TENNCARE BRIEFING

GOVERNOR'S COMMUNICATIONS OFFICE

BACKGROUND & GUIDING PRINCIPLES

Governor Bredesen believes that TennCare — the state's healthcare program for the poor, disabled and uninsured — is a worthwhile initiative that needs to be fixed. TennCare is a medical lifeline for 1.3 million Tennesseans, in both rural and urban areas, who are battling chronic illness, coping with serious disabilities and struggling to make ends meet.

TennCare began in 1994 as a well-meaning experiment to expand Tennessee's traditional Medicaid program by using managed care principles to deliver health care to a larger number of people for the same amount of money. But over time, TennCare's costs have grown at an unexpected and exponential rate. The $7.1 billion program now accounts for roughly one in four dollars in the state budget.

As a result of this rapid growth, TennCare now is threatening state government's ability to invest in other vital priorities such as education, economic development, public safety and the environment. An independent report by McKinsey & Company, a global management-consulting firm, found that TennCare — if left unchecked — will consume 91% of new state tax revenues in 2008.

The Governor believes we must immediately begin meeting the challenges of TennCare head on, or risk jeopardizing all of the state's other priorities. Moving forward, he has outlined four "guiding principles" that will serve as the foundation for a long-term TennCare strategy:

1) **FIX THE PROBLEM, DON'T PASS IT OFF**
Governor Bredesen believes shifting TennCare's financial burden by simply passing a provider tax or another new source of revenue only delays the inevitable. TennCare needs fundamental reform, not a quick fix.

2) **PROTECT CHILDREN AND THE DISABLED**
Governor Bredesen believes, as an "article of faith," that government should make every effort to help those who cannot help themselves — children, pregnant women and those who qualify as disabled under Social Security standards. With this in mind, those groups will not be subject to restrictions such as limits on physician visits or pharmaceutical co-pays.

3) **ELIMINATE FRAUD AND ABUSE**
Governor Bredesen believes clamping down on fraud and abuse is critical to re-building public confidence and protecting TennCare's integrity. He's asking the General Assembly to establish an independent law-enforcement unit to aggressively pursue those who would cheat the system.

4) **PROVIDE BENEFITS WE CAN AFFORD**
Governor Bredesen believes TennCare enrollees who truly need help should continue receiving it. At the same time, he believes TennCare needs benefits that Tennessee can afford. Rather than strip enrollees of coverage, the Governor's strategy is to implement affordable and reasonable limits on benefits.

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THE STRATEGY

- **ENROLLMENT**
  Governor Bredesen believes TennCare enrollees who truly need help should continue receiving it. At this time, there are no plans to strip TennCare enrollees of coverage. However, the Governor is asking the General Assembly to help undertake new efforts that should reduce illegal enrollment by eliminating fraud and abuse (see more below).

- **BENEFITS**
  Governor Bredesen believes TennCare must protect the most vulnerable enrollees — children, pregnant women and those who qualify as disabled under Social Security standards. Those groups will not be asked to accept benefit limits or co-pays. Remaining TennCare enrollees will be asked to accept reasonable benefit limits as well as a greater share of financial responsibility through nominal-to-moderate co-pays. **Projected Timetable: By January 1, 2005**.

- **PHARMACEUTICALS**
  Governor Bredesen believes controlling growth in pharmaceutical costs must be central to any effort to save TennCare. His strategy is to require all enrollees to use the lowest-cost prescription drugs and to eliminate from the program basic antihistamines and gastric-acid reducers (anti-ulcer), which can be purchased over-the-counter. Additionally, enrollees — except for children, pregnant women and the disabled — will be limited to six prescriptions per month and will be required to make nominal-to-moderate co-pays. **Projected Timetable: By January 1, 2005**.

- **MANAGEMENT**
  Governor Bredesen believes TennCare can save money and improve the quality of care by concentrating on disease management and evidence-based medicine. His strategy is to implement an effective disease-management initiative with a focus on chronic conditions such as diabetes and coronary disease. Additionally, his strategy is to encourage and promote the use of best practices based on comprehensive research, or evidence-based medicine, among TennCare providers. **Projected Timetable: Ongoing implementation**.

  The Governor also believes TennCare needs ongoing attention to ensure that reforms are being properly implemented and working as planned. His strategy is to establish an expert commission of providers, advocates and healthcare managers to annually review the benefits, enrollment, costs and performance of TennCare, and to make recommendations for continued improvement. **Projected Timetable: By fall 2005**

- **FRAUD & ABUSE**
  Governor Bredesen believes clamping down on fraud and abuse is critical to re-building public confidence and protecting TennCare's integrity. He's asking the General Assembly to establish a new independent law-enforcement unit to aggressively pursue those who would cheat the system. Among other things, the unit would seek to recover money stolen from the program and refer to district attorneys cases that warrant criminal prosecution. **Projected Timetable: By July 1, 2004**

- **SAFETY NETS**
  Governor Bredesen believes there should be adequate "safety nets" for enrollees who truly cannot afford co-pays. With this in mind, his strategy is to provide limited funding to select nonprofit hospitals across the state to provide care to those unable to pay. Additionally, his strategy is to establish regional committees, including providers, to review requests for special consideration in extraordinary cases. The committees will provide, based on a pre-determined budget, additional funding for services outside the scope of benefits. **Projected Timetable: By January 1, 2005**.

TENNCARE LIMITS & CO-PAYS (BY ENROLLEE CATEGORY)

	All Children, Pregnant women, Disabled[1]	**Remaining mandatory Medicaid**[2]	**Optional Medicaid**[3]	**Remaining adult expansion population**
ENROLLEES	859,000	202,000	60,000	210,000
Current Limits	AMN[4]	AMN	AMN	AMN
New Limits	AMN	See below	See below	See below
Current Co-Pays	None	None	None	$5-20, most services
New Co-Pays	None	Nominal (e.g. $1-5 for most services[5])	Moderate (e.g. $5-10 for most services)	Conceptually in line with SEHP[6] (e.g. $5-40 for most services)

NEW LIMITS

	Limits
Inpatient	45 days/year
Outpatient	8 visits/year
Physician	10 visits/year
Lab & X-Ray	10 occasions/year
Pharmaceuticals	6 scripts/month

[1] Includes all disabled individuals in the core population, including all SSI disabled
[2] Defined as those individuals who are: medically eligible as defined under federal legislation; below 100% federal poverty level; and not pregnant women, children or disabled
[3] Consists of the Medicaid population above 100% federal poverty level
[4] As medically necessary (no limits)
[5] Does not include hospital encounters (e.g. emergency room visits, inpatient admission)
[6] State Employee Health Plan

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FISCAL IMPACT PROJECTED

Governor Bredesen's TennCare strategy will result in an estimated $2.5 billion in cost savings over the next four years. By the time long-range improvements (i.e. disease management, evidence-based medicine) are fully implemented in 2008, TennCare will spend between $865 million and $1.08 billion less than it would have under the program's current structure. Below are breakdowns of projected savings:

STATE SPENDING, FY 2005 - FY 2008 (Billions)

	FY05	FY06	FY07	FY08
TennCare (as is)	$2.6	2.9	3.3	3.8
TennCare (Governor's option)	$2.3	2.4	2.6	2.8
SAVINGS	**$0.3**	**0.5**	**0.7**	**1.0**

POTENTIAL RANGE OF SAVINGS, FY 2008

DESCRIPTION	SAVINGS
Mandate use of lowest cost prescription drugs	$300M-$340M
Adjust benefit limits; establish tiered co-pays; adjust premiums for expansion population	$295-$355M
Establish evidence-based medicine initiative	$110M-$170M
Eliminate coverage of two drug categories with over-the counter alternatives	$100M-$130M
Establish basic case and disease management initiative	$45M-$65M
Establish enhanced case disease management initiative for disabled enrollees and those with multiple conditions	$45M-$65M
Establish panel to review enrollee requests for special consideration; provide some funding to select safety net hospitals	($30M-$50M)
TOTAL	**$865M-$1.08B**

ILLUSTRATIVE FACTS

TennCare is a complex issue; it's easy to get lost in the numbers. To illustrate the need for comprehensive reform, consider these points:

- Left unchecked, TennCare is projected to consume 91% of new dollars in 2008. The Governor's cost-savings strategy will cut that consumption by more than half, leaving more money for education and other priorities.
  Source: McKinsey & Company, Governor's Office

- This year, TennCare pharmacy costs are expected to exceed $2.3 billion. In contrast, the state will spend only $1.9 billion on higher education. The state spends more on two drugs, Zyprexa and Zocor, than it appropriates for the University of Tennessee medical school.
  Source: Bureau of TennCare, State of Tennessee FY05 Budget

- Basic antihistamines and gastric-acid reducers are projected to account for 12% of TennCare's total pharmaceutical costs this year. Requiring enrollees to purchase affordable over-the-counter alternatives will save up to $280 million a year in state and federal funding.
  Source: McKinsey & Company, Bureau of TennCare

- In the United States, the average number of prescriptions for each person each year is 10½. In the South, it is 11½. In TennCare, it is 30.
  Source: Bureau of TennCare

- Just 15% of TennCare enrollees represent 75% of the cost. Better management of chronic conditions — including diabetes and coronary disease — will save between $45 million and $65 million a year by the time initiatives are fully implemented in 2008.
  Source: McKinsey & Company, Bureau of TennCare, Governor's Office

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