



TennCare Budget Presentation

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106th General Assembly

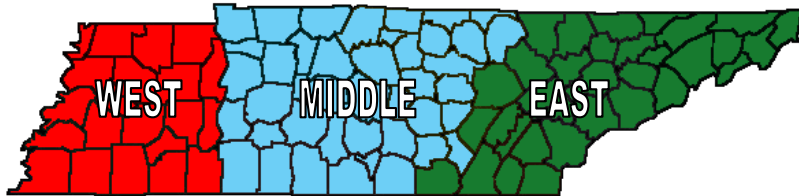
Legislative Budget Hearings

Presented 2010



Continued Progress

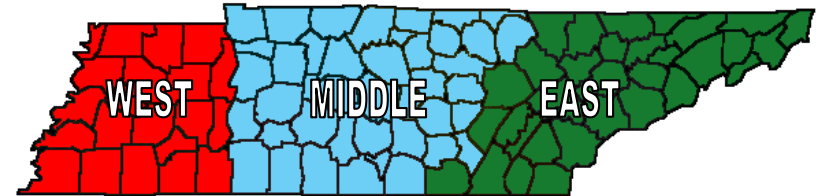
TennCare 2006



- 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

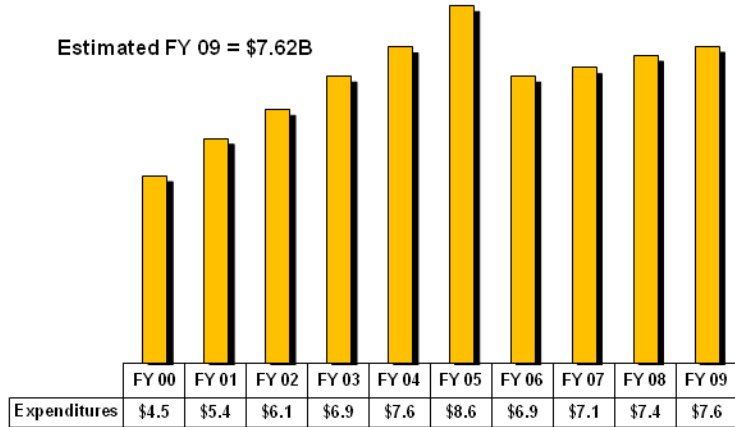
- 4 MCOs throughout the state; 3 “at risk” and one “partial risk”.
- Behavioral and physical health integrated; LTC integration via CHOICES underway.
- Well-capitalized MCOs selected in a competitive bid process.
- Improved Elderly and Disabled HCBS utilization (6,000 participants; 430% increase).
-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



Update

Actual Expenditures

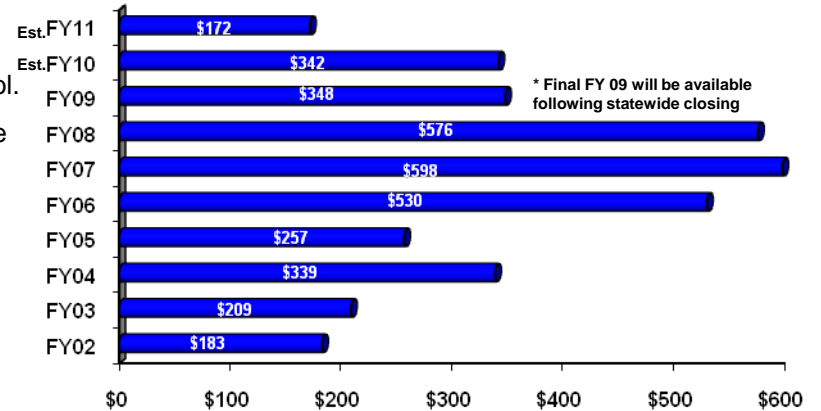
Estimated FY 09 = \$7.62B



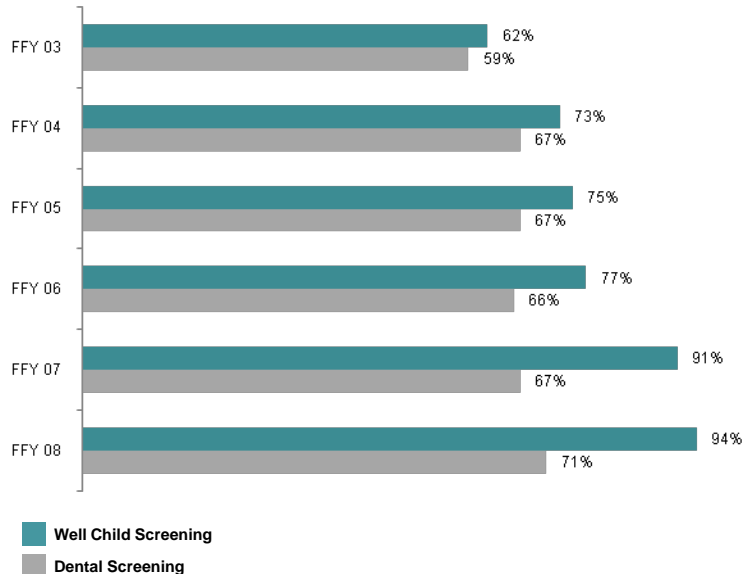
Reserves

Fiscal

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



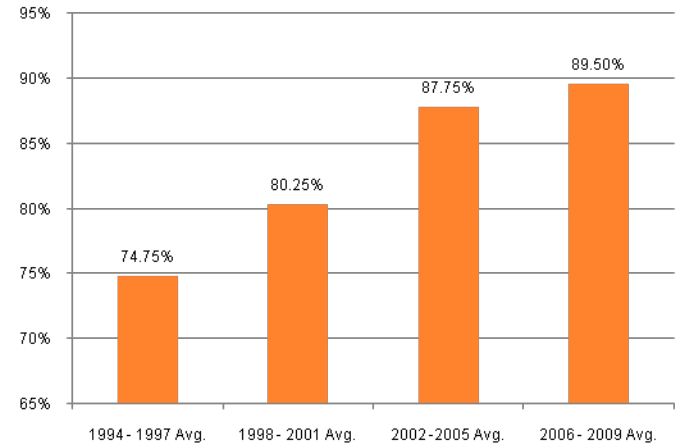
EPSDT Screening Progress



Quality

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

2009 UT Enrollee Satisfaction Survey

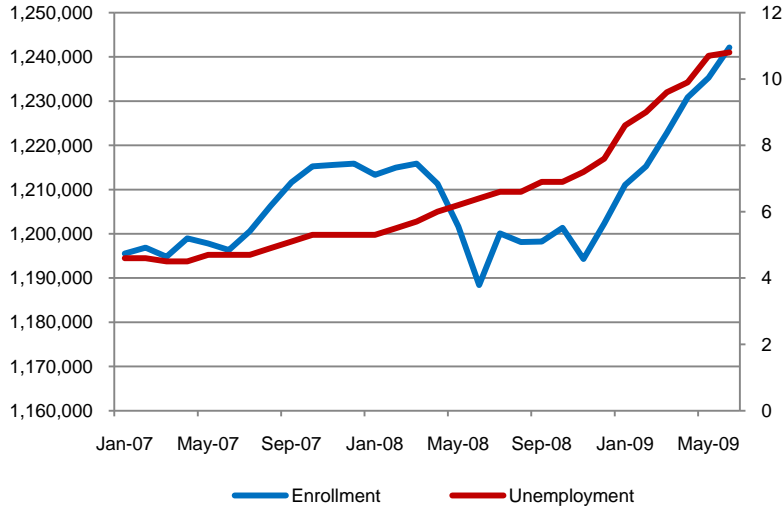




“Perfect Storm” for Medicaid Programs

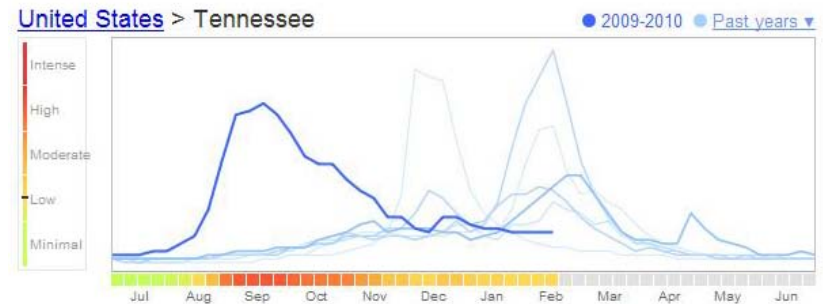
Economic Situation Worsened While Demand for Services Increased

TennCare Enrollment and TN Unemployment



Influenza Epidemic Increases Utilization

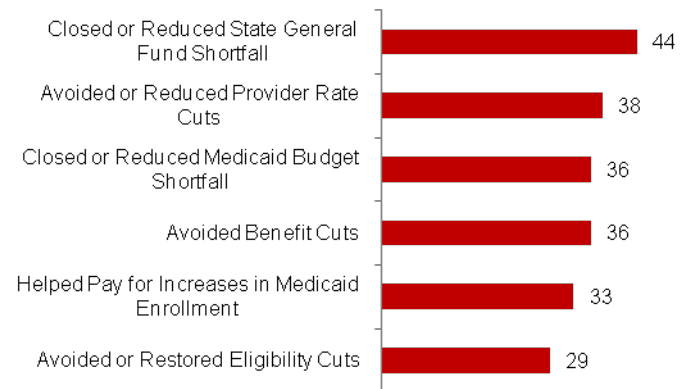
Flu Trends in Tennessee



Source: Google/flu

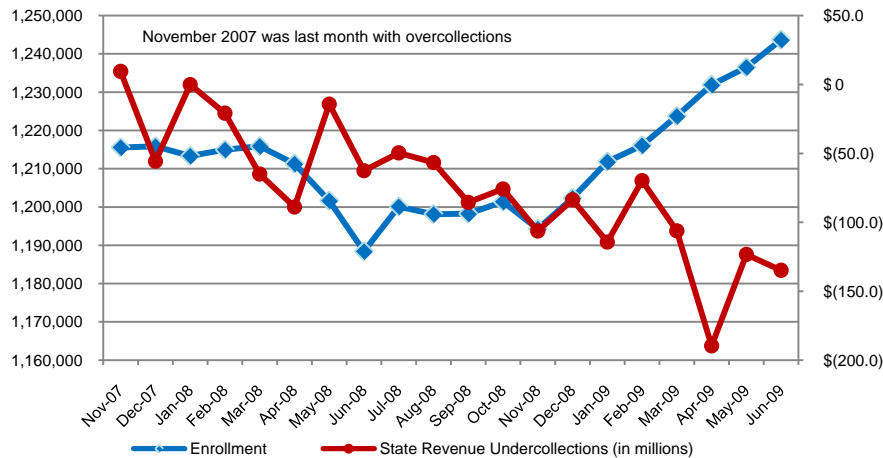
One-time ARRA Funding Set to Expire on 12/31/10

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



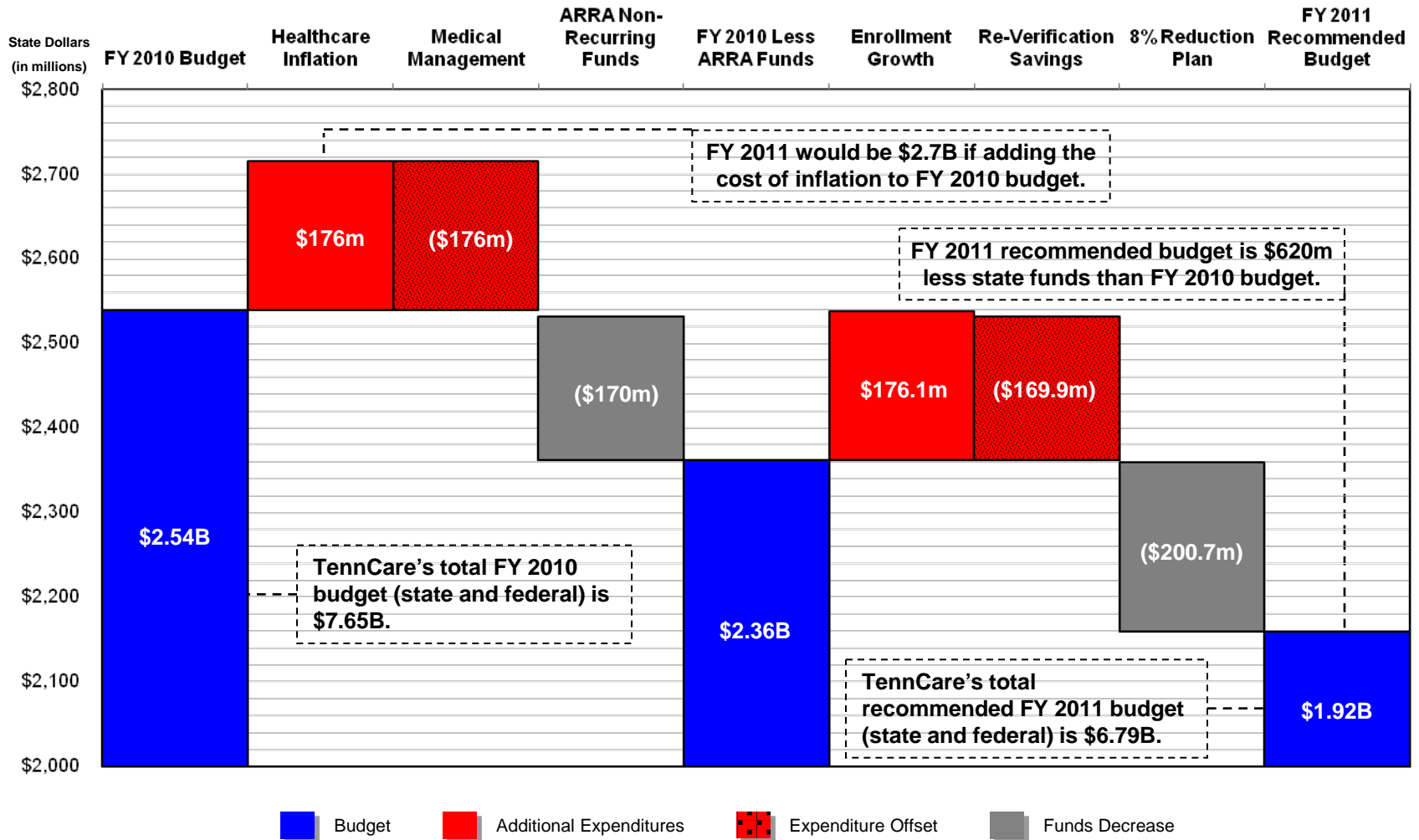


Medicaid Nationwide

- 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

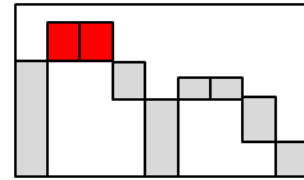


Constructing the FY 2011 Budget (State Dollars)





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

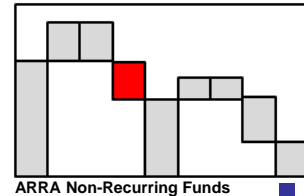
Fraud and Abuse Prevention and Detection

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-Inflatons 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

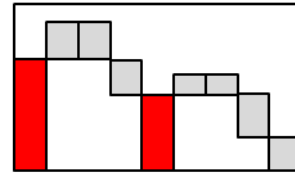
- Estimated \$1.1 billion additional federal dollars drawn in from Oct. 1, 2008 to Dec. 31, 2010.
- Temporarily increases FMAP (Federal Medical Assistance Payments) from 65% to 75%.
- No money can be placed in Rainy Day or Reserve Funds.
- Funds set to expire on Dec. 31, 2010.
- Helped offset or “add-back” 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

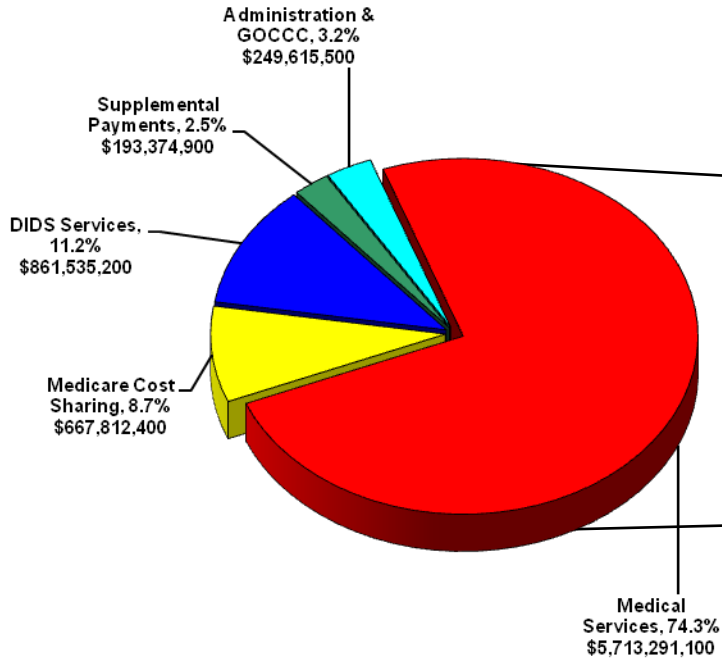


FY 2010 Budget Less ARRA Funds



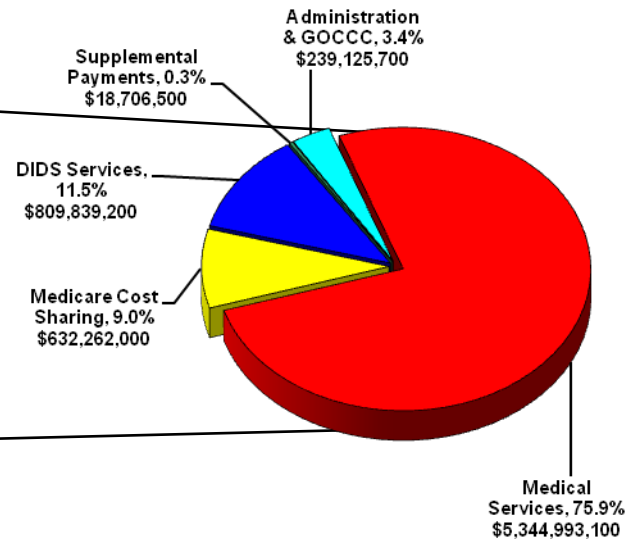
FY2010 Budget Less ARRA Funds

FY 2010 Including ARRA



\$7,685,629,100

FY 2010 Recurring Budget



\$7,044,926,500

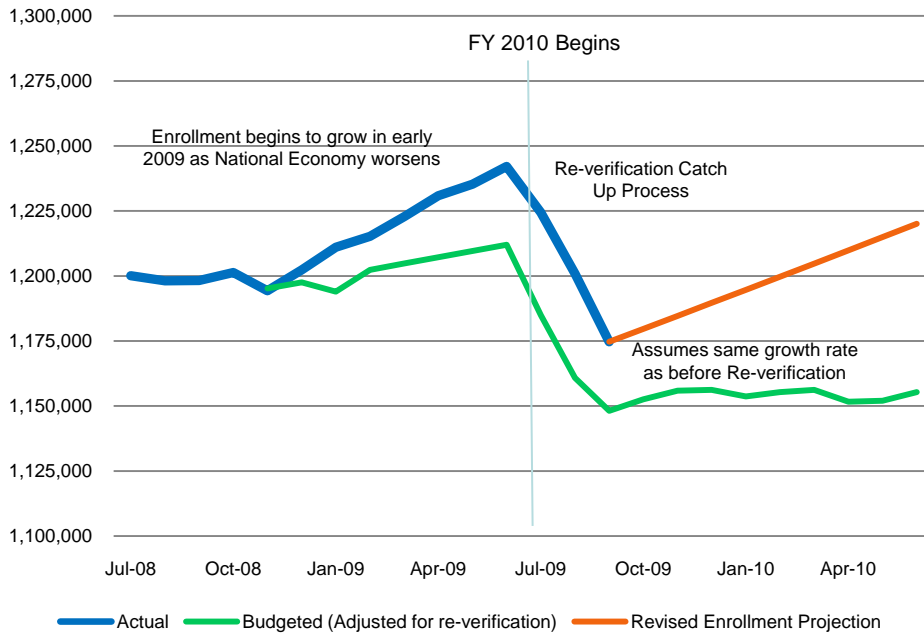
NOTE: The removal of items funded with one-time ARRA money (\$640 million) in FY 2010 accounts for the drop from \$7.6 billion to \$7.0 billion.



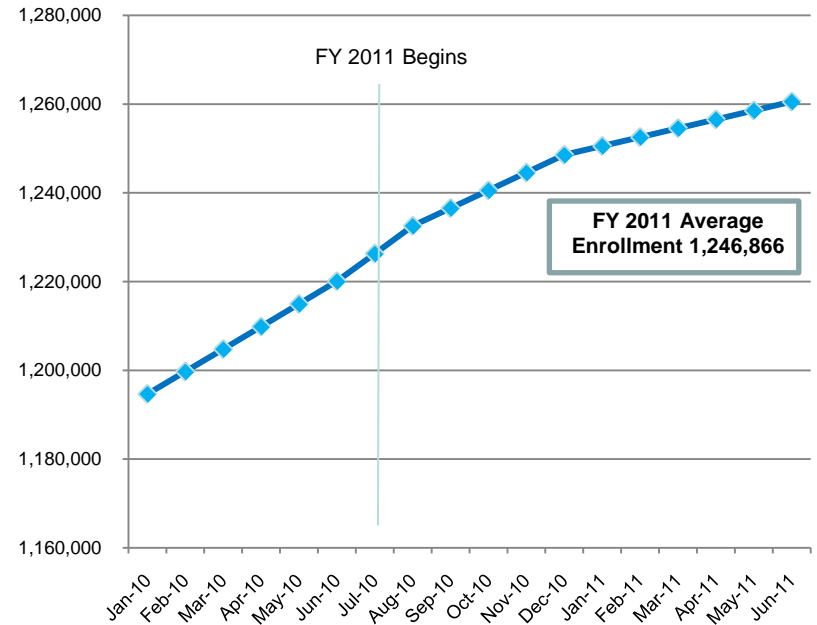
Enrollment Growth and Re-verification



TennCare Enrollment in FY 2010 – Actual and Projections



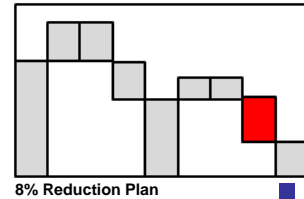
FY 2011 Trend



- 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

Options

Challenges/Limitations

Enrollment

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

- 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

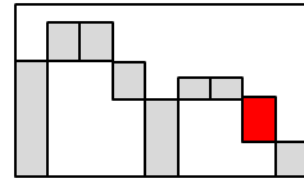
Benefits

- 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





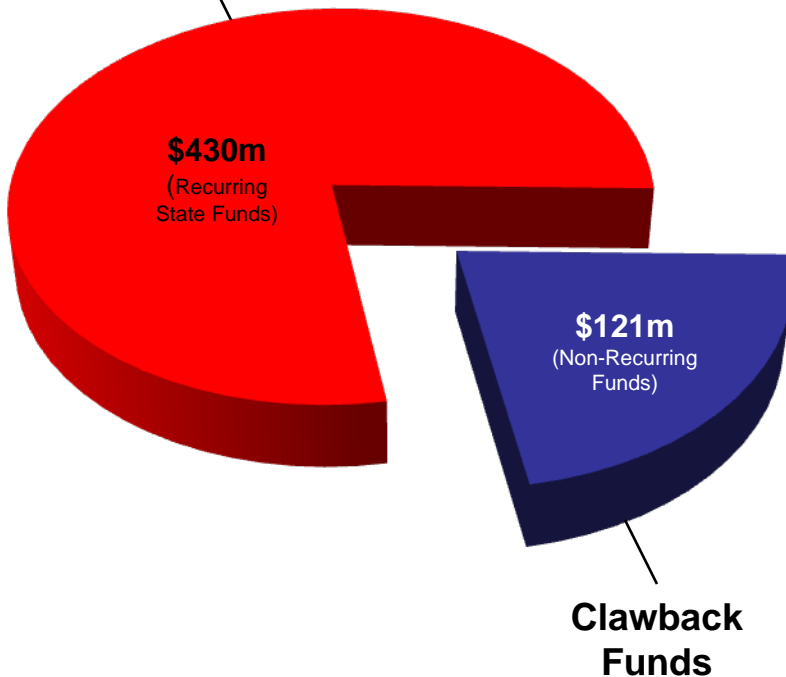
Conclusion

- 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) | | - |
| 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) | | - |
| Limit of 8 physician office procedures per year | (38,181,000) | (11,197,300) | | - |
| 8 lab x/ray occasions of service per year | (60,288,900) | (17,680,900) | | - |
| 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