



TennCare Budget Presentation

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106th General Assembly

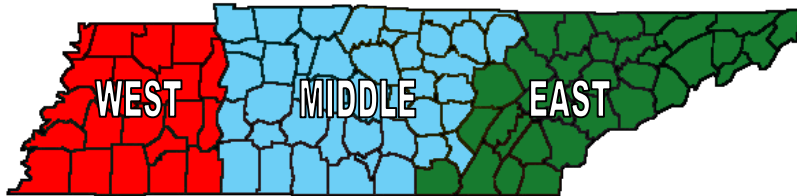
Legislative Budget Hearings

Presented 2010



Continued Progress

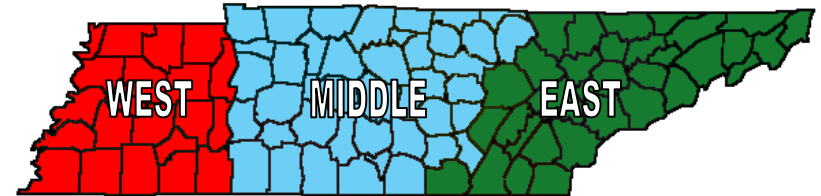
TennCare 2006



- Unison Health Plan
- Memphis MCC
- UAHC Health Plan
- TennCare Select
- VHP, Inc.
- TennCare Select
- Preferred Health
- John Deere
- Volunteer State Health
- TennCare Select

- 8 different MCOs throughout the state; none of them “at risk”.
- Fragmented, non-integrated system with behavioral health and long-term care carve-outs.
- Smaller, less experienced MCOs not selected in a competitive bid process.
- Low Elderly and Disabled HCBS utilization (1,131 participants).
- Dramatic reduction in pharmacy spend (from \$2.4B in 2005 to \$1.2B in 2006).
- Improved operational functions (4 audit findings in 2006; down from 39 in 2002).

TennCare 2009



- AmeriChoice
- BlueCare
- TennCare Select
- AmeriChoice
- Amerigroup
- TennCare Select
- AmeriChoice
- BlueCare
- TennCare Select

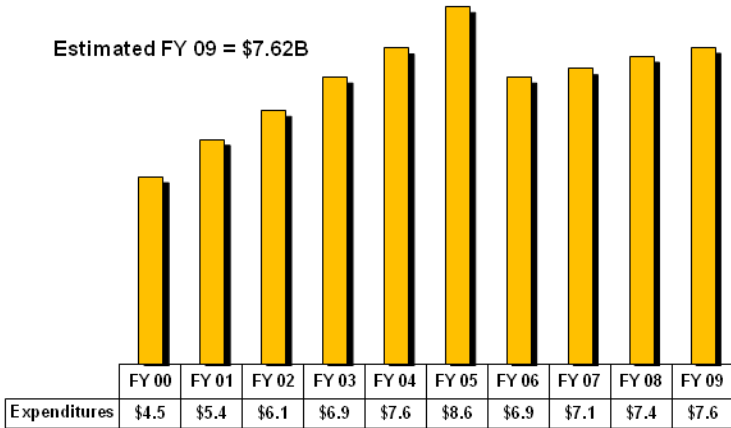
- 4 MCOs throughout the state; 3 “at risk” and one “partial risk”.
- Behavioral and physical health integrated; LTC integration via CHOICES underway.
- Well-capitalized MCOs selected in a competitive bid process.
- Improved Elderly and Disabled HCBS utilization (6,000 participants; 430% increase).
- Continued to control growth in pharmacy spend (\$730m in 2009).
- Last audit resulted in zero findings.



Update

Actual Expenditures

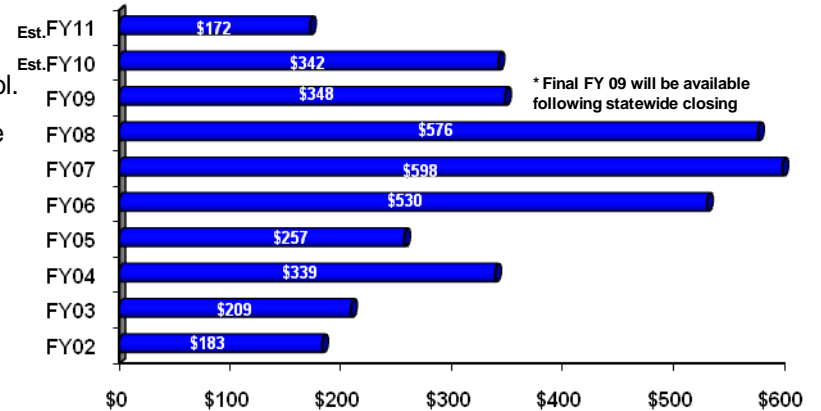
Estimated FY 09 = \$7.62B



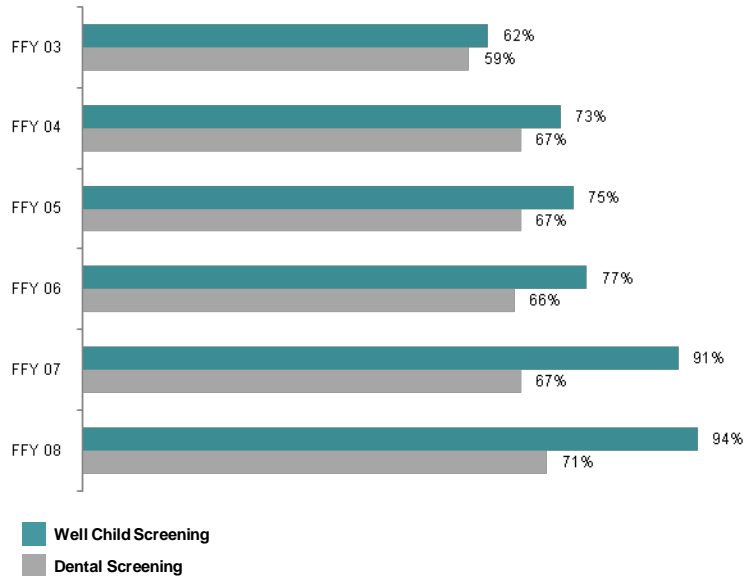
Reserves

Fiscal

- Costs under control.
- Reserves available to help the state weather difficult economic times.



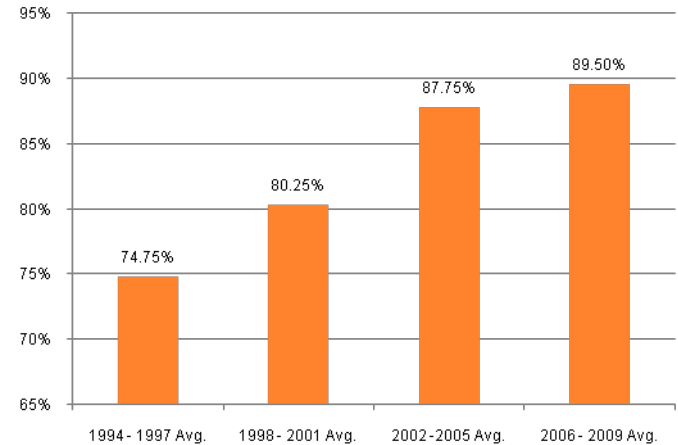
EPSDT Screening Progress



Quality

- Dramatic improvement in child health screening rates.
- 2009 UT Survey of enrollees 92% either satisfied or very satisfied.

2009 UT Enrollee Satisfaction Survey

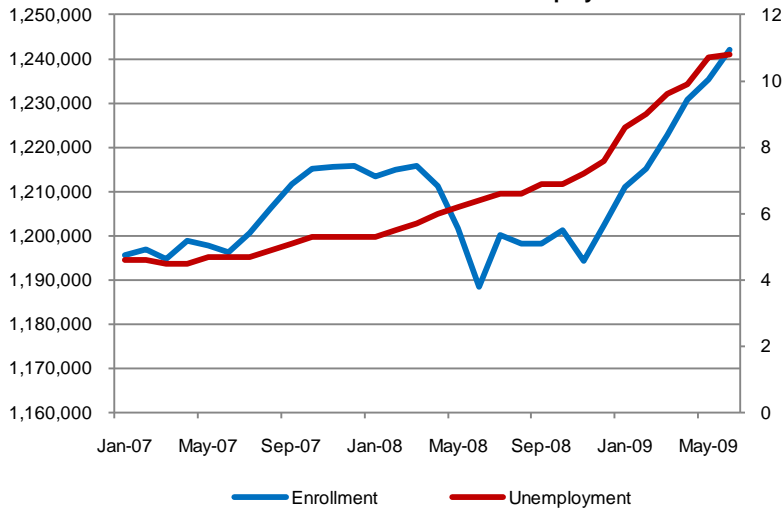




“Perfect Storm” for Medicaid Programs

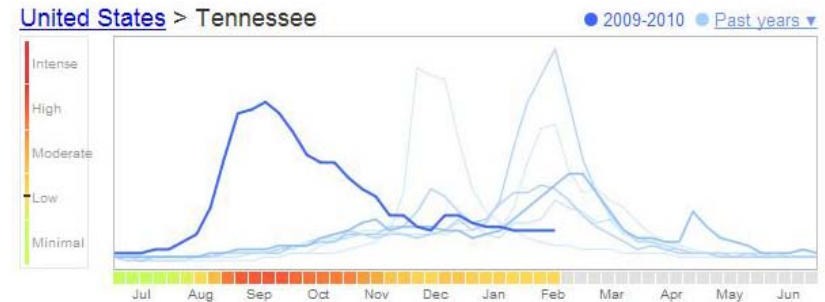
Economic Situation Worsened While Demand for Services Increased

TennCare Enrollment and TN Unemployment



Influenza Epidemic Increases Utilization

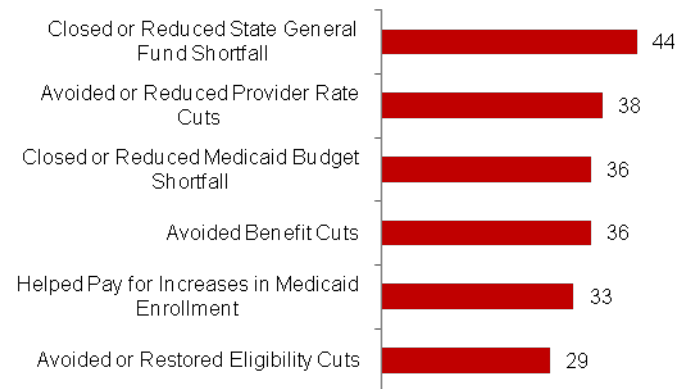
Flu Trends in Tennessee



Source: Google/flu

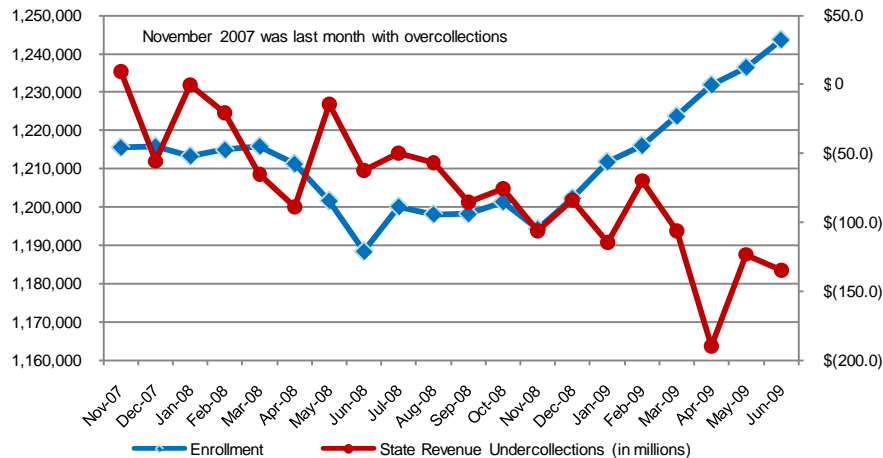
One-time ARRA Funding Set to Expire on 12/31/10

National Use of ARRA Enhanced Medicaid Funding



SOURCE: KCMU survey of Medicaid officials in 50 states and Dist. of Col. Conducted by Health Management Associates, Sept. 2009

TennCare Enrollment and State Revenues



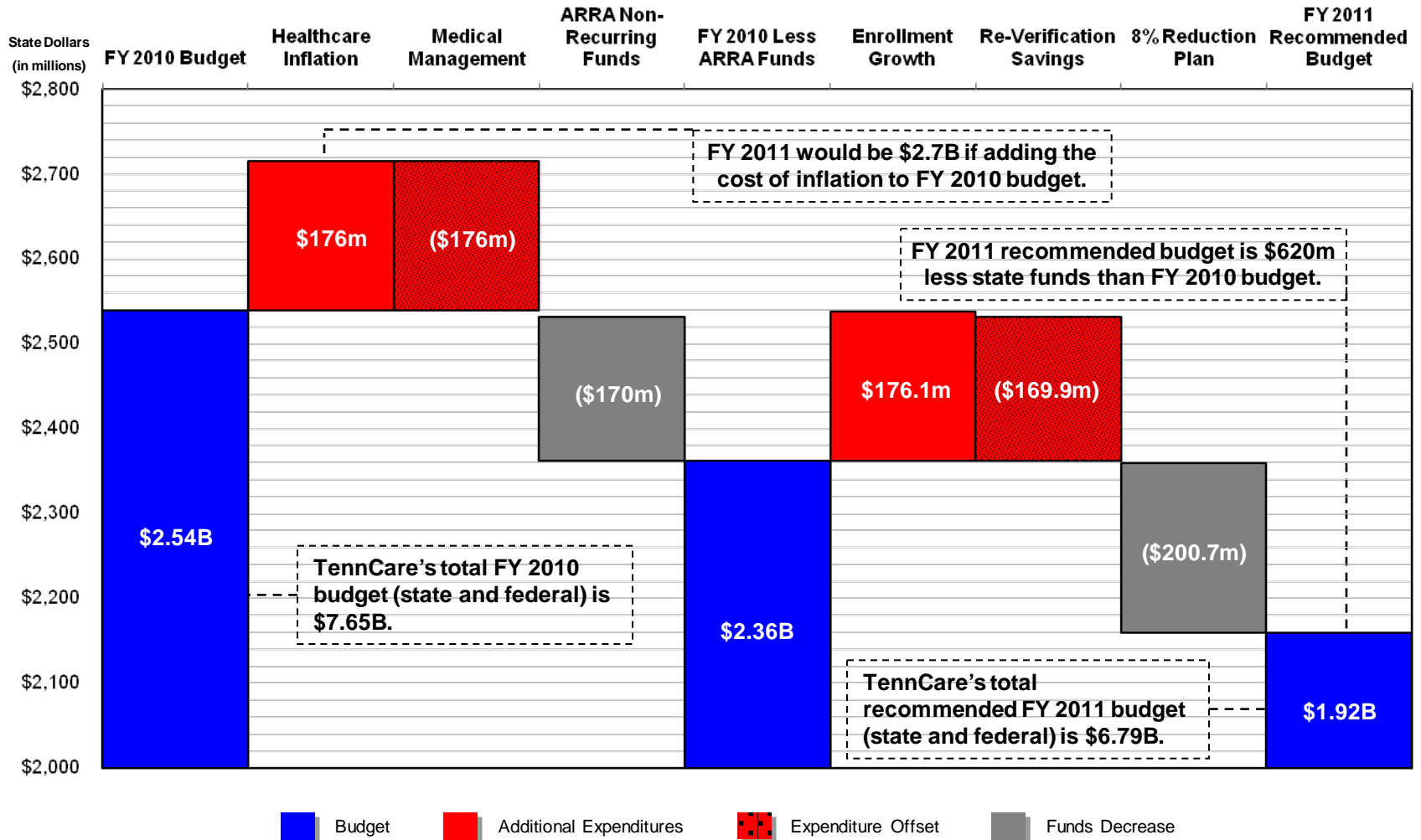


Medicaid Nationwide

- States are facing unprecedented budget shortfalls estimated at a total of \$180 billion for FY 2011.
- 43 states have already cut health care and elderly and disabled services. In the absence of any fiscal relief, many states are considering more changes including:
 - Provider rate reductions
 - Imposing benefit limits and tightening existing benefit limits
 - The elimination of optional benefits (including hospice, prosthetics, and pharmacy)
 - Tax increases
 - Moving to a form of managed care
 - The elimination of optional eligibility categories (including long-term care)*
 - Imposing eligibility restrictions on certain categories (including restrictions of children's eligibility)*
 - Specific examples from other states:
 - Eliminating the CHIP program which covers 47,000 children, and disenrolling 310,000 adults from Medicaid*
 - 10 percent reduction in provider payments
 - Enrollment freeze for most HCBS waivers

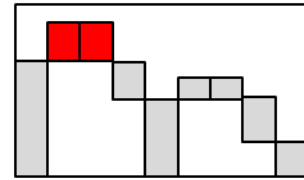


Constructing the FY 2011 Budget (State Dollars)





Efforts to Counteract Health Care Inflation



Health Care Inflation and Medical Management

Over the next decade, the Congressional Budget Office projects 7 percent per year Medicaid inflation.

Goals

Examples

Utilization Management

Assure that care is delivered in accordance with best practice guidelines

- Disease Management
- Complex Case Management
- Medical Home Model
- Network Consolidation
- Enhanced Prior Authorization Process
- ER Diversion of Non-Emergencies
- Reimbursement Strategies that Promote Quality Improvement
- Bus Pass Program

Pharmacy Controls

Improve quality of care by reducing inappropriate prescriptions and drive utilization to most cost-effective drugs

- Preferred Drug List
- Drug Rebates
- Point of Sale Edits
- Prescription Limits
- Co-Pays for Brand Name Drugs
- Retro DUR

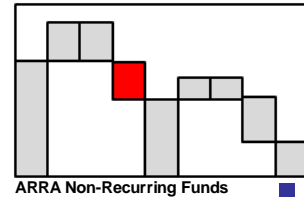
Fraud and Abuse Prevention and Detection

Identify potential cases of enrollee and/or provider fraud/abuse and make referrals to the appropriate investigation/enforcement authority

- Narcotic Controls
- Pharmacy Lock-In
- Case Management for Frequent ER Users
- Provider Prescribing Review
- Provider Fraud Task Force
- Trend and Outlier Analysis



FY 2010 Reductions Implemented or Delayed by Non-Recurring ARRA Funds



FY 2010 Reductions Funded with Non-Recurring ARRA Funds	Total Reductions	ARRA Funds used in FY 2010*
Reduce Provider Rates by 7%	\$325,761,800	\$84,248,500
Eliminate Essential Access Hospital Payments	100,000,000	25,862,000
Increasing Activities of Daily Living Requirement for Long Term Care	47,124,000	12,187,200
Eliminate Critical Access Hospital Payments	10,000,000	2,586,200
Eliminate Funding for Graduate Medical Education Programs	50,000,000	12,931,000
DIDS Reductions	44,696,000	11,559,300
Reduce Medicare Part A Crossover Reimbursement Rates to 80% of Medicare (hospitals, nursing homes, dialysis)	35,550,400	9,194,000
Reduce Matched Grant to Meharry Medical College	5,000,000	1,293,100
Eliminate Non-Matched Grant to Meharry Medical College	3,000,000	3,000,000
DCS Reductions	7,190,900	2,254,600
Eliminate Perinatal Grants to Hospitals**	4,545,600	2,272,800
Streamline HCBS Waiver Administration	1,889,700	944,900
Reduce Grants Made by Governor's Office of Childcare Coordination	866,600	866,600
Defer Planned Upgrades to MMIS System	4,582,000	458,200
Eliminate Memphis City Schools Program	500,000	250,000
Eliminate UT Pharmacy Contract	195,600	97,800
TOTAL	\$640,902,600	\$170,006,200
Eliminate Medstat Contract	1,200,000	0
Eliminate Shared Health Contract	12,000,000	0
Mandate Electronic payment and RA for Providers	1,000,000	0
Postpone Opening Medically Needy Category to New Enrollees	32,727,300	0
Eliminate Auto-Inflators in Provider Contracts	1,500,000	0
Change Policy of Paying for Nursing Home Stays Before a PASRR Evaluation is Completed	39,600,000	0
Eliminate Vacant Positions at Office of Inspector General	399,200	0
GRAND TOTAL	\$729,329,100	\$170,006,200

ARRA Summary

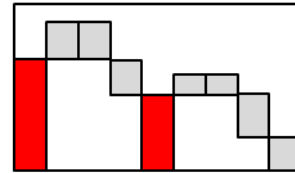
- Estimated \$1.1 billion additional federal dollars drawn in from Oct. 1, 2008 to Dec. 31, 2010.
- Temporarily increases FMAP (Federal Medical Assistance Payments) from 65% to 75%.
- No money can be placed in Rainy Day or Reserve Funds.
- Funds set to expire on Dec. 31, 2010.
- Helped offset or “add-back” reductions in FY 2010.
- Absence of new funding for FY 2011 will result in the reduction of these items from the budget.

*Items with zero dollars in the ARRA column were eliminated in FY 2010

**Perinatal Grants were added back to the proposed FY 2011 budget

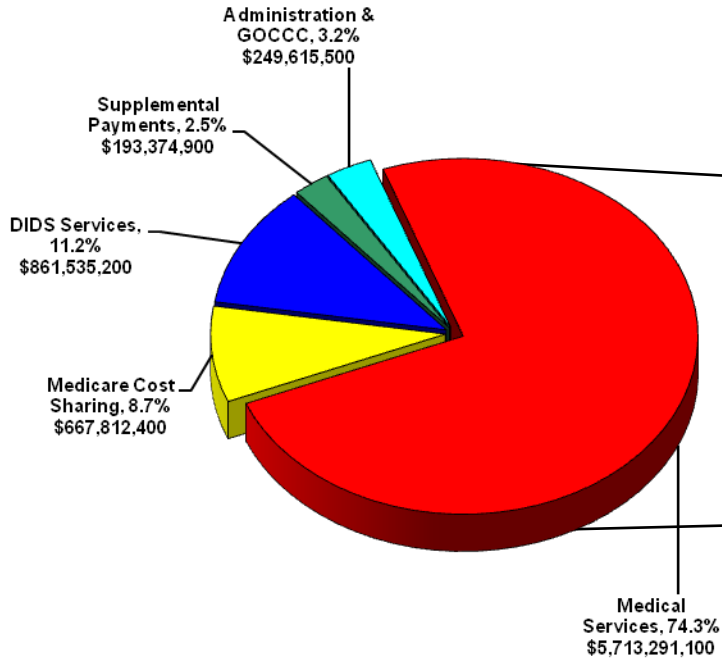


FY 2010 Budget Less ARRA Funds



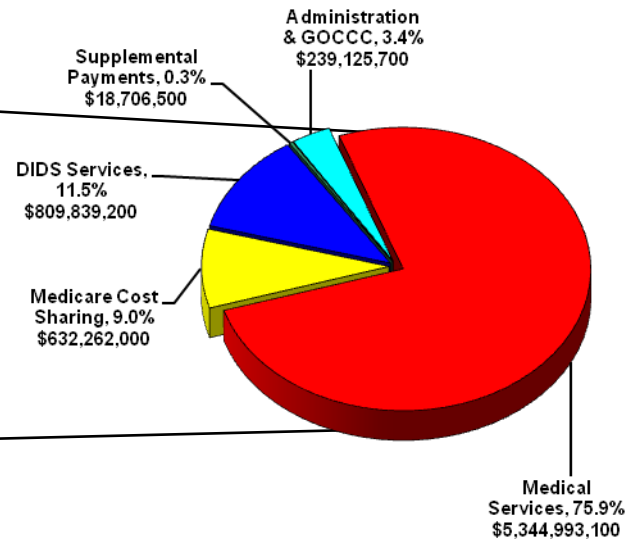
FY2010 Budget Less ARRA Funds

FY 2010 Including ARRA



\$7,685,629,100

FY 2010 Recurring Budget

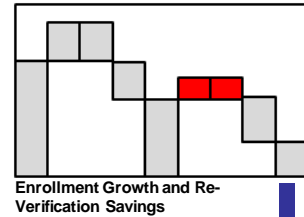


\$7,044,926,500

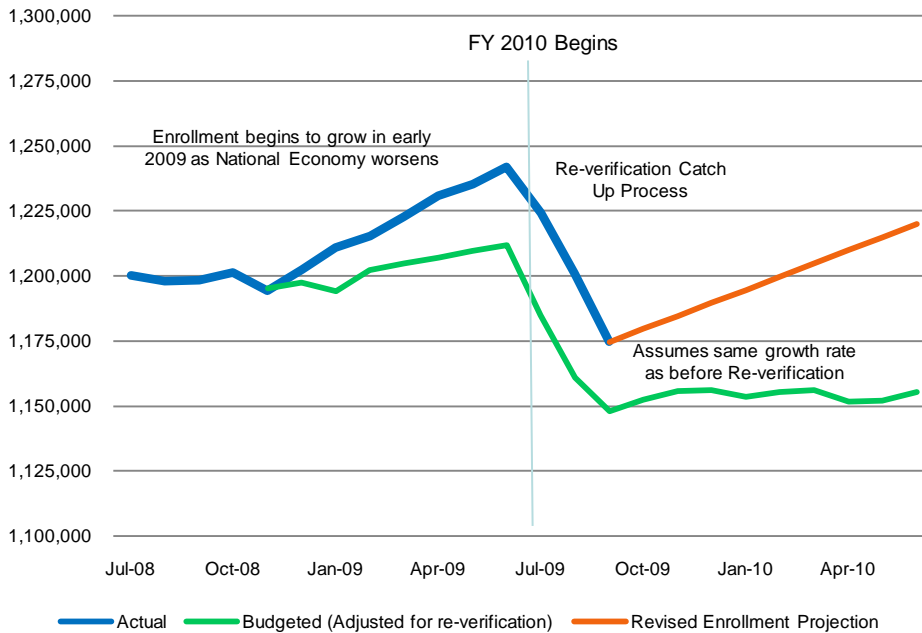
NOTE: The removal of items funded with one-time ARRA money (\$640 million) in FY 2010 accounts for the drop from \$7.6 billion to \$7.0 billion.



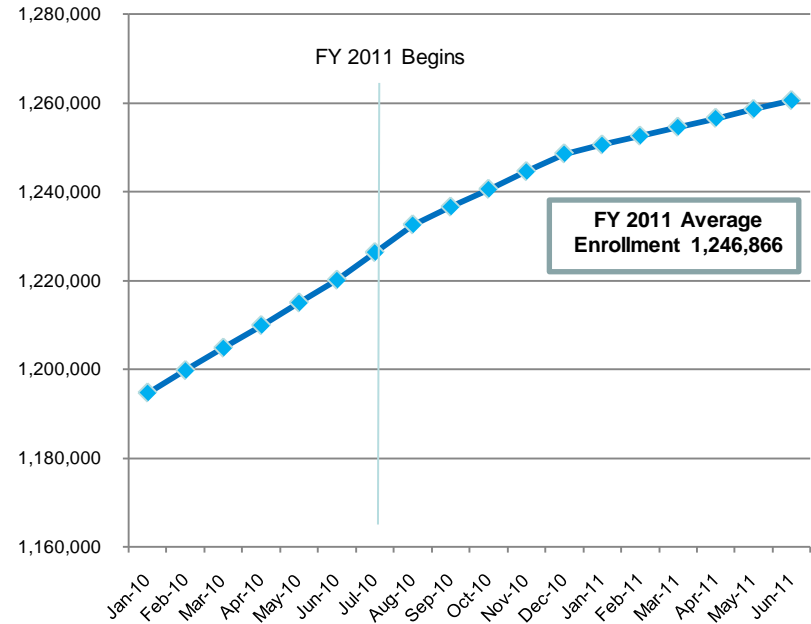
Enrollment Growth and Re-verification



TennCare Enrollment in FY 2010 – Actual and Projections



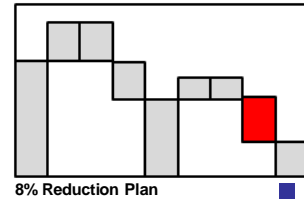
FY 2011 Trend



- Enrollment began to grow more rapidly than expected in spring/summer of 2009, as seen in other states.
- Growth remains at high levels even with ongoing re-verification process.
- Increasing on average by approximately 5,000 per month (has exceeded 8,000 new enrollees in a single month).
- ARRA prevents restrictions in eligibility beyond 7/1/08.



Ways to Adjust Expenditures



Categories

Enrollment

Options

- Change optional eligibility categories
 - expand/contract
 - close
 - eliminate

Challenges/Limitations

- ARRA prevents restrictions in eligibility beyond 7/1/08
- Mandatory enrollment already increasing due to economy
- Requires CMS approval

Provider Reimbursement

- Increase or decrease provider rates

- FY 2010 budget includes 7% reduction (postponed implementation due to one-time ARRA funding)
- Further reduction may stress provider network

Cost Sharing

- Premiums
- Co-pays
- Deductibles

- CMS limits the population cost sharing can be applied to, how large it can be, and enforceability
- Requires CMS approval

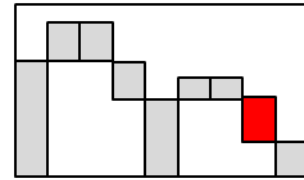
Benefits

- Increase existing benefit limits
- Eliminate optional benefits
- Place new limits on benefits

- Cannot change benefit package for approximately 700,000 children and 60,000 pregnant women
- Requires CMS approval



FY 2011 Budget Reductions and Other Adjustments (State Dollars)



8% Reduction Plan

Recurring Reallocations \$4,995,900	
DIDS Reallocations	\$5,079,300
Impr. Offset – Re-verification Savings	(169,947,600)
Impr. Offset - Nat'l AWP Lawsuit Savings	(6,051,700)
Impr. Offset - Prior Auth. On Certain DME	(131,600)
Impr. - Enrollment Growth	176,147,500
Impr. Offset - Transfer to CoverKids	(100,000)

Other Adjustments (\$30,363,600)	
Recurring FMAP Savings	(\$30,363,600)

- Children under 21 are exempt from all benefit changes.
- Enrollees in a nursing home or receiving HCBS are exempt from benefit limits.
- Pregnant women can receive benefits in excess of the limits for pregnancy related services.
- Benefit changes require CMS approval. The request for approval was sent to CMS on February 3, 2010.

Base Reductions (\$175,367,300)	
In-Patient Cap on Adults (\$10,000 per year)	(\$51,233,900)
Limit Lab/Xray Procedures (8 per year)	(20,630,900)
Hospital Reimbursement Ceiling (100% Medicare)	(17,830,300)
DIDS Reductions	(14,419,300)
Value of 7% Provider Cuts at FY11 Levels	(14,074,200)
Limit Office Visits (8 per year)	(13,065,500)
Limit Out-Patient Services (8 per year)	(9,743,100)
Reduction in Growth Cost from Ben. Limits	(6,819,500)
\$4 pricing on Widely Available Drugs	(5,647,000)
Pharmacy Pricing - Reduce MAC Pricing	(4,106,400)
Modified DME Contracting	(3,434,400)
Eliminate Certain Therapies (PT, OT, ST)	(3,388,100)
Increased Drug Rebate	(2,737,600)
\$2 Co-Pay on Non-Emergency Transportation	(1,310,400)
DCS Reductions	(1,230,200)
Single Source for Selected Rx Supplies	(1,026,600)
Increased Revenue from Data Sharing	(900,000)
Eliminate Meharry Grant	(711,000)
GOCCC Reductions	(450,600)
Change Rate For Composite Posterior Fillings	(427,800)
Medicare Outreach	(410,600)
Administrative Contract Reduction	(234,100)
F&A OIG Reductions	(225,700)
DHS Reductions	(182,200)
Commerce & Insurance Reductions	(127,900)

Total FY 2011 Reductions	
State \$175.4m	Total \$499.3m
Total FY 2010 Reductions Plus FY 2011 Reductions*	
State \$430m	Total \$1.22B

- The majority of the FY 2010 budget reductions were “bought back” using non-recurring ARRA funds and will be implemented along with the proposed FY 2011 reductions at the start of FY 2011 (7/1/2010).
- The FY 2011 proposed budget is \$865m less than last year’s budget (state and federal).
- When reductions, reallocations and other adjustments are included, the FY 2011 proposed budget is reduced by \$200.7m state dollars.

*This includes approximately \$54.9m total (\$33m state) reductions already implemented in FY 2010





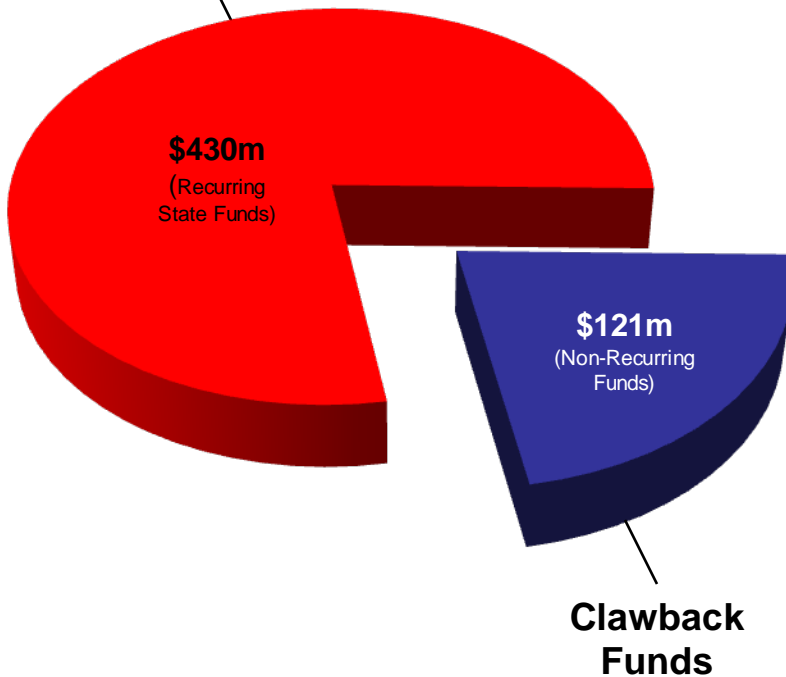
Conclusion

- Previous program changes put us in a better position to handle the current economic environment.
- The current budget is a result of nationwide economic downturn – most states are in similar, if not worse situations.
- It is nearly impossible to cut more than a billion dollars out of the state's budget without making significant reductions to TennCare.
- We are required to make difficult decisions. These recommendations were carefully weighed in order to produce the required amount of savings in a short amount of time while impacting the fewest enrollees possible.
- This budget is based on the realities of today.



Part D Clawback

**Total FY 2010-2011
Reductions**



*For a detailed proposal on the use of clawback funds, see page a3.

- The Part D clawback is money states pay to the federal government to help offset costs the federal government incurs by covering the prescription benefit for enrollees who have both Medicare and Medicaid.
- The states and CMS disagreed on how ARRA impacted the Part D clawback calculation.
- On Feb. 19, 2010, TennCare received word that CMS had revised the way the federal clawback is calculated. This new interpretation means TennCare will pay approximately \$120 million less in clawback payments.
- These non-recurring funds will help temporarily delay some of the proposed reductions, but cannot mitigate all cuts.



Appendix



Total FY 2010 and FY 2011 Reductions

Total State
Reductions
\$429,931,500

Total State and
Federal
Reductions
\$1,220,252,800

FY 2009-2010 Reductions				FY 2010-2011 Reductions			
FY 2009-2010	State	Total	Implementation Date	FY 2010-2011	State	Total	Implementation Date
Only pay NFs after PASRR completion	(13,761,800)	(39,600,000)	7/1/2009	In-Patient Cap on Adults (\$10,000 per year)	(51,233,900)	(149,719,200)	7/1/2010
Postpone Opening of Medically Needy	(11,373,400)	(32,727,300)	7/1/2009	Limit Lab/Xray Procedures (8 per year)	(20,630,900)	(60,288,900)	7/1/2010
Shared Health Contract	(6,000,000)	(12,000,000)	7/1/2009	Hospital Reimbursement Ceiling (100% Medicare)	(17,830,300)	(52,104,900)	7/1/2010
Medstat Contract	(600,000)	(1,200,000)	7/1/2009	DIDS Reductions	(14,419,300)	(41,491,900)	7/1/2010
Auto-Inflators in Provider Contracts	(521,300)	(1,500,000)	7/1/2009	Value of 7% Provider Cuts at FY11 Levels	(14,074,200)	(41,128,500)	7/1/2010
Electronic Payment and Remittance	(500,000)	(1,000,000)	7/1/2009	Limit Office Visits (8 per year)	(13,065,500)	(38,181,000)	7/1/2010
F&A OIG Reductions	(199,600)	(399,200)	7/1/2009	Limit Out-Patient Services (8 per year)	(9,743,100)	(28,472,000)	7/1/2010
UT Pharmacy Contract	(97,800)	(195,600)	7/1/2009	Reduction in Growth Cost from Ben. Limits	(6,819,500)	(19,928,300)	7/1/2010
Provider Reimbursement and Co-Pay	(75,990,100)	(218,663,900)	7/1/2010	\$4 Pricing on Widely Available Generics	(5,647,000)	(16,502,100)	7/1/2010
Eliminate Essential Access Payments	(34,752,000)	(100,000,000)	7/1/2010	Pharmacy Pricing - Reduce MAC Pricing	(4,106,400)	(12,000,000)	7/1/2010
Nursing Home Rates	(22,857,900)	(65,774,400)	7/1/2010	Modified DME Contracting	(3,434,400)	(10,036,200)	7/1/2010
Eliminate Graduate Medial Ed. Grant	(17,376,000)	(50,000,000)	7/1/2010	Eliminate Certain Therapies (PT/OT/ST)	(3,388,100)	(9,900,900)	7/1/2010
LTC Eligibility Criteria	(16,376,500)	(47,124,000)	7/1/2010	Increased Drug Rebate	(2,737,600)	-	7/1/2010
DIDS Reductions	(12,675,300)	(37,211,300)	7/1/2010	Eliminate Meharry Grant	(1,711,000)	(5,000,000)	7/1/2010
Medicare Part A	(12,354,500)	(35,550,400)	7/1/2010	\$2 Co-Pay on Non-Emergency Transport	(1,310,400)	(3,829,300)	7/1/2010
MCO Admin Rate	(7,684,400)	(22,112,100)	7/1/2010	DCS Reductions	(1,230,200)	(3,319,600)	7/1/2010
Eliminate Meharry Grants	(4,737,600)	(8,000,000)	7/1/2010	Single Source for Selected Rx Supplies	(1,026,600)	(3,000,000)	7/1/2010
DCS Reductions	(4,034,800)	(10,801,900)	7/1/2010	Increased Revenue from Data Sharing	(900,000)	-	7/1/2010
Dental Rates	(3,939,200)	(11,335,300)	7/1/2010	GOCCC Reductions	(450,600)	(450,600)	7/1/2010
Eliminate Critical Access Payments	(3,475,200)	(10,000,000)	7/1/2010	Change Rate For Composite Posterior Fillings	(427,800)	(1,250,000)	7/1/2010
Private ICF-MR Rate	(2,432,600)	(7,000,000)	7/1/2010	Medicare Outreach	(410,600)	(1,199,900)	7/1/2010
HCBS Waiver Administration	(944,900)	(1,889,700)	7/1/2010	Administrative Contract Reduction	(234,100)	(468,100)	7/1/2010
GOCCC Reductions	(866,600)	(866,600)	7/1/2010	F&A OIG Reductions	(225,700)	(451,400)	7/1/2010
Information Systems	(458,200)	(458,200)	7/1/2010	DHS Reductions	(182,200)	(364,400)	7/1/2010
PACE Rate	(304,500)	(876,100)	7/1/2010	Commerce & Insurance Reductions	(127,900)	(255,800)	7/1/2010
Eliminate Grant to Memphis City Schools	(250,000)	(500,000)	7/1/2010	Total	(175,367,300)	(499,343,000)	
Total	(254,564,200)	(720,909,800)					

Amounts in FY 2010 reflect recurring state savings



Benefit Comparisons

Tennessee

Other States***

Benefit	Current Limits	Proposed Limits	Limits	Range
Inpatient hospital (Mandatory)	None	\$10,000 annual limit*	17 states currently have limits 5 states: day limits 3 states: dollar limits 9 states: length of stay limits	Day limits: 16 days per year to 45 days per year Dollar limits: \$10,000 per year for certain enrollees to \$200,000 per year
Outpatient hospital (Mandatory)	None	8 outpatient procedures per year*	14 states currently have limits 12 states: visit limits 2 states: dollar limits	Visit limit: 3 non-emergency visits per year to 22 ambulatory
Lab/X-ray (Mandatory)	None	8 procedures per year*	3 states currently have limits 2 states: visit limits 1 state: dollar limits	Visit limit: 15 diagnostic X-rays per year to 18 lab tests per year Dollar limit: \$500 per year on all lab and most X-ray services
DME and supplies (Mandatory if part of home health; otherwise optional)	None	Regional preferred providers	6 states currently have limits 4 states: quantity limits 2 states: dollar limits	Quantity limits: Most medical equipment items covered only once every 3 years to 1 piece of medical equipment purchase of the same every 2 years Dollar limits: Medical supplies limited to \$250 per month to \$1950 maximum benefit per year for incontinence products
Physician visits (Mandatory)	None	8 visits per year*	27 states currently have limits 26 states: visit limits 1 state: dollar limit	Visit limits: 4 psychotherapy visits per year to 30 office visits per year. Dollar limits: Psych services up to \$900 per year or \$400 per year for NF residents
Speech, physical and occupational therapy (Optional)	None	No longer covered**	PT: 16 states have time/visit limits; 16 state do not cover OT: 15 states have time/visit limits; 20 states do not cover ST: 12 states have time/visit limits; 15 do not cover	PT: 15 visits per year to 180 days of treatment per year OT: 12 visits per year to 2 weeks of treatment ST: 12 visits per year to 70 visits per year for certain populations
Pharmacy (Optional)	5 prescriptions per month including up to 2 brand name prescriptions	No change	18 states have limits on the number of prescriptions covered	Script limit: 3 prescriptions per month to 8 prescriptions per month
Transportation – Non-Emergency (Optional)	Covered as necessary for enrollees lacking accessible transportation for covered services	\$2 co-pay per trip for non-emergency transportation*	6 states have limits	10 one-way trips per year to 2 trips per month

*Excludes children, pregnant women and those in the long-term care category

**Excludes children

***This information was compiled pre-recession. In light of the current economic conditions many states most likely will implement limits or impose stricter limits.



TennCare Clawback Proposal

All amounts are based on FY2011 \$'s

Items Temporarily Funded By Clawback	Total Outlay	Clawback*	Unfunded	Final Total Reduction
Postpone the implementation of the ADL change until end of ARRA period (half year)	\$(23,562,000)	\$(6,910,000)		-
Temporarily removing the cost of transplant hospitalizations from the 10k cap	(5,635,600)	(1,652,800)		-
7% Rate reduction reduced to 4.1% rate reduction (eff 7/1/2010)	(366,890,300)	(44,380,300)	\$(63,217,700)	\$(215,561,300)
State supplemental hospital grant	(10,000,000)	(10,000,000)		-
Postpone the elimination of matched grant to Meharry	(10,000,000)	(2,932,700)		-
Postpone Limit to 8 non-emergency outpatient visits per year	(28,472,000)	(8,350,000)		-
Postpone the \$4 pricing on widely available generic drugs	(16,502,100)	(4,839,600)		-
Postpone implementation of \$2 copay on non-emergency transportation	(3,829,300)	(1,123,000)		-
Postpone changing MAC pricing to AWP - 82%	(12,000,000)	(3,519,200)		-
Postpone Limit of 8 physician office procedures per year	(38,181,000)	(11,197,300)		-
Postpone 8 lab x/ray occasions of service per year	(60,288,900)	(17,680,900)		-
Postpone Eliminate reimbursement for OT/PT/ST	(9,900,900)	(2,903,600)		-
Reduction in growth due to benefit limits	(19,928,300)	(5,844,400)		-
Total		\$(121,333,800)		

Significant Items Unfunded By Clawback	Total Outlay	Clawback	Unfunded	Final Total Reduction
Eliminate Critical Access Hospital Payments**	(10,000,000)		(3,422,000)	(10,000,000)
Eliminate Graduate Medical Education program**	(50,000,000)		(14,663,500)	(50,000,000)
Meharry (state only)**	(3,000,000)		(3,000,000)	(3,000,000)
Establish a provider reimbursement ceiling from the MCOs of 100% of Medicare**	(52,104,900)		(15,280,800)	(52,104,900)
\$10,000 annual cap per enrollee on hospital inpatient reimbursement**	(144,083,600)		(42,255,300)	(144,083,600)
Eliminate Essential Access Hospital Payments**	(100,000,000)		(34,220,000)	(100,000,000)

*Clawback items are non-recurring

**Items shown as unfunded in the clawback proposal are a sample and not representative of all proposed FY 2010-2011 reductions