

THE RISE AND FALL OF TENNCARE: A SAGA OF STATE-BASED HEALTH REFORM

TennCare is Tennessee's Medicaid program. TennCare operates under a special "waiver" from the federal Centers for Medicare and Medicaid Services (C.M.S.). The waiver program began in 1994, achieved dramatic success in the expansion of health coverage to the uninsured, saved hundreds of millions of dollars and improved health status ... only to be effectively terminated in 2005.

Some background on Tennessee

Tennessee has a population of 5.9 million people. Median income ranks 42nd among states, and Tennessee has the 12th highest poverty (19%) rate in the nation. The population is 16% African-American, 4% Hispanic and 78% white. Like the rest of the South, the state has become Republican in voting patterns. Tennessee has no state income tax and its tax structure is ranked among the most regressive in the country, with heavy reliance on a high sales tax on food and other necessities. One third of the state's population is classified as rural. In education and most other measures of socio-economic wellbeing, Tennessee ranks at or near the bottom of the states. Health status, as measured by incidence of heart disease, diabetes and other chronic conditions, also ranks near the bottom.

Until 1994, when TennCare began, there was almost no managed care penetration in Tennessee. Nashville is the headquarters of the Hospital Corporation of America and a center of entrepreneurial health care activity. The only public hospitals receiving any appreciable state (other than Medicaid) or local tax support are in the two largest cities, Memphis and Nashville. There is no general funding for indigent care. State law imposes no legal responsibility on any public or private entity to provide indigent care, beyond emergency hospital care requirements that mirror federal law. BlueCross BlueShield of Tennessee remains non-profit and dominates the insurance market. The Medicaid match rate is 65%.

TennCare's success

In the late 1980's and early 1990's, Tennessee expanded its Medicaid program by taking advantage of new federal options for coverage of pregnant women and children. To fund those expansions and keep pace with rapid medical inflation, the state pioneered the use of provider donations and taxes to draw down federal matching funds. In 1993, when the Clinton Administration was promoting health reform, the state sought and obtained a waiver under Section 1115 of the Social Security Act to enable it to:

- Enroll the entire Medicaid population, including medically fragile children and SSI beneficiaries, in capitated managed care; and
- Use savings from managed care (primarily by redirecting Disproportionate Share Hospital payments and medical specialist rates into capitation payments for new enrollees), plus additional federal funds, to expand coverage to the uninsured and those whose medical conditions made them uninsurable. There was no upper income limit, with people over poverty paying premiums on a sliding scale based on ability to pay.

The program began in January 1994, had a rocky start but quickly expanded coverage from 900,000 to 1.4 million. Providers who participated in the state and local employee insurance program were required to accept TennCare enrollees on a non-discriminatory basis. A physician

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boycott quickly collapsed, and the effect of the non-discrimination policy was to dramatically improve access for traditional Medicaid patients, as well as the newly eligible groups.

TennCare achieved the second-lowest per enrollee cost in the nation, exceeding only California.¹ State savings over the first six years were variously estimated at \$245 million to \$2 billion.² As the Tennessee Comptroller of the Treasury has summarized data on TennCare's performance, "TennCare has reduced the number of uninsured persons in Tennessee and improved the quality and type of health care received."³ The Urban Institute found that "TennCare has been particularly successful in improving coverage of the uninsurable or high-risk individuals with very limited access to private coverage...", and "most indicators point in the direction of improved health for low-income people relative to pre-TennCare levels."⁴ A detailed statistical analysis performed by a research center hired by C.M.S. to evaluate TennCare suggests that, "[TennCare] improved access to care, reduced unmet need, and encouraged use of preventive services, particularly for children."⁵

Although TennCare has caused problems for some health care providers, it did not have a significant adverse impact on the health care industry as a whole. Tennessee hospitals' profitability is well ahead of the national industry average, and physician incomes are among the highest in the nation.⁶ BlueCross, the major TennCare managed care contractor, generated profits from its TennCare operations even when it lost money on its commercial HMO product.

TennCare's demise

Although the state still calls its Medicaid program TennCare, the waiver expansion program ceased to exist in 2005. Its troubles began in 1999, with the collapse of a major managed care contractor and the beginning of a protracted political battle in the state over whether to adopt a state income tax. TennCare became a hostage in the tax fight, and opponents of the tax charged that the state needed no new revenues if it simply got rid of TennCare. In a bid to gain health industry support for his tax proposal, then-Governor Don Sundquist began to relax the cost discipline of managed care. The state reassumed financial risk over a three-year process that culminated in 2002. Tennessee has had the highest prescription drug use in the country for decades, and across all insurance groups. The state took over the pharmacy benefit but never implemented drug utilization review, leaving the program especially vulnerable to rising pharmaceutical costs. TennCare costs began to outstrip state revenue growth in 2001.

Governor Phil Bredesen, a former HMO entrepreneur, was elected in 2002 on a promise to reform and save TennCare through better management. In 2003 he renegotiated several consent decrees that addressed several aspects of TennCare's administration. In 2004, he denounced the consent decrees, charging that they tied his hands and prevented the state from reforming the program or getting its budget under control. He announced that he was returning the state to a basic Medicaid program.

In mid-2005, the state terminated coverage for all uninsured and uninsurable adults, with the only vestige of the original expansion being uninsured children who would be covered in other states as an SCHIP group. (TennCare predated enactment of SCHIP, and so Tennessee has never established an SCHIP program.) Over the past six months, Tennessee has established a unique position in state health policy:

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- Elimination of coverage for a quarter million adults, the sickest part of the TennCare population. This is the largest single increase in the number of uninsured Americans in the nation's history. A projection by the University of Tennessee Center for Health Services Research anticipates an increase in preventable deaths by a rate that equals an additional death every 30 hours.⁷
- Imposition on adults of a hard limit of 2 name brand and 3 generic prescription drugs monthly, the lowest in the country. Tennessee is the only state not covering barbiturates and benzodiazepines for Medicare duals.
- The cumulative elimination, from reductions in enrollment and benefits, of \$1.7 billion in medical services annually from the sickest subgroup of the TennCare population. Of that total, \$1.1 billion is lost federal funding. The hospital association anticipates that 20 hospitals, mostly in poor, rural counties, will close. Total job loss from the loss of federal funds is projected at 16,000 statewide.⁸
- Tennessee now is the only state that does not enroll school age children with incomes above poverty, and TennCare eligibility for elderly and disabled adults is among the most restrictive in the country.

¹ Kaiser StateHealthFacts, Medicaid Spending per Enrollee, 2002, available at www.statehealthfacts.org.

² "An analysis by the [Tennessee] Comptroller of the Treasury found that the TennCare program cumulatively saved the state over \$2 billion in state tax dollars [from 1993 through 2001]". Tennessee Comptroller of the Treasury, *TennCare: A Closer Look*, p. 1 (October 2001), <http://www.comptroller.state.tn.us/orea/reports/tenncarebrief.pdf>. C. Conover & H. Davies, *The Role of TennCare in Health Policy for Low-Income People in Tennessee*, p. 9 (Urban Institute, 2000), <http://www.urban.org/uploadedPDF/occa33.pdf>, estimated state government savings at \$245 million during the first five years.

³ Comptroller of the Treasury, *Seeking a Way Out: Services and Challenges Affecting Tennessee's Poor*, p.56 (April 2004), <http://www.comptroller.state.tn.us/orea/reports/safetynet.pdf>.

⁴ C. Conover and H. Davies, *The Role of TennCare and Health Policy for Low-Income People in Tennessee*, pp. 7-8 (Urban Institute, 2000).

⁵ L. Moreno and S. Hoag, "Covering the Uninsured through TennCare: Does it make a difference?" 20 *Health Affairs* 231 (February 2001).

⁶ American Medical Association, *Physician Socioeconomic Statistics*.

⁷ UTCHSR, *Special Bulletin: The impact of reducing TennCare enrollment on mortality rates* (March 2002), <http://www.utmem.edu/cgi-bin/center/start.cgi/index1.html>

⁸ UTCHSR, *Special Bulletin: Economic Impacts of A Cut in State Expenditures on TennCare: The Role of Federal Match* (Sept. 2005), <http://www.utmem.edu/cgi-bin/center/start.cgi/index1.html>