

VOLUME 12, CHAPTER 16: “MILITARY PERSONNEL ENTITLEMENT PROGRAMS”

SUMMARY OF MAJOR CHANGES

Changes are identified in this table and also denoted by [blue font](#).

Substantive revisions are denoted by an asterisk (*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by [***bold, italic, blue, and underlined font***](#).

The previous version dated [October 2015](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Updated hyperlinks, format, and renumbered sections and paragraphs in accordance with standard operating procedures.	Revision
1.3 (160103)	Added an “Authoritative Guidance” paragraph and incorporated the appropriate references.	Addition
2.0 (1602)	Moved the “Definitions” section and added a definition for capitation payments.	Revision
5.3 (160503)	Incorporated requirements to align with the Department of Defense Instruction (DoDI) 6070.02, “Department of Defense Medicare-Eligible Retiree Health Care Fund Operations.”	Addition
5.7 (160507)	Added information for Medicare-Eligible Retiree Health Care reimbursements.	Addition
5.9.2.2.2. (160509.B.2.b)	Changed the “Uniformed Services Family Health Plan” to the “Designated Provider Program,” effective October 1, 2012.	Revision
5.9.4.2.3.1. (160509.D.2.c.(1))	Added clarifying language to ingredient costs.	Revision

Table of Contents

VOLUME 12, CHAPTER 16: “MILITARY PERSONNEL ENTITLEMENT PROGRAMS” ... 1

1.0	GENERAL (1601).....	4
1.1	Overview (160101)	4
1.2	Purpose (160102)	4
*1.3	Authoritative Guidance (160103).....	4
*2.0	DEFINITIONS (1602)	5
2.1	Capitation Payments (160201).....	5
2.2	Cost (160202).....	5
2.3	Federal Financial Statements (160203).....	5
2.4	Medicare-Eligible (160204).....	5
2.5	Military Treatment Facilities (160205)	5
2.6	Normal Cost Contribution (160206)	6
2.7	Per Capita Normal Cost Rates (160207)	6
2.8	Refund (160208)	6
2.9	Uniformed Services Retiree Health Care Programs (160209).....	6
3.0	GENERAL ACCOUNTING POLICY FOR ENTITLEMENT PROGRAMS (1603) ..	6
3.1	Payment of Benefits (160301).....	6
3.2	Identifiable Refunds (160302)	7
3.3	Suspension of Payments (160303)	7
4.0	ACCOUNTING POLICY FOR THE ACCRUAL AND INVESTMENT OF MRF	
(1604)	7
4.1	Retired Pay Entitlements (160401)	7
4.2	MRF Assets (160402)	7
4.3	Unfunded MRF Liabilities (160403).....	8
4.4	Investment of MRF Cash Balances (160404)	8
4.5	Calculation of Retired Pay Benefits (160405)	8
4.6	Reimbursements of Retired Military Pay (160406)	9
4.7	Accounting for MRF Obligations and Accruals (160407).....	9
4.8	Accounting for MRF Appropriations (160408)	10
4.9	MRF Financial Reporting Requirements (160409).....	12
5.0	ACCOUNTING POLICY FOR THE ACCRUAL, INVESTMENT, AND	
TRANSFERS OF MERHCF (1605)	13
5.1	MERHCF Purpose (160501).....	13
5.2	MERHCF Entitlements (160502).....	13
*5.3	MERHCF Proponent (160503)	13
5.4	MERHCF Accounts (160504).....	17

Table of Contents (Continued)

5.5	MERHCF Assets (160505)	18
5.6	Accounting for MERHCF Revenues (160506).....	19
*5.7	Reimbursements of Medicare-Eligible Retiree Health Care (160507)	20
5.8	Investment of MERHCF Cash Balances (160508)	21
5.9	Accounting for MERHCF Outlays (160509)	21
5.10	MERHCF Financial Reporting Requirements (160510).....	26

CHAPTER 16

MILITARY PERSONNEL ENTITLEMENT PROGRAMS

1.0 GENERAL (1601)

1.1 Overview (160101)

Entitlements Programs are legally established benefits available to any person or unit of government meeting eligibility requirements established by law. Authorizations for entitlements constitute a binding obligation on the part of the Federal Government, and eligible recipients may have legal recourse if the obligation is not fulfilled. Legislation authorizing entitlements does not necessarily include a corresponding appropriation of funds, thus subsequent enactment of appropriations may be necessary.

1.2 Purpose (160102)

This chapter prescribes the accounting policy for two entitlement programs established for Department of Defense (DoD) military personnel. The entitlement programs are the Military Retirement Fund (MRF) and the Medicare-Eligible Retiree Health Care Fund (MERHCF).

***1.3 Authoritative Guidance (160103)**

The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.3.1. Title 10, United States Code, sections 1461 – 1467 ([10 U.S.C. §§ 1461 - 1467](#)), Chapter 74, “Department of Defense Military Retirement Fund.”

1.3.2. [10 U.S.C. §§ 1111 - 1117](#), Chapter 56, “Department of Defense Medicare-Eligible Retiree Health Care Fund.”

1.3.3. Office of Management and Budget ([OMB Circular A-11](#)), Section 20, “Terms and Concepts.”

1.3.4. [OMB Circular A-136](#), “Financial Reporting Requirements.”

1.3.5. DoD Instruction ([DoDI 6040.40](#)), “Military Health System Data Quality Management Control Procedures.”

1.3.6. [DoDI 7770.01](#), “Reporting Requirements for Retired Uniformed Service Pay File Extracts.”

1.3.7. [DoD 6010.13-M](#), “Medical Expense and Performance Reporting System for Fixed Military Medical and Dental Treatment Facilities.”

1.3.8. [Actuarial Standards Board](#) (ASB) provides a list of definitions from the Actuarial Standards of Practice and Actuarial Compliance Guidelines of the ASB.

1.3.9. [DoD Office of the Actuary](#) (OACT) provides actuarial expertise on all matters relating to military compensation and benefits.

1.3.10. [DoD Agency Financial Report](#). The Under Secretary of Defense (Comptroller) (USD(C)) website publishes the “Military Retirement Fund Audited Financial Report,” and the “Medicare-Eligible Retiree Health Care Fund Audited Financial Statements” on the DoD Agency Financial Report web page. Both financial reports are shown on the web page as “MRF” and “MERHCF,” respectively.

*2.0 DEFINITIONS (1602)

The following terms and their definitions apply to this chapter.

2.1 Capitation Payments (160201)

These are payments agreed upon in a capitated contract by a health insurance company and a medical provider. They are fixed, pre-arranged monthly payments received by a physician, clinic or hospital per patient enrolled in a health plan, or per capita.

2.2 Cost (160202)

The price or cash value of the resources used to produce a program, project, or activity (OMB Circular A-11).

2.3 Federal Financial Statements ([160203](#))

Principal financial statements and reporting information applicable to the MERHCF include the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, notes to financial statements and required supplementary information as required by [OMB Circular A-136](#).

2.4 Medicare-Eligible ([160204](#))

With respect to any person, means entitled to benefits under part A of title XVIII of the Social Security Act (42 [U.S.C § 1395c](#) et seq).

2.5 Military Treatment Facilities ([160205](#))

A medical facility (hospital or clinic) operated by one or more of the Uniformed Services.

2.6 Normal Cost Contribution (160206)

Amounts paid into [MERHCF](#) from the “Military Personnel, Reserve Personnel and National Guard Personnel” appropriations to fund future benefits payable from [MERHCF](#), attributable to military service rendered in the current fiscal year. Contribution amounts are based on the normal cost per capita rates (developed by the DoD OACT) multiplied by the expected average force strength (in the President’s Budget) for that fiscal year ([available on the DoD OACT website](#)).

2.7 Per Capita Normal Cost Rates (160207)

Average per Uniformed Service member actuarial rate developed by the DoD OACT.

2.8 Refund (160208)

The return of excess [payments](#) to or by the Government retired or retainer pay. The gross entitlement for a member based on conditions of the retirement law, pay grade, years of service for basic pay, years of service for percentage multiplier, percentage of disability, if applicable, and date of retirement (transfer) [in accordance with](#) DoDI 7770.01.

2.9 Uniformed Services Retiree Health Care Programs (160209)

The provisions of [Title 10](#) or any other provision of law creating an entitlement to or eligibility for health care (services) for a member or former member of a participating uniformed service who is entitled to retired or retainer pay and an eligible dependent under such program.

3.0 GENERAL ACCOUNTING POLICY FOR ENTITLEMENT PROGRAMS (1603)

3.1 Payment of Benefits (160301)

Entitlement programs are divided into three categories according to the events that give rise to benefit payments: payments based on individual eligibility, payments required by law, and reimbursable events. These categories are accounted for as follows:

3.1.1. Individual Eligibility. When the program is administered by a federal agency, entitlement benefits based on individuals meeting eligibility requirements of a program [must](#) be recorded as a liability and an expense when the eligibility requirements are met (as determined by program officials). The recorded liability and expense [must](#) cover all expected payments for the current period of eligibility. Payments to recipients reduce the recorded liability.

3.1.2. Compliance with Statutory Laws. When payments are authorized (through appropriation and allotment of funds) for disbursement pursuant to legal requirements with no specific action required of the recipients, a liability and expense [must](#) be recorded when the appropriated funds are allotted to the applicable program. The recorded liability and expense [must](#) cover the total amount to be disbursed. As payments are made, the liability [must](#) be reduced.

3.1.3. Reimbursable Events. When payments are based on the occurrence of a specific event for which costs are reimbursable under an entitlement program, a liability **must** be recorded when the event occurs. If the reimbursement is based on end-of-period reports from program administrators, an estimated amount **must** be accrued at the end of a reporting period.

3.2 Identifiable Refunds (160302)

When the expense for payments made under an entitlement program exceeds the appropriation (permissible for certain programs under special statutory authority), the source of the related funds **must** be clearly identified. If the funds were borrowed, the appropriate liability account **must** be established.

3.3 Suspension of Payments (160303)

When substantiated doubt exists on the continued entitlement of a military retiree or annuitant to receive benefit payments and payments on an account are suspended, the Defense Finance and Accounting Service (DFAS) **must** cease obligating on the subject account for retired pay, retainer pay, or annuitant benefits. Previously obligated amounts **must** be deobligated to the extent of recoveries on previous payments or amounts held in a suspense account. Although this procedure is directed primarily at suspected death status accounts, it applies equally to other situations that may terminate entitlement. Examples of other situations include (but are not limited to) employment by a foreign government, renouncing U.S. citizenship, remarriage of a surviving spouse, and certain student annuitants dropping out of school.

4.0 ACCOUNTING POLICY FOR THE ACCRUAL AND INVESTMENT OF MRF (1604)

4.1 Retired Pay Entitlements (160401)

Retired military pay is a pension program established by 10 U.S.C. §§ 1461 – 1467 and administered by the Secretary of the Treasury. The MRF **must** be used for the accumulation of funds in order to finance on an actuarially sound basis, liabilities of the DoD under military retirement and survivor benefit programs. As such, the program fits under the category of entitlement authority as defined by 2 U.S.C. § 622(9).

4.2 MRF Assets (160402)

In accordance with 10 U.S.C. §1462, “Assets of Fund,” the following deposits are made into the DoD MRF, which constitute the assets of MRF:

4.2.1. Amounts paid into the MRF from the “Military Personnel, Reserve Personnel and National Guard Personnel” appropriations representing future retirement and survivor benefits being accrued by members performing current service.

4.2.2. Amounts paid into the MRF from the U.S. Department of the Treasury (Treasury) as an unfunded liability and Concurrent Receipt normal cost payment.

4.2.3. Interest earnings on investments in government securities made by the Treasury and the payment of the par values of these securities at maturity.

4.3 Unfunded MRF Liabilities (160403)

Determinations of funding contribution amounts for the current portion of retired military benefits and amounts required to liquidate the unfunded portion of the MRF are as follows:

4.3.1. Amounts necessary to fund present and future benefits payable to military retirees and their survivors **must** be based on actuarial funding determinations by the DoD OACT, using methods and economic assumptions (including the inflation, interest, and salary rates) approved by the DoD Board of Actuaries and in accordance with [10 U.S.C. § 1465](#). DoD Components **must** include sufficient funds to be transferred to the MRF, as determined by the DoD OACT, in their Military Personnel (MILPERS) appropriation budgets.

4.3.2. The annual amount required to liquidate the unfunded liability of the MRF **must** be calculated by the DoD OACT, in accordance with methods and assumptions approved by the DoD Board of Actuaries.

4.3.3. Amounts to be transferred to the MRF for retired pay accrual **must** be obligated by the DoD Components at the same time military retired pay is obligated, as required in Volume 4, Chapter 10.

4.3.4. Entitlements for former spouse payments from military retired pay and survivor benefits annuities are described in Volume 7B, Chapter 29. Payments of authorized and accrued benefits **must** be made from the MRF, a trust fund established under Public Law 98-94, in accordance with [10 U.S.C. § 1463](#).

4.3.5. Calculations of funding amounts for the current portion of retired military benefits **must** be performed centrally by the Military Departments for Active, Reserve, and National Guard military personnel. The calculations **must** employ retired military pay accrual percentages published annually by the Office of the Secretary of Defense (OSD) and **must** be applied to the total base pay amount calculated. The term "base pay" means outlays for basic pay.

4.4 Investment of MRF Cash Balances (160404)

The Investment Fund Manager, DFAS, is responsible for investing cash balances of the MRF not needed to cover current retirement payments. Investments are limited to Market-Based U.S. Government Special Securities issued by the Treasury (see [10 U.S.C. § 1467](#)).

4.5 Calculation of Retired Pay Benefits (160405)

Retired pay benefits **must** be calculated (see Volume 7B, Chapter 3) and paid by DFAS.

4.6 Reimbursements of Retired Military Pay (160406)

All reimbursements made to DoD Components in accordance with the guidance contained in [Volume 11A, Chapter 6](#) for retired military pay **must** be credited to the applicable MILPERS appropriation account. The annual reimbursable rates are also available online at the Office of the Under Secretary of Defense (Comptroller) ([OUSDC](#)) public website under the “Quick Links” section; select the “DoD Reimbursable Rates.”

4.7 Accounting for MRF Obligations and Accruals (160407)

Using DoD Board of Actuarial approved relevant actuarially percentages for obligations and accruals, military pay active duty accounts and Reserve and National Guard personnel accounts **must** be accounted for as follows:

4.7.1. Amounts equating to an actuarially determined percentage of basic pay **must** be obligated each month for subsequent payment to the MRF.

4.7.2. Accounting for the direct program **must** be at the budget sub-activity level prescribed in [Volume 2A, Chapter 2](#). Accounting for the reimbursable program may use a simplified structure to include basic pay, retired pay accrual, and other.

4.7.3. The amount accrued for retired pay **must** be obligated each month. At the end of the month, amounts obligated for retired pay accrual **must** be disbursed. If information on the total entitlement and total expenditures is not available at the end of the month, estimates may be used and appropriate adjustments made when the actual amounts become known.

4.7.4. Release of funds **must** be consistent with budgetary authority. An undelivered order entry **must** be made at the beginning of each month to accrue the estimated MRF obligations to the members. Before the end of each month, the actual obligations **must** be recorded and an accrued expenditure (paid or unpaid, as applicable) established. The corresponding disbursement of funds **must** agree with the reported outlay and amount obligated.

4.7.5. All military pay accounting systems **must** provide for the recording of obligations for basic pay separate from other kinds of pay and allowances. However, the liquidation of obligations for pay and allowances may be on a gross basis. If the actual amount of basic pay disbursed is not known at the end of the month, an estimated retired pay obligation to be liquidated and disbursed to the MRF may be developed by a formula such as: multiplying the estimated basic pay by the retired pay accrual percentage (provided by the DoD OACT).

4.7.6. [The Military Departments must also obligate and disburse amounts calculated for the retired pay accrual in the applicable military pay for Active, Reserve, and National Guard accounts; and disbursements for retired pay benefits accruals must be deposited, via the Intra-Governmental Payment and Collection \(IPAC\) system, at the end of each month to trust fund receipt account 097X8097.001, “Employing Agency Contribution, Department of Defense Military Retirement Fund.”](#) The associated disbursement and collection transactions must be supported using a Standard Form (SF) 1081, “Voucher and Schedule of Withdrawals and Credits.” The SF 1081 **must** be

properly certified prior to submission to the DFAS Trust Fund Accounting and Reporting (TFAR) division. The disbursing officer making the payment also **must** process the collection, forward a copy of the completed SF 1081 to DFAS TFAR, and report both the disbursement and collection transactions on the monthly SF 1220, “Statement of Transactions (**According to Appropriations, Funds, and Receipt Accounts**).” The DFAS copy of the SF 1081, with all supporting documentation, **must** be transmitted electronically, immediately upon completion of the transactions, so that the deposit may be recorded in the MRF as soon as possible and the funds invested.

4.8 Accounting for MRF Appropriations (160408)

The permanent indefinite appropriations, 097_0040, “Payments to Military Retirement Fund, Defense,” and 097_0041, “Concurrent Receipt Accrual Payments to the Military Retirement Fund, Defense,” are accounted for as follows:

4.8.1. At least 3 weeks before the end of the fiscal year, the Secretary of Defense **must** provide the Secretary of the Treasury with a certification of the amounts, as determined using methods and assumptions approved by the DoD Board of Actuaries that should be deposited to these accounts for the ensuing fiscal year. The certification **must** include the amounts needed to fund the amortization of the original unfunded liability for military retirement, any other unfunded liability resulting from benefit structure changes and actuarial gains or losses, and the portion of the accrual charge to be funded by the Treasury. A copy of the certification **must** be sent directly to:

Department of the Treasury
Bureau of **the** Fiscal Service
Budget Reports Division
3201 Pennsy Drive, Building E
Landover, MD 20785-1603

4.8.2. Upon receipt of the certification, the Treasury provides the **Fiscal Service (FS) Form 6200**, “Department of the Treasury Appropriation Warrant,” for the amount certified. The Warrant **must** be dated October 1 and provided to DFAS on or before that date so that the funds are available for immediate investment in the new fiscal year.

4.8.3. On October 1, DFAS is required to: (1) record the **FS Form 6200** to 097_0040, “Payments to **Military Retirement Fund**, Defense;” (2) disburse the entire amount from 097_0040, and (3) deposit it to trust fund receipt account 097X8097.003, “Federal Contribution, **Department of Defense Military Retirement Fund**.”

4.8.4. The DoD MRF is classified as a trust fund and makes use of both receipt and expenditure accounts since it is not designed as a trust revolving fund.

4.8.4.1. Deposits are made to the following trust fund receipt accounts as applicable:

4.8.4.1.1. 097X8097.001, “Employing Agency Contribution, Department of Defense Military Retirement Fund.” Payments from DoD Military Departments for accrual of future retired pay benefits and transfers of deposits made by Judges of the U.S. Court of Military Appeals, including interest, from 024X8135, “Civil Service Retirement and Disability Fund, Office of Personnel Management,” and the payment from the indefinite appropriation for the normal costs contribution, 097_0041, “Concurrent Receipt Accrual Payments to the Military Retirement Fund, Defense.”

4.8.4.1.2. 097X8097.002, “Earnings on Investments, Department of Defense Military Retirement Fund.” Payment of interest by Treasury on Fund investments in U.S. securities.

4.8.4.1.3. 097X8097.003, “Federal Contribution, Department of Defense Military Retirement Fund.” Payments from the permanent indefinite appropriation for the unfunded liability, 097_0040, “Payments to Military Retirement Fund, Defense”.

4.8.4.1.4. 097X8097, “Disbursements-Unamortized Premium and Discount, Department of Defense Military Retirement Fund.” Purchase of premium, interest, and discount.

4.8.4.1.5. 097X8097, “Receipts-Unamortized Premium and Discount, Department of Defense Military Retirement Fund.” Write-off and amortization of premium and discount and collection of interest purchased.

4.8.4.2. The Treasury account symbol for the trust fund expenditure account is 097X8097. Amounts deposited to the receipt accounts identified in subparagraph 4.8.4.1 are available immediately to the trust fund expenditure account for investment or payment of retired pay benefits.

4.8.4.2.1. Account 097X8097 **must** incorporate the same budget activity structure as the account “Retired Pay, Defense.” Accounting **must** be at least at the budget activity level, and lower level accounts **must** be established as necessary to meet reporting requirements.

4.8.4.2.2. Since account 097X8097 is an OSD account, DFAS is responsible for its overall accounting and reporting.

4.8.4.2.3. Acting for the Secretary of Defense, DFAS **must** allocate a portion of 097X8097 to each Military Department in order to fund payments of retirement benefits.

4.8.4.2.4. Annuity payments to retired Judges of the U.S. Court of Military Appeals **must** be charged to 097X8097.

4.9 MRF Financial Reporting Requirements (160409)

4.9.1. DoD Components **must** report in their Statement of Operations the amount of Federal contributions (including accrued amounts), if any, made to the pension plans(s) on behalf of their employees. The agency contribution **must** not include amounts withheld from employee's compensation for submission to the plan(s).

4.9.2. DoD Components which administer programs that provide annuity benefits to eligible participants **must** recognize, for reporting purposes, an actuarial (accrued) liability for the program. Determination of the liability **must** be in accordance with applicable [Federal Accounting Standards Advisory Board](#) standards (e.g., [Statement of Federal Financial Accounting Standards \(SFFAS\) 5](#) and SFFAS 33).

4.9.2.1. For the year in which the actuarial (accrued) liability is first recorded, the initial amount of the liability **must** be reported as an accounting change, i.e., a charge to equity and an accrued liability. Thereafter, changes in the liability each year **must** be charged or credited to expense.

4.9.2.2. Footnotes to the financial statements **must** disclose the nature and amount of required agency contributions, if any. The footnotes also **must** disclose the agency responsible for reporting the pension plan's unfunded liability.

4.9.2.3. Financial information for pension plans **must** be reported in the annual financial statements of administering agencies.

4.9.2.4. The notes to the financial statements **must** include a description of the methods and significant assumptions used in computing the actuarial present value of future program benefits. Additionally, if the actuarial liability computed in accordance with these standards is different from the actuarial liability computed for funding purposes, the footnotes **must** include an adequate explanation of the basis for any significant differences between the two liabilities.

4.9.3. DFAS is responsible for preparing MRF reports in accordance with Volume 6A.

4.9.3.1. [SF 133, Report on Budget Execution and Budgetary Resources](#). DFAS **must** submit the SF 133 for all MRF expenditure accounts.

4.9.3.2. [ACCT RPT \(M\) 1002, Appropriation Status by Fiscal Year Program and Subaccounts](#). DFAS **must** submit this report for the MRF expenditure account prepared in accordance with Volume 6A, Chapter 4.

4.9.3.3. [Other Reports](#). DFAS **must** follow the instructions in Volume 6A as applicable. In addition, the Military Departments **must** comply with the monthly reporting requirements contained in Volume 6A.

4.9.4. Status of Funds. The DFAS **must** prepare a Status of Funds and forward it to the Deputy Comptroller, Program/Budget, on the fifteenth workday of the following month. The DFAS must report actual data for current fiscal year through the previous fiscal month.

5.0 ACCOUNTING POLICY FOR THE ACCRUAL, INVESTMENT, AND TRANSFERS OF MERHCF (1605)

5.1 MERHCF Purpose (160501)

MERHCF was established by the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, Public Law 106-398. As amended, the MERHCF pays the qualifying health care service costs of all uniformed service retiree health care programs for the benefit of members or former members of a participating service who are entitled to retired or retainer pay and are Medicare-eligible. This includes their dependents who are Medicare-eligible, and survivors who are Medicare-eligible.

5.2 MERHCF Entitlements (160502)

The DoD MERHCF is an OSD Special Fund and is considered an entitlement authority as defined in 2 U.S.C. § 622(9). The DoD MERHCF, administered by the Secretary of the Treasury, **must** be used for the accumulation of funds in order to finance, on an actuarially sound basis, liabilities of DoD under uniformed services health care programs for specific Medicare-eligible beneficiaries, as designated by 10 U.S.C. §§ 1111 – 1117.

*5.3 MERHCF Proponent (160503)

5.3.1. Assistant Secretary of Defense for Health Affairs (ASD(HA)). Under the authority, direction, and control of the Under Secretary of Defense (Personnel and Readiness) (USD(P&R)), the ASD(HA):

5.3.1.1. Approves and issues procedures for management and operation of MERHCF.

5.3.1.2. Provides guidance and operational direction to the Director, Defense Health Agency (DHA) regarding the management and operation of MERHCF.

5.3.2. Director, DHA. Under the authority, direction, and control of the ASD(HA) the Director, DHA:

5.3.2.1. Directs and oversees the implementation of DoD policy on management and operation of MERHCF:

5.3.2.1.1. Develops and implements methods for calculating amounts to be transferred periodically from MERHCF for projected costs of uniformed service retiree health care programs for Medicare-eligible beneficiaries (purchased health care and direct health care) in accordance with 10 U.S.C. §§ 1111 – 1117.

5.3.2.1.2. Coordinates with the Chief Actuary, DoD OACT to determine any actuarial impacts to MERHCF resulting from any proposed changes to the method or methods for calculating amounts to be transferred periodically from MERHCF for the projected costs of uniformed service retiree health care programs for Medicare-eligible beneficiaries.

5.3.2.1.3. Conducts an annual execution review in coordination with the USD(C) and the Secretaries of the Military Departments to compare projected costs to the costs based on actual workload performed for Medicare-eligible beneficiaries. Provide Military Treatment Facility (MTF)-level feedback on the status of reported workload for eligible beneficiaries and the associated Fund payments for that workload.

5.3.2.1.4. Coordinates with the ASD(HA); the USD(C); the Director, DFAS; the Chief Actuary; and DoD OACT to:

5.3.2.1.4.1. Establish or update the accounting policy and financial management processes for payments to and from MERHCF.

5.3.2.1.4.2. Review and approve appropriate amounts and disclosures needed for the Federal financial statement reports and the related footnote disclosures and schedules.

5.3.2.1.4.3. Review and update MERHCF's Financial Management Committee charter as necessary.

5.3.2.1.4.4. Support annual required independent financial audits in accordance with the provisions of MERHCF's Financial Management Committee charter and support any other operational audits of MERHCF, as needed.

5.3.2.2. Reviews current and proposed legislative program changes for potential impacts to MERHCF's valuations and coordinates with the Chief Actuary, DoD OACT and the USD(C) to provide input for decision making.

5.3.3. DoD MERHCF Board of Actuaries. The MERHCF Board:

5.3.3.1. Furnishes advice and opinion to the ASD(HA) and the Director, DHA on matters referred to it as appropriate.

5.3.3.2. Reviews actuarial valuations of MERHCF. This includes review and approval of the amortization schedule for the unfunded actuarial liability to ensure the liability will be fully funded in the future.

5.3.3.3. Reports on the actuarial status of MERHCF annually to the Secretary of Defense and not less than once every four years (quadrennial report) to the President and Congress.

5.3.4. Chief Actuary, DoD OACT. The Chief Actuary, DoD OACT under the authority, direction, and control of the Director, Defense Human Resources Activity:

5.3.4.1. Coordinates with the MERHCF Board to report on the actuarial status of MERHCF annually to the Secretary of Defense and not less than once every four years (quadrennial report) to the President and Congress.

5.3.4.2. Using methods and assumptions approved by the MERHCF Board, coordinates with the USD(C) and the Director, DHA to provide the National Security Division, OMB with:

5.3.4.2.1. Annual estimates of per capita normal cost rates and total annual normal cost contribution amounts for the coming fiscal year.

5.3.4.2.2. Preliminary estimates of per capita normal cost rates and estimates of total annual normal cost contribution amounts for the succeeding fiscal year.

5.3.4.3. Using methods and assumptions approved by the MERHCF Board, coordinates with the USD(C) to:

5.3.4.3.1. Calculate the annual amounts due to MERHCF from the Secretary of the Treasury for:

5.3.4.3.1.1. The total unfunded actuarial liability amortization payment, and

5.3.4.3.1.2. The total normal cost contribution on behalf of the Secretaries of the Military Departments.

5.3.4.3.2. Provide an annual estimate of per capital normal cost rates to the participating uniformed services (the United States Coast Guard (USCG), Public Health Service (PHS), and the National Oceanic and Atmospheric Administration (NOAA)).

5.3.4.4. Coordinates with the ASD(HA), and the Director, DHA to provide to the USD(C), the Secretaries of the Military Departments, Secretaries of the Uniformed Services and the Director, DFAS:

5.3.4.4.1. Notification of all public meetings and decisions made by the MERHCF Board.

5.3.4.4.2. Annual estimates of the per capita normal cost rates and total projected normal cost contribution amounts to MERHCF.

5.3.4.4.3. Annual estimates of total projected outlays from MERHCF.

5.3.4.4.4. Annual adjustments and schedules needed for Federal financial statement reports.

5.3.4.5. Reviews current and proposed legislative and regulatory program changes for potential impacts to MERHCF's actuarial valuations and coordinates with the Director, DHA and the USD(C) to provide input for decision making as applicable.

5.3.4.6. Coordinates with the ASD(HA) to determine any actuarial impacts to MERHCF of any proposed changes to the method or methods for calculating amounts to be transferred periodically from MERHCF.

5.3.5. USD(C). The USD(C) prepares the total unfunded liability amortization payment plus the total normal cost contribution for certification by the Secretary of Defense, on behalf of the Military Department Secretaries, to the Secretary of the Treasury using the annual amounts due to MERHCF calculated by the DoD OACT.

5.3.6. Director, DFAS. The Director, DFAS under the authority, direction and control of the USD(C), coordinates with the Secretary of the Treasury, the Chief Actuary, DoD OACT, the Secretaries of the Military Departments, the Secretaries of the participating Uniformed Services, and/or the Director, DHA as applicable, to:

5.3.6.1. Manage MERHCF's investments in accordance with the provisions of 10 U.S.C § 1117.

5.3.6.2. Establish the necessary accounts for MERHCF.

5.3.6.3. Develop financial management processes for payments to and from MERHCF and establish or update them.

5.3.6.4. Develop, report and approve appropriate amounts and disclosures needed for the Financial Statement reports and the related Footnote disclosures.

5.3.6.5. Support the annual independent financial audit of MERHCF's Federal financial statements and any other financial or operational audits of MERHCF as necessary.

5.3.6.6. Incorporate into the Planning, Programming, Budgeting, and Execution System the accounting process for contributions to MERHCF and for payments and outlays from MERHCF, in accordance with 10 U.S.C. §§ 1111 – 1117.

5.3.7. Secretaries of the Military Departments. The Secretaries of the Military Departments:

5.3.7.1. Provide current and projected personnel end strength and average strength data and estimates to the DoD OACT and USD(C) when requested.

5.3.7.2. Conduct all fund transfers, accounting, reconciliation, and other administration relating to the operation of MERHCF.

5.3.8. Administering Secretaries for the Participating Uniformed Services. The Administering Secretaries for the participating Uniformed Services include the Secretary of Homeland Security (for USCG) and the Secretary of Health and Human Services for PHS and NOAA. The Administering Secretaries for the participating Uniformed Services:

5.3.8.1. Using the annual estimate of per capital normal cost rates provided by the DoD OACT, calculate the normal cost contribution amounts using current personnel end strength and average strength data.

5.3.8.2. Coordinate with the USD(C) to transfer the calculated normal cost contributions to MERHCF consistent with 10 U.S.C. §§ 1111 – 1117.

5.3.8.3. Provide the basis for the calculation of the normal cost contribution amount to the DoD OACT, the USD(C), and the Director, DFAS.

5.3.8.4. Provide current and projected personnel end strength and average strength data to the DoD OACT and USD(C) when requested.

5.3.8.5. Provide retiree strength data to the DoD OACT when requested.

5.4 MERHCF Accounts (160504)

The DoD MERHCF (097X5472, “Department of Defense, Medicare-Eligible Retiree Health Care Fund”) is classified as a Special Fund and uses both receipt and expenditure accounts. The account number 097X5472 is the special fund expenditure account. Amounts deposited to the MERHCF receipt accounts are available immediately to the special fund expenditure account for investment, payment of benefits and administrative costs. Transfers from 097X5472 **must** be reported as expenditures. Transfers received by the appropriate program accounts **must** be reported as offsetting collections and as expenditures when expenses are paid. Acting for the Secretary of Defense, DFAS **must** make amounts available from 097X5472 in order to fund all qualifying expenses. All credits (deposits) and charges (payments) to ALC 97200010 for account 097X5472 made through the IPAC system **must** be reported to Treasury using the Governmentwide Accounting (GWA) system.

5.4.1. Deposit Accounts. Deposits are made to the following special fund receipt accounts, as applicable:

5.4.1.1. 097X5472.001, “Non-DoD Employing Agency Contributions, DoD Medicare-Eligible Retiree Health Care Fund.” Payments from participating uniformed services for accrual of future health benefits.

5.4.1.2. 097X5472.002, “Earnings on Investments, DoD Medicare-Eligible Retiree Health Care Fund.” Payment of interest by Treasury on Fund investments in U.S. public debt securities.

5.4.1.3. 097X5472.003, “Federal Contributions, DoD Medicare-Eligible Retiree Health Care Fund.” Payments from the permanent indefinite appropriation for the unfunded liability – 097X0850.

5.4.1.4. 097X5472.004, “Refunds Received, DoD Medicare-Eligible Retiree Health Care Fund.” Refund of amounts previously transferred from MERHCF, which are determined to be not necessary for the purposes transferred.

5.4.1.5. 097X5472.005, “Department of Defense Contributions, DOD Retiree Health Care Fund.” DoD MERHCF payments from the Military Services.

5.4.2. Investment Accounts. The following accounts are used exclusively for investment transactions in U.S. securities, as applicable:

5.4.2.1. 097X5472 – Disbursements, Unamortized Premium and Discount. Purchase of premium, discount (CR) and interest.

5.4.2.2. 097X5472 – Receipts, Unamortized Premium and Discount. Write-off and amortization of premium and discount and collection of interest purchased.

5.4.2.3. 097X5472 – Investment in U.S. Securities (par). The par value of purchases of U.S. securities.

5.4.2.4. 097X5472 – Redemption of U.S. Securities (par). The par value of redemptions prior to maturity and the par value of matured U.S. Securities.

5.5 MERHCF Assets (160505)

5.5.1. Contributions. Amounts are contributed to MERHCF by DoD, other uniformed services (USCG, NOAA, and PHS), and the Treasury. These amounts must be based on determinations by the DoD OACT under methods and assumptions approved by the DoD MERHCF Board in accordance with the provisions of 10 U.S.C. §§ 1111 – 1117 as follows:

5.5.1.1. DoD. Amounts are paid into MERHCF from the “Military Personnel, Reserve Personnel and National Guard Personnel” appropriations to fund future benefits payable from MERHCF attributable to Military Service rendered in the current fiscal year.

5.5.1.2. Other Uniformed Services. Amounts paid into MERHCF from other uniformed services

5.5.2. Unfunded Actuarial Liability Payment. Amounts paid into MERHCF from a permanent indefinite general fund appropriation, 097X0850, to fund future benefits payable from MERHCF attributable to service rendered prior to October 1, 2002 (i.e., the unfunded actuarial liability) as well as all actuarial gains and losses.

5.5.3. Investment Income. Income on the invested portion of MERHCF.

5.5.4. Return of Prospective Payment Transfers. Amounts returned to MERHCF that were previously transferred to fund the payment of expenses.

5.6 Accounting for MERHCF Revenues (160506)

Amounts earned on investments are recorded by DFAS in accordance with the provisions of 10 U.S.C. §§ 1111 – 1117 and applicable accounting principles. DFAS deposits the amounts received for investment income into the MERHCF receipt account number 097X5472.002, “Earnings on Investments, DoD Medicare-Eligible Retiree Health Care Fund.” Amounts contributed to MERHCF by the DoD, other uniformed services, and the Treasury **must** be based on determinations by the DoD OACT under methods and assumptions approved by the DoD MERHCF Board in accordance with the provisions of 10 U.S.C. §§ 1111 – 1117:

5.6.1. Annual Certification Letter and Apportionment

5.6.1.1. Prior to the beginning of each fiscal year, the Secretary of Defense issues a letter certifying the amortization payment (the initial unfunded actuarial liability plus amortization of actuarial gains and losses) and the normal cost contributions (the accrued cost associated with the current year’s military service) on behalf of DoD. The normal cost contributions are determined in accordance with 10 U.S.C. §§ 1111 – 1117.

5.6.1.2. The certifying letter **must** request the Treasury to issue warrants to the DoD MERHCF payment account (097X0850) at the start of the fiscal year for the amortization payment and to the ten MERHCF contribution accounts for the normal cost accrual contributions. A copy of the letter **must** be sent directly to:

Department of the Treasury
Bureau of the Fiscal Service
Budget Reports Division
3201 Pennsy Drive, Building E
Landover, MD 20785-1603

5.6.1.3. The OUSD(C) submits an apportionment request to OMB for the ten MERHCF contribution accounts. The MERHCF contribution accounts correspond to one of the ten military personnel accounts (Active, Reserve, and National Guard).

5.6.2. Accounting for the Amortization of the Unfunded Actuarial Liability

5.6.2.1. Upon receipt of the certification, the Treasury provides the FS Form 6200, for the certified amortization amount. The warrant **must** be dated October 1 and provided to DFAS on or before that date so that the funds are available for immediate investment in the new fiscal year.

5.6.2.2. On October 1, DFAS **must** record the FS Form 6200, disburse the entire amortization amount from 097X0850, and deposit it to special fund receipt account 097X5472.003 – Federal Contributions, DoD MERHCF and notify the DoD OACT, the USD(C), and the Director, DHA when the payments are deposited.

5.6.3. Accounting for Military Pay Contributions

5.6.3.1. On the first duty day of October, Treasury issues warrants to the ten MERHCF normal cost contribution accounts. The Military Services will transmit payment to MERHCF, via facsimile or email, using an SF 1081 as supporting documentation for the IPAC.

5.6.3.2. To ensure the timely payment of funds and prevent a possible loss of interest to MERHCF, the Military Services **must** pre-coordinate their payments with the DFAS TFAR prior to the issuance of warrants by the Treasury and **must** prepare the SF 1081 to transmit payment based on the amounts certified by the Deputy Secretary of Defense.

5.6.3.3. DFAS deposits the amounts received for the normal cost contribution amounts into the MERHCF receipt account 097X5472.001, "Employing Agency Contributions, DoD Medicare-eligible Retiree Health Care Fund" and notifies the USD(C), the DoD OACT, and DHA when these payments have been deposited.

5.6.4. Accounting for Other Uniformed Services Contributions

5.6.4.1. The normal cost contribution payments to MERHCF for participating uniformed services **must** be computed and deposited in a manner similar to that described for the Military Services in subparagraph 5.5.1 using the rates provided by DoD OACT in accordance with the provisions of 10 U.S.C. §§ 1111 – 1117.

5.6.4.2. Payments to the MERHCF will be made at the beginning of the fiscal year to ALC 97200010 through the IPAC system. DFAS **must** credit the special fund account 097X5472.001, "Non-DoD Employing Agency Contributions, Department of Defense Medicare-Eligible Retiree Health Care Fund." Documentation supporting the deposits **must** be transmitted electronically to DFAS prior to or immediately upon completion of the transaction.

*5.7 Reimbursements of Medicare-Eligible Retiree Health Care (160507)

The Fiscal Year 2005 National Defense Authorization Act provides permanent, indefinite appropriations from the Treasury to finance the cost of Medicare-Eligible Retiree Health Care (MERHC) accruals beginning in fiscal year 2006, rather than from MILPERS annual appropriations. Therefore, the per capita normal cost for MERHC accruals are not billable to other DoD Agencies or Federal Agencies. 22 U.S.C. § 2761(a)(1)(C) of the Arms Export Control Act requires foreign countries or international organizations, in the case of the sale of a defense service, to pay "the full cost to the United States Government of furnishing such service." Therefore, the per capita normal cost for MERHC accruals must be included in the DoD Annual Rate Billable to Foreign Military Sales (i.e., the reimbursable rate billed to foreign countries or international organizations). Reimbursements of the per capita normal cost for MERHC accrual must be deposited into the Treasury Miscellaneous Receipts account 304100.

5.8 Investment of MERHCF Cash Balances (160508)

The Investment Fund Manager, DFAS, is responsible for investing cash balances of MERHCF not required to meet current withdrawals. Investments are limited to Market-Based U.S. Government Special Securities issued by the Treasury and are made in accordance with the provisions of [10 U.S.C. §§ 1111 – 1117](#). The income on such investments must be credited to receipt account 097X5472.002, “Earnings on Investments, DoD Medicare-Eligible Retiree Health Care Fund,” and form a part of MERHCF. The reporting instructions for accounts invested in the Treasury securities contained in the Treasury Financial Manual do not pertain to the DoD MERHCF (097X5472). The reporting procedures for this Fund were agreed to by Treasury’s [Bureau of the Fiscal Service](#), OMB, and DoD. These agreed upon procedures were formalized by DoD and Treasury in 1993, and DFAS [must](#) maintain documentation of the agreement.

5.9 Accounting for MERHCF Outlays (160509)

5.9.1. DFAS [must](#) make amounts available from the special fund, account 097X5472, for payment of qualifying expenses in accordance with the provisions of [10 U.S.C. §§ 1111 – 1117](#):

5.9.1.1. Amounts transferred from MERHCF [must](#) be merged with and available for the same purposes and for the same time period as the appropriation to which transferred in accordance with the provisions of [10 U.S.C. §§ 1111 – 1117](#).

5.9.1.2. Funds may be returned to the MERHCF within two years in accordance with the provisions of [10 U.S.C. §§ 1111 – 1117](#).

5.9.1.3. The DHA determines annual prospective payments / transfer amounts from MERHCF in accordance with [10 U.S.C. §§ 1111 – 1117](#) and the following accounting and financial management processes for two categories of health care expenses: Purchased Care and Direct Care.

5.9.2. Purchased Care. Health care purchased from non-DoD providers is paid through the Operations and Maintenance (O&M) accounts within the MERHCF under the DHA Contract Resource Management (DHA-CRM) limit code (097X5472.18D9). For Purchased Care, the DHA-CRM must provide an estimated annual expense program to DFAS and the Director, DHA, at least one month prior to the start of each fiscal year. These estimates are used by DFAS for management of the investment portfolio and effective cash management and forecasting and are used by the Director, DHA in the development of the annual distribution plan. Accounting and financial management processes for using MERHCF funds for payment of pharmacy claims and health care purchased from non-DoD providers are as follows:

5.9.2.1. A Funding Authorization Document (FAD) will be issued to DHA-CRM for MERHCF funding in the amount(s) approved on the annual/quarterly distribution plan.

5.9.2.2. DHA-CRM uses this MERHCF funding for modifications to contracts for administrative payments and for pass through costs for healthcare and pharmacy claims attributable to Medicare-eligible beneficiaries.

5.9.2.2.1. The TRICARE Dual Eligible Fiscal Intermediary Contract (TDEFIC), TRICARE Overseas Program (TOP), and TRICARE Pharmacy Program (TPHARM – Mail Order and Retail) contracts process individual healthcare claims and administrative costs including per claim administrative payments and monthly costs. These contracts utilize TRICARE Encounter Data (TED) to process healthcare and pharmacy claims as well as the claim rate associated with the claims.

* 5.9.2.2.2. The Designated Provider Program (DPP), formerly Uniformed Services Family Health Plan (USFHP) contracts, have capitated rates by contract based upon enrollments at each DPP/USFHP hospital. Modifications to the contracts are done at least once a year to initiate a new option period and to set aside funds for the new fiscal year. Each modification for MERHCF funding is an estimate of enrollments of Medicare-eligible retirees, retiree family members, and survivors for the period of time covered by the modification (i.e. one year, one month. These plans include inpatient and outpatient services and a pharmacy benefit. The capitation rate is paid by DoD. Beneficiaries who choose enrollment in these plans are ineligible for care in MTFs as well as for benefits under the TRICARE for Life (TFL) (or other TRICARE plans) and Pharmacy programs. Prior to August 20, 2012, USFHP enrollees were not required to participate in Medicare. Beginning October 2012, a military retiree (or eligible family member) who becomes eligible for Medicare due to age may not enroll or stay enrolled in the USFHP, unless the military retiree (or eligible family member) was enrolled in the plan prior to September 30, 2012.

5.9.2.2.3. Marketing and Education contract supports the healthcare and pharmacy contracts with marketing and educational materials. Modifications to the contracts are done at least once a year to initiate a new option period.

5.9.2.3. DHA-CRM makes payments based on contract requirements and the appropriate funding source.

5.9.2.4. Validation of claims processed against MERHCF:

5.9.2.4.1. TED related health care and pharmacy claims and administrative payments are validated through a series of edits in TED and in DHA-CRM's accounting system. Edits include validation of funding source based on claim details contained in the TED records. This ensures that only costs attributable to Medicare-eligible beneficiaries have been included in payments drawn from MERHCF.

5.9.2.4.2. Modifications to contracts are not processed without the availability of MERHCF funding on the FAD. Payments are reconciled against available funding on the modifications when payments are made.

5.9.2.5. DFAS and DHA-CRM Reporting Procedures:

5.9.2.5.1. Estimated payments and collections using MERHCF funds will be reported to DFAS, as needed, by agreement with DFAS. Payments and collections include those made through all Treasury systems used by DHA-CRM.

5.9.2.5.2. At the end of every month, DHA-CRM will report to DFAS a final reconciliation of payments and collections that used MERHCF funds for the month.

5.9.2.5.3. At the end of every month, DHA-CRM will report the amounts of open accounts payable and open accounts receivable using MERHCF funds for use in Federal financial statement reporting.

5.9.3. Direct Care. Direct care is health care services provided to Medicare-eligible beneficiaries directly in MTFs of the DHA Service Medical Activities (SMAs) of the Army, Navy and Air Force and the DHA National Capital Region Medical Directorate (NCR MD).

5.9.3.1. Defense Health Program (DHP) O&M Transfers. Direct care qualifying expenses are paid through the DHP O&M account (0130188*/18P*) for the SMAs and the NCR MD. MERHCF transfers for benefit outlays are reported in GWA by ALC 97200010 as an increase to the DHP account 097 CY 0130 for the current fiscal year and as an increase to the expenditure account 097X5472. This must be completed by DFAS on the first workday of each quarter and reported to Treasury. Copies of the SF1081 recording the transfer must be sent by DFAS to the appropriate OUSD(C) Directorate, who must distribute the funds to DHA via a FAD.

5.9.3.2. Military Pay Reimbursements. Direct care funding amounts for MILPERS accounts of the Army, Navy and Air Force for health care provided to Medicare-eligible beneficiaries in MTFs by active duty Service personnel are processed via IPAC and reported in the same manner as other IPAC transactions. This must be completed by DFAS on the first work day of each quarter. Copies of the SF 1081 (or SF 1151, “Nonexpenditure Transfer Authorization”) supporting these transactions must be sent to the appropriate OUSD(C) Directorates and DFAS sites that account for the funds.

5.9.4. Direct Care Annual Prospective Payment Development. The Director, DHA annually develops prospective payment amounts for the estimated costs of providing health care services projected to be provided in MTFs to Medicare-eligible beneficiaries as authorized by 10 U.S.C. §§ 1111 – 1117 and in accordance with OMB Circular A-11, section 20. The annual projected expenses are transferred in quarterly increments in accordance with a distribution plan provided by DHA to DFAS approximately one month prior to the start of each fiscal year. The annual distribution plan to DFAS contains quarterly payment amounts by Uniform Service, and for the NCR MD as appropriate, for the Service MILPERS payments and the DHP O&M payments and transfers. The DHP O&M projected payment includes civilian pay expense.

5.9.4.1. Expense Allocation. The DHA bases prospective payment amounts on expenses reported by the MTF's Medical Expense and Performance Reporting System (MEPRS) and patient encounter data for the most recent fiscal year for which data is complete at the time the calculations are prepared. MEPRS expense data are recorded as MILPERS and DHP O&M components of costs per individual patient encounter to develop a workload Level of Effort (LOE) for each Service and the NCR MD for that fiscal year. After the LOE and cost allocations for each SMA and the NCR MD are adjusted and reconciled with the distributions previously made for that fiscal year, the LOE rate amounts and cost allocations by service are inflated to the coming fiscal

year's equivalent for execution using standard OMB inflation rates applicable to the Medical industry and issued in OSD inflation guidance.

5.9.4.2. Workload Rate Development. DHA develops the MTF-specific rates for the prospective payment calculation. These MTF-specific rates are the average dollar expense per workload unit for each MTF as described in the following subparagraphs 5.9.4.2.1 – 5.9.4.2.3 for Medicare Severity-Relative Weighted Product (MS-RWP), Composite Weights, or Outpatient Pharmacy prescriptions. These rates are separated into MILPERS and DHP O&M rates and **must** be developed for the following categories of health care services:

5.9.4.2.1. Inpatient care - cost per MS-RWP. An MS-RWP is a DoD measure of workload that represents the relative resource consumption of a patient's hospitalization as compared to that of other inpatients. MS-RWPs are generated as the result of completed Composite Health Care System (CHCS) Standard Inpatient Data Records (SIDRs). The prospective payment amount for inpatient care for eligible beneficiaries for each MTF **must** be the product of the estimated MS-RWPs for that MTF multiplied by the MTF-specific rate per MS-RWP for the year of execution. The MS-RWP data source **must** be the Military Health System Data Repository (MDR).

5.9.4.2.2. Outpatient care - cost per Composite Weights. Composite weights are a combination of Ambulatory Payment Classification (APC) weights and relative value units (RVUs). The Composite Weight is an ambulatory workload measure of encounters adjusted for case complexity as measured by combining provider aggregate RVU with APC aggregate weight after standardizing to an APC-based unit. Composite Weight components (APCs and RVUs) are generated from Comprehensive Ambulatory Provider Encounter Records (CAPERs). The prospective payment amount for outpatient care for each MTF **must** be the product of the estimated composite weights for that MTF multiplied by the MTF-specific rate per composite weight for the year of execution. The CAPERs data source **must** be the MDR.

5.9.4.2.3. MTF Outpatient Pharmacy. MTF Outpatient Pharmacy prospective payments **must** be calculated for two separate cost components:

* 5.9.4.2.3.1. Ingredient costs. Ingredient costs are prices paid for pharmacy ingredients (drugs) purchased from vendors. **The per unit costs for pharmaceuticals dispensed for Medicare-eligible retirees/dependents or retired at the MTFs are calculated based on the prime vendor invoices for all continental U.S.-based facilities for the National Drug Codes within their Generic Sequence Numbers based on a weighted average basis of the average acquisition cost (the price paid by the MTF for the pharmaceutical product) during the relevant fiscal year.**

5.9.4.2.3.2. Non-ingredient costs. Non-ingredient costs are all other costs associated with MTF Outpatient Pharmacy operations as allocated in MEPRS. These rates are based on MEPRS costs per prescription for the most recent fiscal year for which data is complete at the time the calculations are prepared, inflated to the year of execution. Prospective payment amounts are based on qualifying MEPRS pharmacy “non-ingredient” expenses allocated to beneficiary categories (DoD and other Uniformed Services) on the basis of **Pharmacy Data**

Transaction Service (PDTs) prescription counts (volume) for Military Pay and non-ingredient O&M. The data source for the number of prescriptions filled **must** be the MDR using data fed from PDTs.

5.9.4.3. Management Controls on Data Used to Develop Prospective Payment Amounts. Management controls on data used to develop prospective payment amounts include, but are not limited to, the following:

5.9.4.3.1. The MEPRS data and the MS-RWP, SIDR, and CAPER records **must** be prepared, reviewed, and validated in accordance with DoD 6010.13 and DoDI 6040.40.

5.9.4.3.2. MEPRS data **must** be recorded and maintained by the Military Departments in accordance with DoD 6010.13-M.

5.9.4.3.3. The Defense Manpower Data Center within the Defense Human Resources Activity under USD (P&R) receives a monthly data feed from the Centers for Medicare and Medicaid Services that provides Medicare eligibility data. These data are merged with data in the Defense Enrollment Eligibility Reporting System (DEERS) to provide both DoD and Medicare eligibility status. Individual patient eligibility data **must** be verified for each patient encounter using DEERS, and subsequently stored in the encounter record by the capture system (Composite Health Care System or claims processor). If a source system does not perform this check and recoding, the records from that system **must** be verified centrally through merge and comparison to the DEERS extracts.

5.9.4.4. Execution Reviews

5.9.4.4.1. Comparison of the MTF LOE to the Prospective Payment Amount. After the year of execution is complete and the associated expenses and workload data are available, DHA conducts an execution review in coordination with USD(C), SMAs and the NCR MD to determine the direct care MTF LOE for that fiscal year and the allocated actual expense to estimate the cost of caring for the Medicare-eligible beneficiaries during that period. The prospective payment amounts for that fiscal year that were paid to each SMA and the NCR MD are compared to the allocated expenses and actual workload LOE calculated for the same time period.

5.9.4.4.2. Reconciliation and Execution Review. Results of the execution review (LOE calculation) are:

5.9.4.4.2.1. Reported to the DoD OACT for use in determining future Fund requirements under the oversight of the Medicare-eligible Retiree Health Care Board of Actuaries (MERHCF Board).

5.9.4.4.2.2. Used during subsequent Program and Budget Reviews with OSD to determine impacts, if any, to future MTF prospective payment amounts.

5.9.4.4.2.3. Used to determine whether any additional transfers from MERHCF or transfers back to MERHCF are appropriate for Direct Care payments. Prospective payment amounts (full or partial) determined to be not necessary (in excess of reconciled expenses), may be returned to the MERHCF within two years after the end of the obligation year that funds were originally transferred in accordance with 10 U.S.C. §§ 1461–1467. Returns to the MERHCF should be processed to the appropriate MERHCF account.

5.9.4.4.2.4. Used as a starting point for developing the coming fiscal year's prospective payment amounts. The workload units and expense allocation used in the execution review is described in paragraph 5.9.

5.10 MERHCF Financial Reporting Requirements (160510)

5.10.1. Permanent Indefinite Appropriation 097X0850 – Payment to DoD MERHCF. The DFAS is responsible for preparing the reports for this account in accordance with Volume 6A.

5.10.2. SF 133, Report on Budget Execution and Budgetary Resources. DFAS must submit a monthly SF 133 that includes all MERHCF accounts.

5.10.3. Federal Financial Statements. The DFAS must prepare all MERHCF Federal financial statements as required by OMB Circular A-136 to support the DoD Agency-wide financial statement process. The MERHCF Federal financial statements must recognize a liability for the present value of future MERHC benefits for eligible participants. For the year in which the liability is first recorded, the initial amount of the liability must be reported as an accounting change (i.e., a change to equity and an accrued liability). Thereafter, changes in the liability each year must be charged to expense.

5.10.4. Status of Funds. The DFAS must prepare a Status of Funds and forward it to the Deputy Comptroller, Program/Budget, on the fifteenth workday of the following month. The DFAS must report actual data for current fiscal year through the previous fiscal month.