



Modernization of the Defense Medical System September 1, 2021

Background

Military Treatment Facilities (MTFs) provide a wide range of clinical services depending on size, mission, and level of capabilities. MTFs provide inpatient and outpatient medical care and dental services. There are 721 MTFs, with 109 located overseas.¹

Sections 702 and 703 of the FY2017 NDAA (and subsequent legislation) directed several modernization efforts of the Defense Medical System, including: (1) reassignment of responsibilities for administering MTFs from each respective Service Surgeon General to the DHA Director; (2) evaluation and realignment of the Military Health Service (MHS) staffing to the Defense Health Agency (DHA); and (3) evaluation and restructuring the mission and scope of each MTF. Congress directed these reforms to streamline the MHS, enhance medical force readiness, improve access and quality of care, and create a better experience for beneficiaries.

Continued Transformation of the MHS

With the transition of MTFs to MHA expected to be completed this year, MHS is focusing on three key areas of organizational reform:

- consolidated management of the direct care and purchased care systems,
- a focus on readiness within the direct care system, and
- optimizing the size and composition of the military medical force.²

Status of the Transfer of MTFs to DHA

Background

Congress directed the transfer of the MTFs from the military services to DHA on the assumption that *a single agency responsible for the administration of all MTFs would best improve and sustain operational medical force readiness and the medical readiness of the Armed Forces, improve beneficiaries' access to care, improve health outcomes, and lower the total management cost of the military health system.*³

DoD is required to transfer the MTFs to the DHA by September 30, 2021, while other reforms are ongoing. The transfer includes DHA taking responsibility for budget, IT, administration and management, and military medical construction of MTFs.

On October 1, 2018, administration and management of the MTFs began to transfer from the military services to DHA. Despite a pause in transition to DHA due to COVID-19, the transition is expected to be

¹ CRS, Defense Primer: Military Health System, <https://fas.org/sgp/crs/natsec/IF10530.pdf>

² FY2022 President's Budget Request, *DoD Budget Request Overview*, Page 5-6, https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2022/FY2022_Budget_Request_Overview_Book.pdf

³ Conference Report, National Defense Authorization Act for Fiscal Year 2017, p. 1066.

completed by October 1, 2021, although in a recent hearing, Dr. Terry Adirim, Acting Assistant Secretary of Defense (Health Affairs) submitted that “There are still outstanding personnel transfer issues to resolve, however, that place at risk our ability to complete this transition by the congressionally established deadline of September 30, 2021.”⁴

The transition was opposed by the military services. In August 2020, the Service Secretaries and Chiefs of Staff of the Military Services jointly signed a memo to the Secretary of Defense expressing their concern over “the transition of military medical treatment facilities and Service capabilities to the Defense Health Agency”⁵ and their belief that the plan is not viable. The Services requested that DoD “impose a blanket suspension of all transition activities.”⁶

On August 5, 2020, Secretary Esper signed a memo continuing the transition to DHA to comply with the law. The FY21 NDAA stated “The conferees restate that DOD must continue on the path required by law to eliminate the inefficient, stove-piped Military Health Service structure that inevitably leads to turf wars among the services and the DHA, while simultaneously paralyzing decision-making and stifling healthcare innovation.” That ended the debate.

Status of Consolidation

The transition of the administration and management of military hospitals and clinics was paused in 2020 due to the COVID-19 pandemic but transition has since resumed and is on track.⁷

3/31/2021 DHS is “planning and preparing to complete the Military Medical Treatment Facility transition by the mandated time at the close of this fiscal year, explained Dr. Brian Lein, DHA’s assistant director, Health Care Administration. Lein made these remarks to members of AMSUS, The Society of Federal Health Professionals, at a virtual talk on March 18. “We are in the deep throes” of the integration and optimization of the MHS, said Lein. Lein described the transition as “really a transfer of authority,” where the “rheostat shifts to the Defense Health Agency” and away from the Services controlling medical treatment facilities, dental treatment facilities, and all smaller hospitals and clinics.”

Major General Shanna Woyak ([bio](#)) became the first director of the Small market and Stand Alone Facility Organization (SSO).⁸

Anticipated Structure of DHA Management of MTFs

DHA is creating three types of markets to manage the military health system.

- Direct Reporting Markets (DRMs)/ Large Markets
- Small Markets and Stand-Alone Markets
- Overseas markets

⁴ Prepared Statement of Dr. Terry Adirim and Lieutenant General Ronald Place, *The Military Health System*, before the House Appropriations Committee—Defense Subcommittee, May 25, 2021, <https://docs.house.gov/meetings/AP/AP02/20210525/112667/HHRG-117-AP02-Wstate-AdirimT-20210525.pdf>

⁵ Letter to Esper from Service Secretaries section 702 (Aug 2020), <https://federalnewsnetwork.com/wp-content/uploads/2020/08/letter-to-Esper-from-service-secretaries-section-702.pdf>

⁶ Letter to Esper from Service Secretaries section 702 (Aug 2020)

⁷ 12/9/20 Lt. Gen. (Dr.) Ronald Place,

⁸ 7/27/21 New Markets, *MHS Transformation and You: What Does it All Mean?*, July 27, 21,

<https://www.health.mil/News/Articles/2021/07/27/New-Markets-MHS-Transformation-and-You-What-Does-it-All-Mean>

A Medical Treatment Facilities is the term used to include “medical centers, hospitals and ambulatory care clinics, including dental clinics.”⁹ A market is a group of MTFs working with its TRICARE partners, VA hospitals, private sector teaching hospitals and medical universities, other federal health care organizations, and other health care partners.¹⁰ Each market within these categories is intended to operate as a single system to support the sharing of patients, staff, budgets, and other functions across facilities to improve readiness, and the delivery and coordination of health services.¹¹

Direct Reporting Markets (DRMs)/ Large Markets

DHA plans to establish 20 Direct Reporting Markets, 17 of which have already been established. These DRMs cover approximately 2/3rds of patients covered by DHA and are centered on large medical centers and establish centers of excellence for specialty care. The DRMs deliver “comprehensive specialty and subspecialty inpatient and ambulatory health care services to support medical readiness of beneficiaries.”¹²

These DRMs will be managed by Market Offices and have shared administrative functions¹³

	Large Market	Established	# MTFs		Large Market	Established	# MTFs
1	National Capitol Region	Jan 30, 2020	25	11	Southwest Georgia	July 26, 2021	12
2	Central North Carolina	Jan 30, 2020	16	12	Central Texas	July 26, 2021	19
3	Jacksonville (Florida)	Jan 30, 2020	4	13	Coastal North Carolina	July 26, 2021	10
4	Coastal Mississippi	Jan 30, 2020	2	14	Low Country (Georgia)	July 26, 2021	12
5	Tidewater (Virginia)	April 19, 2021	17	15	San Diego	July 26, 2021	25
6	Colorado	June 22, 2021	15	16	Augusta (Georgia)	July 26, 2021	4
7	San Antonio	July 16, 2021	12	17	Sacramento	July 26, 2021	2
8	Puget Sound (multi-service)	July 26, 2021	20	18	Alaska	TBD	7
9	Hawaii (multi-service)	July 26, 2021	10	19	El Paso	TBD	
10	Southwest Kentucky	July 26, 2021	13	20	Florida Panhandle	TBD	

**The Hawaii Market will report directly to DHA until DHR-Indo-Pacific is established. Associated facility and beneficiary data is currently captured in DRM data only to avoid duplication.*

⁹ New Markets, MHS Transformation and You: What Does it All Mean?, July 27, 2021

¹⁰ Puget Sound Military Health System Certified by Defense Health Agency, August 6, 2021, <https://www.health.mil/News/Articles/2021/08/06/Puget-Sound-Military-Health-System-Certified-by-Defense-Health-Agency>

¹¹ New Markets, MHS Transformation and You: What Does it All Mean?, July 27, 2021

¹² DHA MTF Article July 2021

¹³ 20190711 Market Model

Small Markets and Stand-Alone Markets

According to DHA, there will be seventeen small markets, organized around inpatient community hospitals, and providing ambulatory and some specialty and inpatient care across their regions.¹⁴ These small markets will deliver ambulatory and limited specialty health care services to support medical readiness of beneficiaries within a 60-mile radius of an inpatient facility. They will be managed by Market Leadership Cells within inpatient facilities with shared administrative functions.¹⁵ In total, there will be 68 stand-alone military hospitals and clinics, comprising 140 total facilities.¹⁶

In addition, there will be 68 Stand Alone MTFs delivering ambulatory and limited specialty and inpatient health care services to support beneficiaries outside of geographic markets.¹⁷

The SSO accounts for more than 25% of the health care encounters within MHS’ direct-care system.¹⁸

	Small Markets
1	California Desert
2	Central Kentucky
3	Central Louisiana
4	Central Oklahoma
5	Central South Carolina
6	Central Virginia
7	Charleston
8	Corpus Christi
9	Garden State
10	Kansas
11	Las Vegas
12	Little Rock
13	Los Angeles
14	New England
15	Ozarks
16	Upstate New York
17	West Point

Overseas markets

To support overseas personnel there will be two OCONUS regions:

- Defense Health Region Indo-Pacific
- Defense Health Region¹⁹

OCONUS Markets	
<i>Defense Health Region Indo-Pacific</i>	<i>Defense Health Region Europe</i>
1 Guam	1 Central Europe
2 Hawaii	2 Northern Italy
3 Japan	3 Mediterranean/Bahrain
4 Okinawa	4 Iberia
5 Korea	5 UK

¹⁴ DHA MTF Article July 2021 <https://www.health.mil/Military-Health-Topics/MHS-Transformation/Market-Structure/Small-Market-and-Stand-Alone-MTF-Organizations>

¹⁵ 20190711 Market Model

¹⁶ <https://www.health.mil/Military-Health-Topics/MHS-Transformation/Market-Structure/Small-Market-and-Stand-Alone-MTF-Organizations>

¹⁷ 20190711 Market Model

¹⁸ <https://www.health.mil/About-MHS/Biographies/Major-General-Shanna-M-Woyak>

¹⁹ DHA MTF Article July 2021; <https://www.health.mil/Military-Health-Topics/MHS-Transformation/Market-Structure/DHA-Region-IndoPacific>

Status of Section 703 Review and Restructuring of MTF Footprint

Section 703 of the FY2017 NDAA directed the Secretary of Defense to submit to the congressional defense committees an implementation plan to restructure or realign military medical treatment facilities.

DoD submitted a [report](#) on February 19, 2020. The report articulated the DoD's decisions to align MTFs to "achieve a proper balance between meeting readiness requirements and managing the total cost of health care in the direct and purchased care systems." Specifically, the report assessed 77 MTFs and identified 50 MTFs for right-sizing. The initial grouping of 77 MTFs provided a framework for reviewing additional MTFs for realignment or restructuring (a list of the MTFs identified for rightsizing are listed in the report).²⁰

GAO issued a [report](#) in May 2020 that was critical of the DoD assessment, stating "DOD based part of its methodology on incomplete and inaccurate information." GAO also found that DoD was not well positioned to execute the restructuring. GAO made six recommendations, including that future "MTF assessments use more complete and accurate information about civilian health care quality, access, and cost-effectiveness."

Congress raised concerns about the consolidation and required GAO to report on the status of the transition of MTFs to DHA and on DoD's "plan for maximizing efficiencies and reducing duplication; the current and planned DHA staffing model; and how the DHA will ensure that the Services' medical requirements are considered and met."²¹

DoD paused its restructuring efforts on April 2, 2020 as a result of the COVID-19 pandemic. As a result of the GAO report and Congressional concerns, DoD representatives testified before the House Appropriations Committee, Defense subcommittee, that DoD is "revalidating the assumptions made regarding its readiness requirements prior to the pandemic, as well as the assessment of network capacity to absorb additional patients where we intend to proceed with right-sizing plans...transition will only occur when we are certain that local TRICARE networks can provide timely and quality access to health care. If they cannot, we will revise our plans."²²

²⁰ Prepared Statement of Dr. Terry Adirim and Lieutenant General Ronald Place, The Military Health System, before the House Appropriations Committee—Defense Subcommittee, May 25, 2021, <https://docs.house.gov/meetings/AP/AP02/20210525/112667/HHRG-117-AP02-Wstate-AdirimT-20210525.pdf>

²¹ The FY21 Omnibus, Joint Explanatory Statement, Division C.

²² Prepared Statement of Dr. Terry Adirim and Lieutenant General Ronald Place, The Military Health System, before the House Appropriations Committee—Defense Subcommittee, May 25, 2021, <https://docs.house.gov/meetings/AP/AP02/20210525/112667/HHRG-117-AP02-Wstate-AdirimT-20210525.pdf>