acute care vs. wellness and health, paper transactions vs, electronic, focus on providers vs. individuals, and bureaucratic efforts to control costs vs. incentives and markets. All of these elements, along with the politicized involvement of the federal government, have combined to make the health care system very resistant to change, and one of America's biggest problem areas.

- I would agree that TRICARE has, in many ways, the same problems and challenges that reflect the broader US healthcare system. Further, the challenges of transformation for DoD are even greater than that of a large private sector institution.

- We have two features which make this the case: 1) a nearly free health benefit for the beneficiary, along with a very strong entitlement mentality and a highly organized set of interest groups with direct access to Congress and 2) a uniquely complex organization that performs multiple roles simultaneously—we are a healthcare delivery system, a health insurer, a military combat support organization, and a backup capability for homeland security and defense (Gingrich also noted our multiple missions). We also operate with a complex matrix organizational reporting structure.

- Despite these challenges, I believe TRICARE can dramatically change. In fact, if you polled our workforce and private companies intertwined with our business, I believe they would tell you we have already been making major changes for three years.

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- I disagree with Gingrich's assessment that *our* efforts to transform and change have been of the "command and control" variety, and inwardly focused. Having spent 15 years in the private sector before coming to DoD, working and interacting with many of the companies he mentions, my main effort since coming here in late 2001 has been to introduce best business practices across our entire operation—measurements/metrics, business planning, performance-based budgets, Strategic planning, outsourcing, contracts with financial and performance incentives, benchmarking, and more—and to focus all efforts toward measurable outcomes and results. Any organization that cannot clearly describe its' goals and objectives, assess its' own performance, and measure results cannot reform or transform. After a tremendous amount of work, that bridge has been crossed.

- Our discipline to compare Military Health System costs, quality and satisfaction with the best private market performers has been a valuable way to drive improved performance. Performance has improved significantly in many areas. Our quality of Care is excellent, and beneficiary satisfaction levels are the highest they have ever been. Both compare very favorably with top private health plans.

- Our main challenge is to control our growing costs, which have been driven by an overly rich benefit, and a Congress that has continually expanded coverage and payment of benefits.

- Gingrich's main ideas are to contain costs by using market forces, information for the consumer and technology. His central idea is to change the health benefit structure by introducing a health savings account concept, which combines a high deductible coverage plan, where individuals pays the first $1,500 - $2,500 of their health expenses each year, with a tax preferred savings plan that allows unused dollars to roll over *every* year and accumulate. Having gotten the individual involved in the cost of his/her care; he would now give them more information to manage their own health.

- I agree with these very good ideas. The challenge is getting from here to there: The problem is not practical or technical, it is political.

- *Our* chief hurdle to introducing and successfully implementing transformative TRICARE benefit change is re-setting people's expectations. With a benefit that is nearly free, beneficiaries have little incentive to embrace change, and accept any financial risk. Their expectation, until we begin to change it, is that all the health *care* system can offer them is theirs for just a few dollars every year.

- However, if we *can* adjust our current benefit by introducing more cost sharing (premiums, co pays, deductibles), then many beneficiaries may find the Health Savings Account concept more attractive. Proposed changes to our current TRICARE benefit, and the concept of a Health Savings Account, need to be part of a coherent package, with a clear timetable and plan for implementation.

- Making incremental changes to our current benefit, besides being necessary for re-setting overall expectations, will be *critical* to managing costs in the near to medium term. My analysis suggests we could trim overall DoD health spending from FY07-FY15 by $40-70 billion.

- Your strongest supporters for change, besides your own staff (Tina Jonas, Ken Krieg, Brad Berkson, David Chu) and OMB staff responsible for DoD, will be line Service leadership, who now know that if health spending cannot be constrained, their budgets will be significantly adversely affected. David Chu and I have spent considerable effort educating Service leadership about the challenge and gaining their support. There is more work to complete this task, but my assessment is that our Service leadership is receptive to change and prudent modification of the TRICARE benefit.

- Our effort with leaders of Congress, following your guidance, has been only to educate them that we have a serious and graving problem with rising health expenditures. We have not engaged Congress to discuss solutions. *Our* only plea has been to avoid passing more expensive benefit expansions, such as TRICARE for Reserves. I appreciate your support on this issue.

- Gingrich suggests bringing in the three CEO's of our major TRICARE contractors to solicit their ideas for private sector best practices that we could apply- We have regularly scheduled (every 3-4 months) meetings with tbe CEO's, which I attend and sometimes chair. Our next meeting is to do the very brainstorming Gingrich recommends. I expect it to be productive.

- The same is true with the large health information technology companies—IBM, Intel, Microsoft, Cisco, Oracle and *others.* We meet with them *on* a regular basis. They DID build our paperless medical record system! We are documenting, totally electronically, 30,000 visits a day, today. The DoD electronic medical record system which has been benchmarked against systems at the Mayo Clinic and Cleveland Clinic and elsewhere, has received very high marks from the major IT consulting firms (e.g. Accenture). I am biased, but I think it will possibly be the best system of its kind anywhere in the world.

- Gingrich speaks of the need to involve top DoD leadership in matters of TRICARE. I completely agree. We have done considerable spadework with both OSD and Service leadership, though the job is not yet finished. Healthcare is a big, tough politically sensitive issue. I welcome your involvement and that of Secretary England.

- My apologies for such a long memo—I know you like one-pagers. But I really want you to understand how I have been approaching the problem, and how I view the situation. I would value the opportunity to directly provide you more information that will enhance your understanding of TRICARE, the challenges we face, and our/your options for getting our costs under better long-term control.

- NOTE: I did not delve into two other major transformative efforts, but both are very significant. With BRAC, and a game plan that was set two years ago, we will be merging Walter Reed and Bethesda Naval, and Brooke Army and Wilford Hall in San Antonio, and closing 11 other hospitals. Major efficiency improvements will result from these changes.

- In addition, a major analytic effort, the Medical Readiness Review, has been underway for nearly one year to assess medical force structure. Products of that effort, which could result in significant reductions in medical personnel and improved efficiencies, will be forthcoming in late 2005 – early 2006.