

# TENNCARE BRIEFING

*February 17, 2004*



# Background

- ▶ TennCare serves 1.3 million poor, disabled and uninsured Tennesseans
- ▶ Program began in 1994 to expand Medicaid by using managed-care principles to cover a larger number of people for the same amount of money
- ▶ Over time, costs have grown at an unexpected and exponential rate
- ▶ TennCare is broken and needs fundamental reform



# Background

- ▶ Last summer, Governor Bredesen asked stakeholders to hire McKinsey & Company to analyze TennCare
- ▶ Firm identified structural problems (Part I) and outlined strategic options (Part II)
- ▶ Found that TennCare, if left unchecked, will consume 91% of new tax revenues in 2008
- ▶ That would leave virtually no new dollars leftover for education, and other priorities



# Principles

The Governor has outlined four “guiding principles” to serve as the foundation for a long-term TennCare strategy

- ▶ **Fix** the problem, don't pass it off
- ▶ **Protect** children and the disabled
- ▶ **Eliminate** fraud and abuse
- ▶ **Provide** benefits we can afford



# Principles

## Fix the Problem, Don't Pass it Off

- ▶ Washington won't come to the rescue
- ▶ Simply passing a provider tax or another new source of revenue only delays the inevitable
- ▶ TennCare needs fundamental reform, not a quick fix



# Principles

## Protect Children and the Disabled

- ▶ 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
- ▶ Those groups will not be subject to restrictions such as limits on physician visits or co-pays



# Principles

## Eliminate Fraud and Abuse

- ▶ Clamping down on fraud and abuse is critical to re-building public confidence and protecting TennCare's integrity
- ▶ The Governor is asking the General Assembly to establish a new independent law-enforcement unit to **aggressively pursue** those who would cheat the system



# Principles

## Provide Benefits We Can Afford

- ▶ Enrollees who truly need help should continue receiving it
- ▶ At the same time, TennCare needs benefits that Tennessee can afford
- ▶ Rather than strip enrollees of coverage, the Governor's strategy is to implement affordable and reasonable limits



# Strategy

The Governor's strategy focuses on six areas

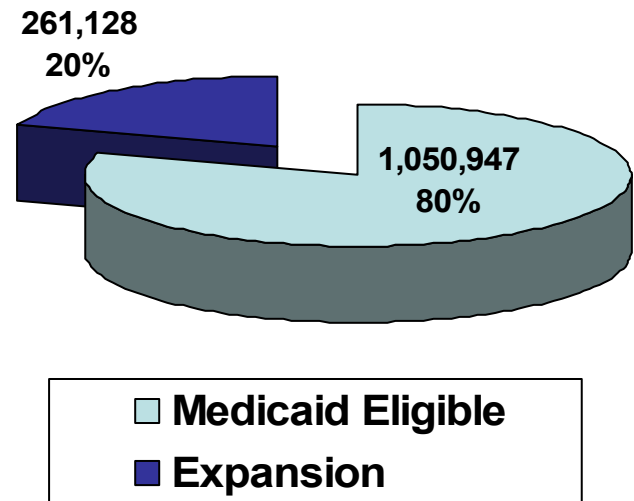
- ▶ **Enrollment**
- ▶ **Benefits**
- ▶ **Pharmaceuticals**
- ▶ **Management**
- ▶ **Fraud and Abuse**
- ▶ **Safety Nets**

# Strategy

## Enrollment

- ▶ No cuts to enrollment (in keeping with Principle #4)
- ▶ Illegal enrollment can be reduced by eliminating fraud and abuse

### TOTAL ENROLLMENT





# Strategy

## Benefits

- ▶ Protect the most vulnerable enrollees but ask the remaining enrollees to accept affordable and reasonable benefit limits

## Pharmaceuticals

- ▶ Controlling growth in pharmaceutical costs must be central to any reform
- ▶ Governor's strategy limits number of prescriptions (except for children, pregnant mothers & disabled)
- ▶ It also requires all enrollees to use the lowest-cost prescription drugs, and to buy basic antihistamines and gastric-acid reducers out-of-pocket and over-the-counter



# Strategy

Currently, benefits are virtually unlimited

	Children, Pregnant women, Disabled	Remaining mandatory Medicaid	Optional Medicaid	Remaining adult expansion population
<b>ENROLLEES</b>	<b>859,000</b>	<b>202,000</b>	<b>60,000</b>	<b>210,000</b>
<b>Current Limits</b>	<b>None</b>	<b>None</b>	<b>None</b>	<b>None</b>
<b>Current Co-Pays</b>	<b>None</b>	<b>None</b>	<b>None</b>	<b>\$5-20, most services</b>



# Strategy

**Moving forward, TennCare will place reasonable limits on services ...**

<b>Inpatient</b>	<b>45 days/year</b>
<b>Outpatient</b>	<b>8 visits/year</b>
<b>Physician</b>	<b>10 visits/year</b>
<b>Lab &amp; X-Ray</b>	<b>10 occasions/year</b>
<b>Pharmaceuticals</b>	<b>6 scripts/month</b>



# Strategy

## And implement affordable co-pays

All Children, Pregnant women, Disabled	Remaining mandatory Medicaid	Optional Medicaid	Remaining adult expansion population
None	Nominal (e.g. \$1-5 for most services)	Moderate (e.g. \$5-10 for most services)	Conceptually in line with State Employee Health Plan (e.g. \$5-40 for most services)*

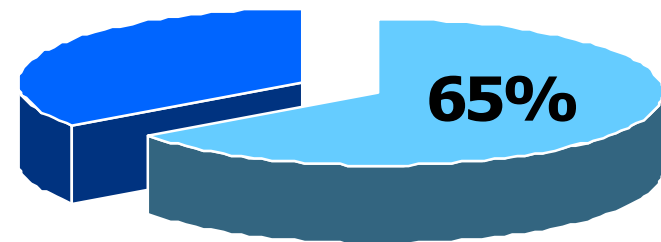
\* Does not include hospital encounters (e.g. emergency room visits, inpatient admission)

# Strategy

## Critical Point

- ▶ Nearly two-thirds of enrollees — children, pregnant women and the disabled — will not be affected by benefit and pharmaceutical limits and co-pays
- ▶ But all enrollees still will be asked to use the lowest-cost prescription drugs and to purchase antihistamines and gastric-acid reducers out-of-pocket

### Protected Class



- Children, Pregnant Mothers, Disabled
- Other



# Strategy

## Management

TennCare can save money and improve quality of care by launching new initiatives

- ▶ **Disease management** with a focus on chronic conditions (i.e. diabetes, coronary disease)
- ▶ **Evidence-based medicine** to encourage and promote use of best practices based on comprehensive research



# Strategy

## Management

- ▶ TennCare needs **ongoing attention** to ensure that reforms are being implemented and are working as planned
- ▶ Governor's strategy is to establish an **expert commission** of providers, advocates and healthcare managers
- ▶ Group will meet annually to review TennCare's benefits, costs and performance, and recommend continued improvement



# Strategy

## Eliminate Fraud and Abuse

- ▶ The Governor is asking the General Assembly to establish a new independent law-enforcement unit to **aggressively pursue** those who would cheat the system
- ▶ Unit would seek to recover funds stolen from the program and refer to District Attorneys cases that warrant criminal prosecution



# Strategy

## Safety Nets

- ▶ Enrollees who truly cannot afford co-pays will have adequate **“safety nets”**
- ▶ Governor’s strategy is to provide funding to select nonprofit hospitals to provide care to those unable to pay
- ▶ It also establishes a regional committee, including providers, to review requests for special consideration in extraordinary cases



# Fiscal Impact

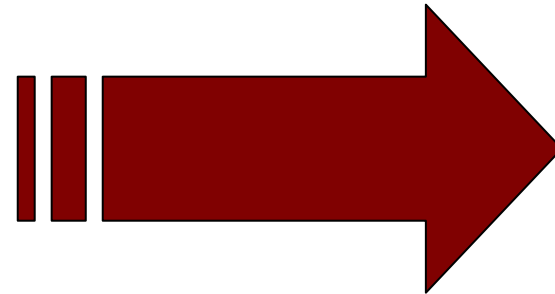
The Governor's TennCare strategy will result in an estimated **\$2.5 billion** in cost savings over the next four years

<b>State Spending (Billions)</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>
TennCare (as is)	\$2.6	\$2.9	3.3	3.8
TennCare (Governor's option)	\$2.3	\$2.4	2.6	2.8
<b>SAVINGS</b>	<b>\$0.3</b>	<b>0.5</b>	<b>0.7</b>	<b>1.0</b>



# Fiscal Impact

By the time long-range improvements 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



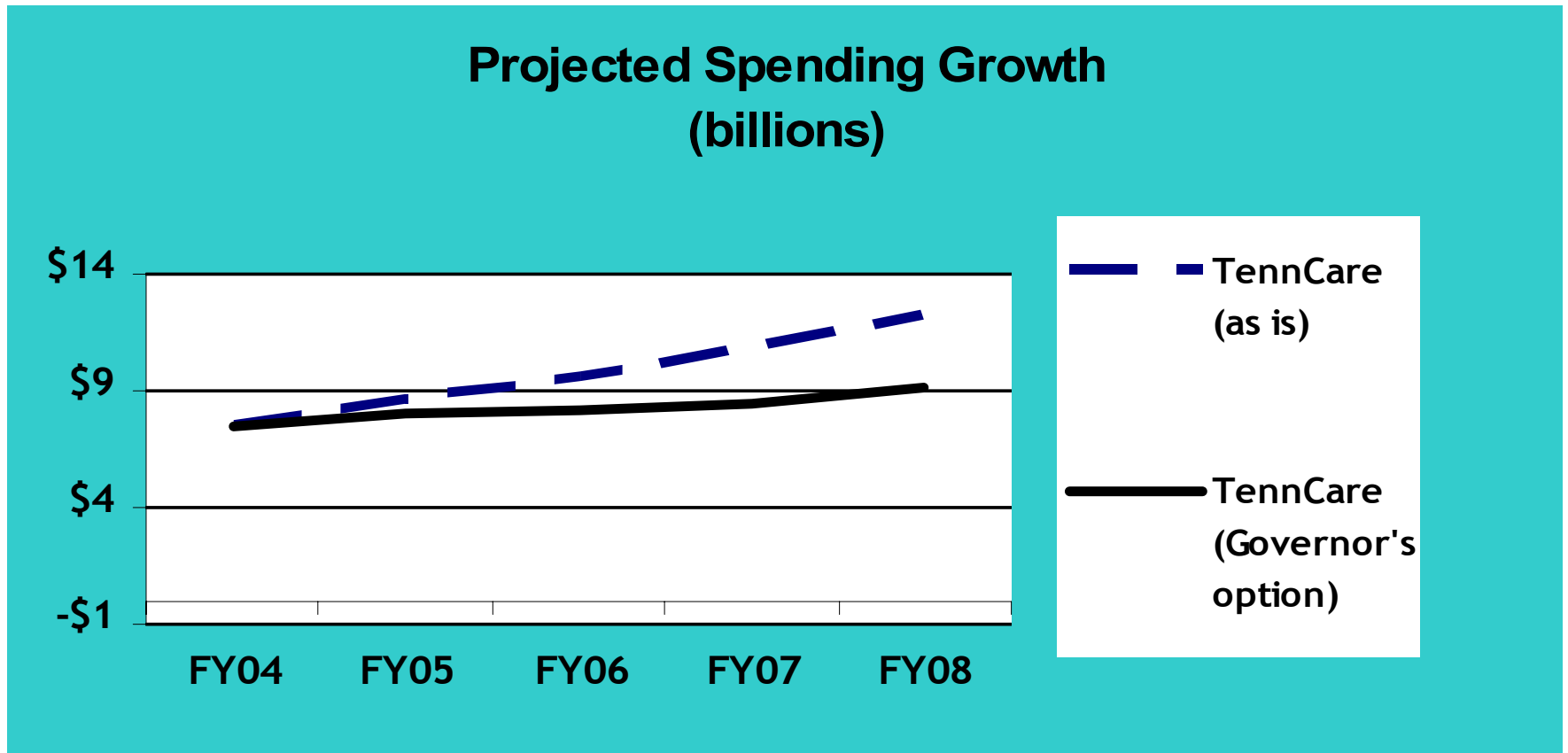


# Fiscal Impact

<b>DESCRIPTION</b>	<b>SAVINGS, FY 2008</b>
Mandate use of lowest cost prescription drugs	<b>\$300M — \$340M</b>
Adjust benefit limits; establish tiered co-pays; adjust premiums for expansion population	<b>\$295 — \$355M</b>
Establish evidence-based medicine initiative	<b>\$110M — \$170M</b>
Eliminate coverage of two drug categories with over-the counter alternatives	<b>\$100M — \$130M</b>
Establish basic case and disease management initiative	<b>\$45M — \$65M</b>
Establish enhanced case disease management initiative for disabled enrollees and those with multiple conditions	<b>\$45M — \$65M</b>
Establish panel to review enrollee requests for special consideration; provide safety net funds	<b>(\$30M — \$50M)</b>
<b>TOTAL</b>	<b>\$865M — \$1.08B</b>

# Fiscal Impact

The Governor's strategy will slow the future growth of TennCare dramatically





# Illustrative Facts

To illustrate the need for comprehensive reform, consider these points

- ▶ This year, TennCare pharmacy costs are expected to exceed **\$2.3 billion**; in contrast, the state will spend **\$1.9 billion** on higher education
- ▶ TennCare spends more on two drugs, Zyprexa and Zocor, than it spends to operate the University of Tennessee medical school

*Source: Bureau of TennCare,  
State of Tennessee FY05 Budget*



# Illustrative Facts

- ▶ 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 U.S., 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*



# Illustrative Facts

- ▶ 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*



# Last Chance

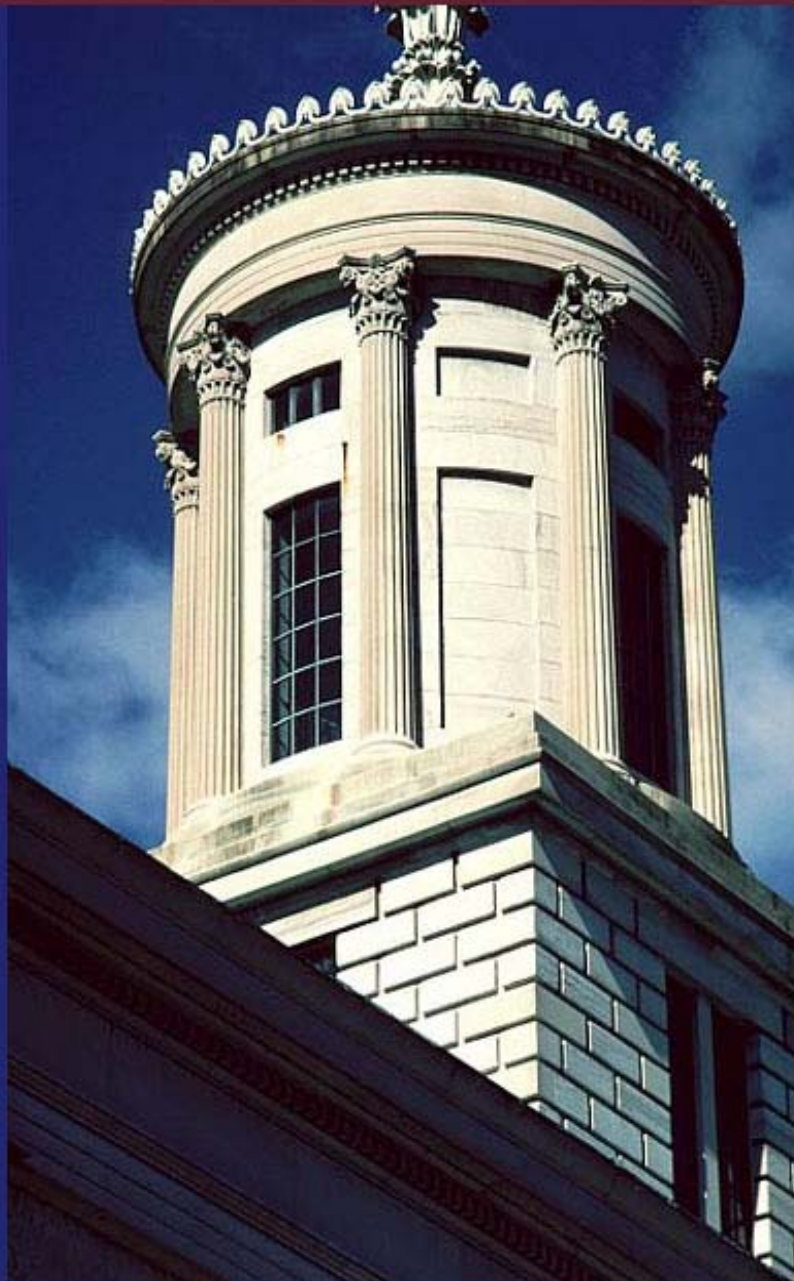
TennCare has had 8 directors in 10 years, and seen multiple adjustments to eligibility and to the federal waiver

- ▶ Realistically speaking, this is TennCare's **last chance**
- ▶ Only remaining option is to go back to a **bare-bones Medicaid** program
- ▶ That would result in loss of coverage for more than **260,000 Tennesseans** — no one wants that



# Bottom Line

- ▶ TennCare needs to be **fixed, not dismantled**
- ▶ There's no quick, easy fix; it's going to take **fundamental reform**
- ▶ TennCare must be addressed **head on**, or the state risks jeopardizing all other priorities



# TENNCARE BRIEFING

*February 17, 2004*