

TRICARE's 5th Generation Pharmacy Contract: TPharm5

November 29, 2022

The Department of Defense (DOD) administers a [Military Health System](#) (MHS) that provides health entitlements authorized in Title 10 of the *U.S. Code* ([Chapters 55](#) and [56](#)), organized under a program called TRICARE. The [TRICARE program](#) offers health care benefits to approximately 9.6 million beneficiaries (servicemembers, military retirees, and family members) in DOD hospitals and clinics known as *military treatment facilities* (MTFs), and through networks of participating civilian health care providers. The [Defense Health Agency](#) (DHA) administers the TRICARE program and contracts with several managed care support organizations, a pharmacy benefit manager, and a dental insurance organization to deliver health care entitlements.

[Title 10, Section 1074g, of the U.S. Code](#), requires DOD to “establish an effective, efficient, [and] integrated [pharmacy benefits program](#).” As part of this program, DOD makes certain [prescription drugs](#) available to beneficiaries through [MTF pharmacies](#), [retail pharmacies](#), and a [home delivery program](#). Federal law also establishes beneficiary cost-sharing requirements for prescription drugs that vary by dispensing location (i.e., MTF, retail, or mail-order pharmacies). DHA adjusts these cost-sharing amounts annually based on the specified amounts established in law.

On August 5, 2021, DHA awarded a TRICARE Pharmacy Services, 5th Generation (TPharm5), contract with features that support the [MHS Quadruple Aim](#) (defined as increased access to care, improved health outcomes and health care quality, enhanced beneficiary experience, and lower per capita costs). As DHA prepares for the 2023 start of the TPharm5 contract, certain contractor actions have generated a number of constituent concerns.

This Insight provides an overview of TPharm5, proposed retail pharmacy network changes, and DHA contractor performance monitoring.

What is TPharm5?

On August 5, 2021, [DHA awarded](#) TPharm5 to the current TRICARE pharmacy contractor, [Express Scripts, Inc.](#) (ESI). TPharm5 is a “[firm-fixed-price, incentive/award fee](#) contract,” which includes a 15-month base period and up to seven 12-month option periods. The contract has a potential value of \$4.3

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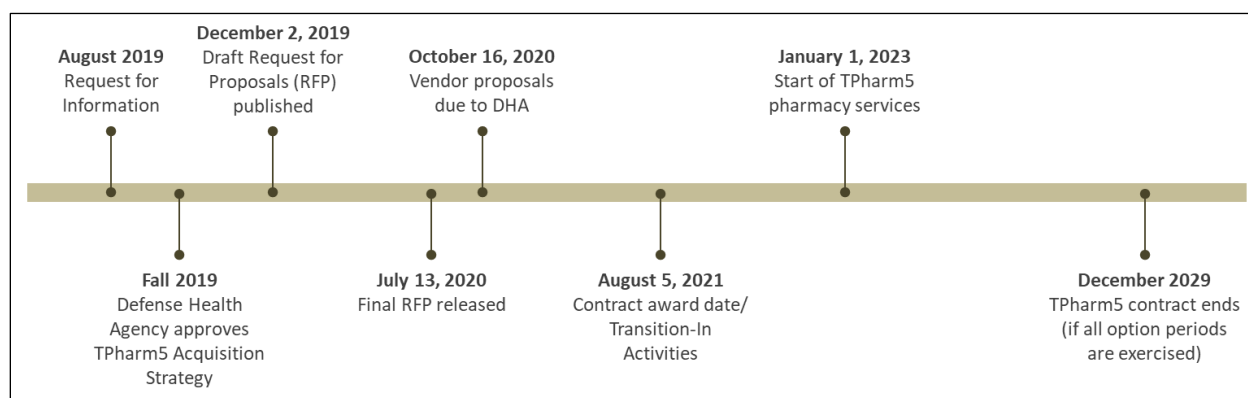
billion and features a variety of performance-based financial incentives and disincentives. Delivery of pharmacy services under TPharm5 begins on January 1, 2023.

In Section C of the [Request for Proposals \(RFP\)](#), DHA requires the TPharm5 contractor to perform tasks organized under a variety of categories, many of which have existed in previous iterations of the TRICARE pharmacy contract (e.g., [TPharm4](#)), including

- establishment and maintenance of a retail pharmacy network and a home delivery program;
- claims processing;
- clinical reviews and management of a prescription monitoring program; and
- beneficiary and pharmacy education, outreach, and customer service.

Figure 1 depicts the TPharm5 acquisition timeline, from 2019 through 2029, if DHA exercises all option periods.

Figure 1. DHA TPharm5 Acquisition Timeline



Source: CRS graphic based on analysis of DOD, “[Contracts for Aug. 5, 2021](#),” accessed November 17, 2022; DHA contract postings and notices available on [SAM.gov](#); and email communication with DHA officials in November 2022.

What changes will occur to the TRICARE retail pharmacy network in the United States?

ESI subcontracts with retail chain pharmacies (e.g., CVS or Walgreens) and [independent pharmacies](#) to maintain a pharmacy network that meets DHA-established access standards. According to DHA documents provided to CRS, a 2019 independent analysis of the TPharm4 retail pharmacy network identified opportunities for “better quality” and “lower cost,” which subsequently informed changes to the network requirements described in TPharm5. Under the Federal Acquisition Regulation (e.g., [Part 3.104-4](#)), specific TPharm5 contractor bid or proposal information remain proprietary and are not publicly available. However, the TPharm4 RFP and DHA have described some retail pharmacy network requirements that have changed for TPharm5 (see [Table 1](#)).

Table I. Selected TRICARE Retail Pharmacy Network Requirements

TPharm4 vs. TPharm5

	TPharm4 Contract	TPharm5 Contract
Network access standard ^a	<ul style="list-style-type: none"> • Urban. A pharmacy within two (2) miles estimated driving distance of XX% of the beneficiaries. • Suburban. A pharmacy within five (5) miles estimated driving distance of XX% of the beneficiaries. • Rural. A pharmacy within fifteen (15) miles estimated driving distance of XX% of the beneficiaries. 	At least one pharmacy within 15 minutes driving time of 90% of the beneficiaries.
Minimum number of retail network pharmacies	50,000 pharmacies.	35,000 pharmacies.

Source: CRS analysis of the requirements described in the TPharm4 and TPharm5 RFPs' Statement of Work; and email communication with DHA officials, October 2022.

Note:

- a. The specific percentage of beneficiaries used in the TPharm4 network access standard is not publicly available.

As part of the [transition from TPharm4 to TPharm5](#), DHA approved ESI's request to downsize the retail pharmacy network in preparation for the start of the new contract. [TRICARE officials announced](#) that starting on October 24, 2022, approximately “15,000 independent pharmacies will no longer be in the TRICARE retail pharmacy network.” DHA noted that this change impacts an estimated 400,000 beneficiaries and expects ESI to “continue to meet or exceed the TPharm4 and TPharm5 contracted network pharmacy access standards.” Certain [community pharmacy stakeholders](#), [military service organizations](#), and [some Members of Congress](#) expressed concerns about the network changes. Concerns focused on, among other matters, whether beneficiaries would be able to access their prescription drugs in a timely manner, and opportunities for independent pharmacies to participate in the network under TPharm5. [ESI reportedly](#) intends to continue negotiating with pharmacies initially dropped from the network during the transition period and are interested in participating under TPharm5.

How will DHA monitor TPharm5 contract performance?

The TPharm5 RFP stated that DHA will “utilize a [\[Quality Assurance Surveillance Plan \(QASP\)\]](#)” to facilitate the monitoring of contract performance. A QASP typically describes what, how, and who will be monitoring contract performance, and how monitoring efforts and results are to be documented. DHA requires ESI to submit reports on various process and outcome metrics specified in a [contract data requirements list](#). Examples of these reports include:

- Retail Network Pharmacy Access Report,
- Prescription Monitoring Program Report,
- Pharmacy Transactions Processing Report, and
- Call Center Top Issues Report.

[DHA may also require](#) additional reporting requirements or direct audits and inspections to assist with contract performance monitoring on a periodic or ad hoc basis.

Considerations for Congress

Congress may consider the following lines of inquiry to gather information on DHA's transition to the TPharm5 contract and efforts to monitor or maintain adequate pharmacy access, beneficiary satisfaction, and cost controls.

- What education and outreach efforts to beneficiaries and pharmacies will DHA or ESI pursue during the transition to TPharm5?
- What commercial best practices will ESI utilize to deliver an effective and efficient pharmacy benefit?
- How will DHA or ESI ensure beneficiaries in rural or remote areas have adequate and/or equitable access to a network retail pharmacy?
- How will DHA document, consider, and incorporate lessons-learned from TPharm5 into the acquisition strategy for the next TRICARE pharmacy contract?
- To what extent might the reduction in retail network pharmacies result in greater use of the mail-order pharmacy services?
- How might DHA evaluate the impact of the reduction in retail network pharmacies on beneficiary satisfaction?

Author Information

Bryce H. P. Mendez
Analyst in Defense Health Care Policy

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