Fiscal Year 2007 Budget Presentation

November 17, 2005

TENNCARE

Budget Back on Solid Footing

One year ago TennCare faced an unprecedented fiscal challenge due to runaway medical and pharmacy utilization and substantial declines in federal support

As a result of very difficult choices and aggressive reform over the last year, however TennCare is

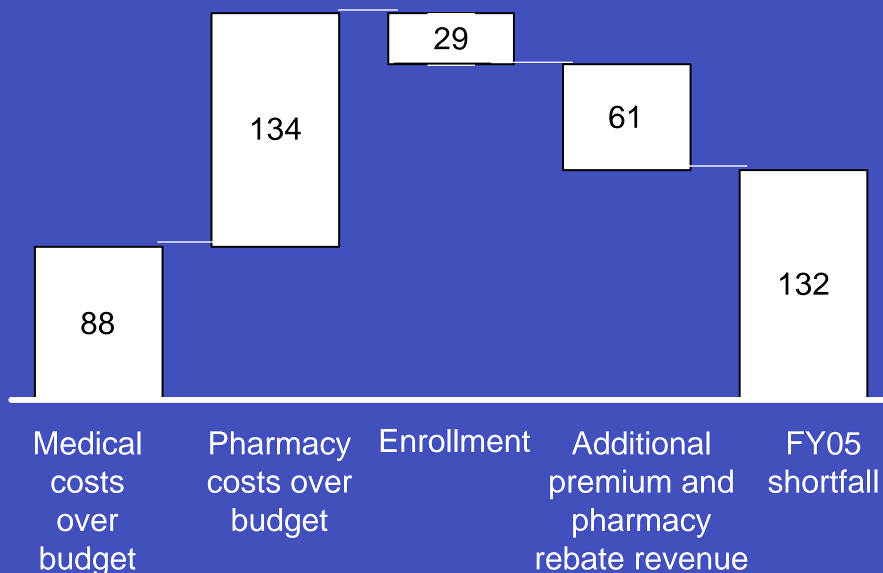
- Expected to close FY05 with substantially reduced reliance on reserves than originally expected
- Currently on track to live within its FY06 budget without a supplemental appropriation or the use of reserves
- Prepared for sustainable growth and will require only 26 percent of new state revenues in FY07

TennCare

FY05 Projections Predicted a $132 Million Shortfall

As validated by AON Consulting

November 2004 Projections ($, M)



Description

- Medical expenditures projected to increase 10% ($88M) over budget
- Pharmacy costs projected to increase by 26%, exceeding the original FY05 budget by $134M
- Enrollment trends expected to moderate compared to previous years
- Enhanced pharmacy rebate revenue needed to offset trend increases

$132M FY05 shortfall was to be covered by the TennCare reserves

TENNCARE

FY05 Shortfall Mitigated by Early Reform Efforts

Measures taken to minimize shortfall included

Eligibility

- Closing the majority of new optional (i.e., non-Medicaid) enrollment

Pharmacy

- Dozens of pharmacy point-of-sale edits (e.g., therapeutic duplication)
- Enhanced drug utilization review (prospective and retrospective)
- Increased pharmacy lock-ins (>3,200 enrollees currently)

Revenue Generation

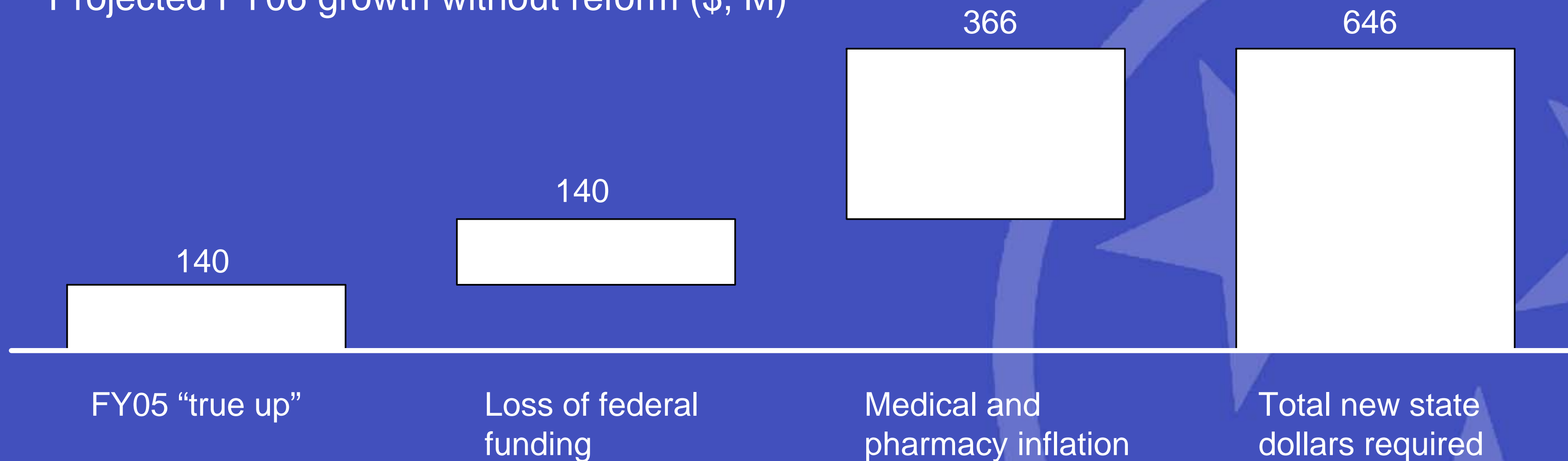
- More aggressive pursuit and collection of drug manufacturer rebate revenue

TennCare on track to close FY05 with a $60 million shortfall – $72 million better than originally projected

TENNCARE

Unprecedented FY06 Budget Challenges

As validated by Aon Consulting



- **Left unchanged, TennCare would have required an additional $646 million state dollars in FY06**
- **The Governor recommended and the General Assembly appropriated $75 million in new funding for FY06**

Governor’s Reform Plan Balanced FY06 Budget

- TennCare is still waiting for first quarter medical claims; however, we are increasingly optimistic of closing FY06 without the need for supplemental appropriation or the use of reserve funds

- Additional savings resulting from legal relief and returning to a risk-based MCO relationship have allowed the state to make up those funds lost to court delay

- TennCare is still on track to meet budget goals despite having
  - Offset the loss of IGT funds to nursing home providers ($33M)
  - Implemented the first provider rate increase in years ($11M)
  - Expanded short list pharmacy options for chronic diseases ($10M)
  - Increased funding to FQHCs and Critical Access hospitals ($2M)

Additional Recommendations Within FY06 Budget Target

Suggested approach:
Conservative mitigation

We are only in the 2nd fiscal quarter

- Still awaiting the bulk of medical claims before savings can be fully verified

Increased risk of further legal delay

- Still working to offset the cost of spring injunction (estimated at ~$45M)
- Regular TJC letters threatening to "reverse the ongoing disenrollment"* escalated yesterday to federal court action

Multiple non-budget improvements already underway

- Nursing home funding
- Pharmacy short-list
- Provider rate increase

Corresponding recommendations	Early cost Estimate (FY06 budget)
• Preservation of critical private duty nursing services	$3M
• Expansion of the proposed Medically Needy program – Broader eligibility criteria (12 months) – More aggressive start date (April) – New enrollees in FY06 (15,000)	$10-20M (non-recurring)
• Moderately delayed implementation of additional benefit limits (July) – Allow time for federal approval and proper network testing – Increase likelihood to implement "soft" limits if feasible under the final Grier court order (released yesterday)	FY07 budget impact only
• Elimination of the planned annual cap on behavioral health hospital utilization	FY07 budget impact only

* See TJC letter dated October 11, 2005

Reinvesting for Future Savings and Improved Patient Care

Examples

Network

- Complete network financial restructuring starting with shared and transitioning to majority risk relationship
- Mandated network NCQA certification and HEDIS reporting (first round available on our website)

Disease management

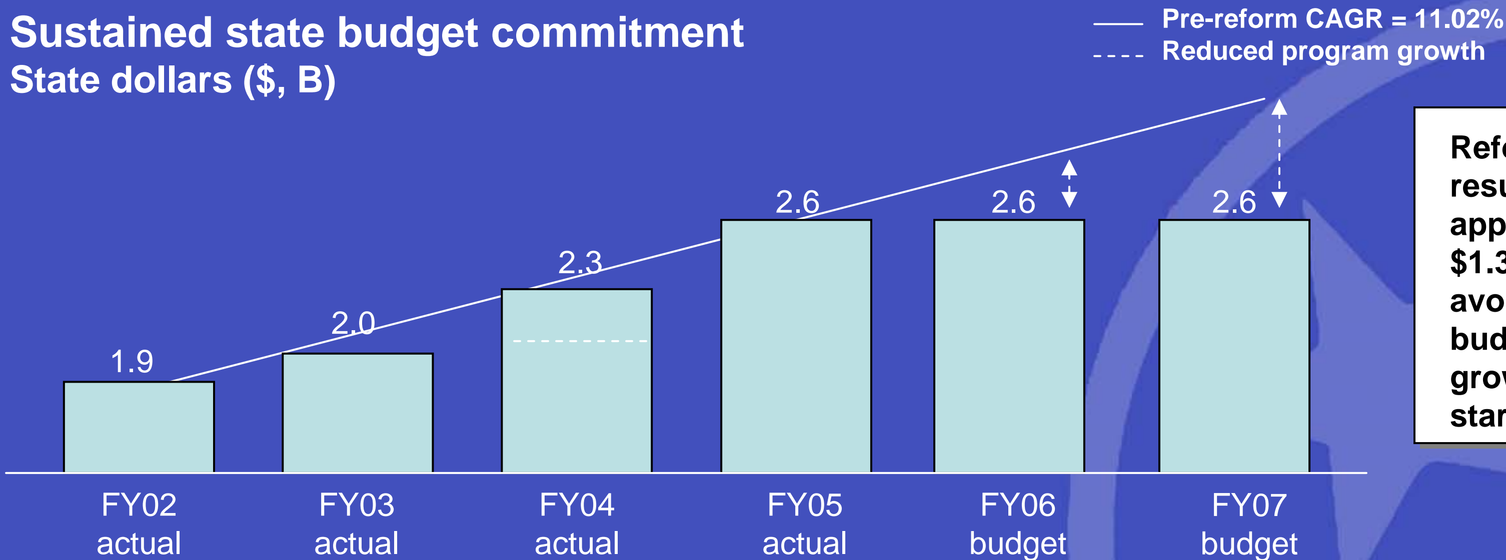
- Focus of planned Middle Region RFP and January MCO amendment (4 plus programs mandated statewide)
- TennCare / Weight Watchers obesity pilot
- Pediatric behavioral health polypharmacy project
- P4P program with Vanderbilt Children's and LeBonheur

Information technology

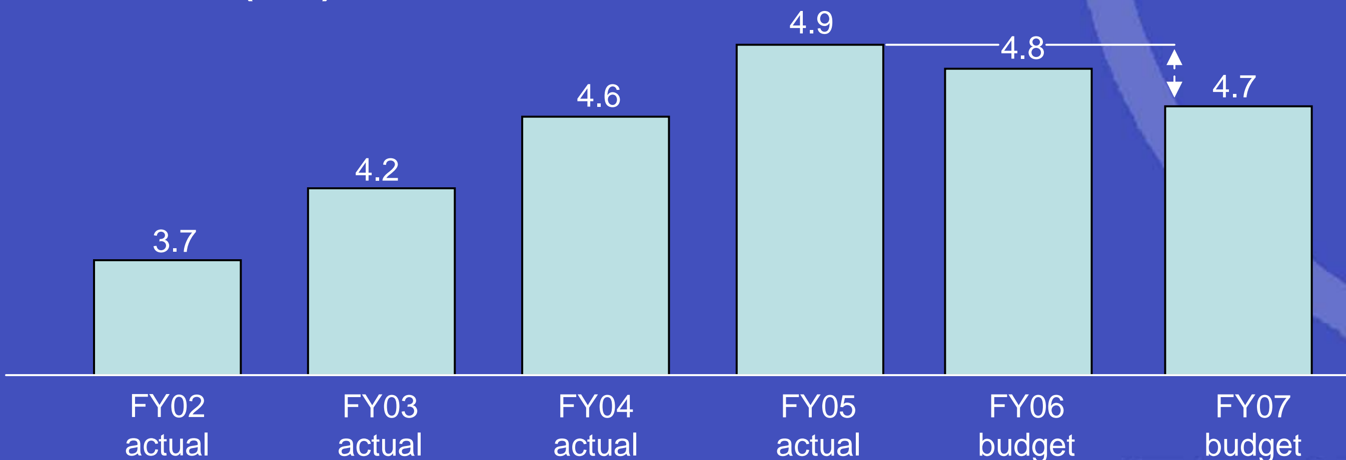
- Shared Health electronic medical record initiative with BCBS and Cerner available statewide starting Q3 FY06
- MedStat internal TennCare decision support system

TENNCARE

TennCare Continues to Lose Federal Financial Support



Reform has resulted in approximately $1.3 billion in avoided state budget growth since start of FY06

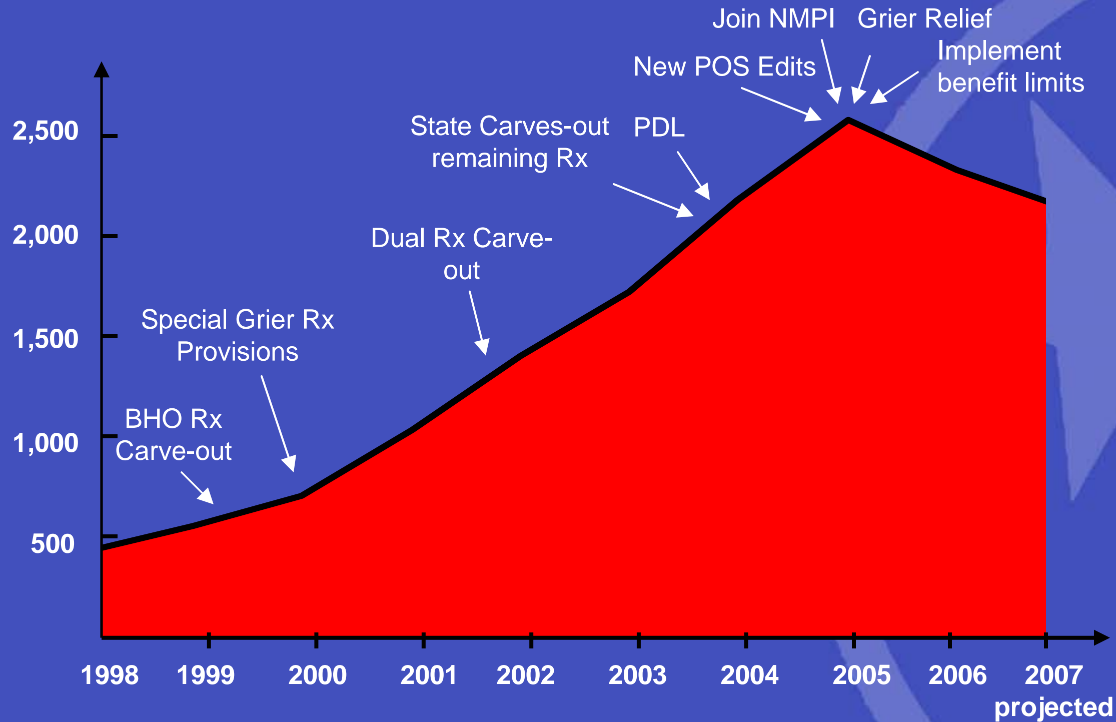


During this same 2 year time period, CMS has withdrawn over $360 million in federal funding

TENNCARE

Aggressive Management of Pharmacy Expenditures

Total Rx dollars ($, M)



TennCare has launched a full frontal attack on pharmacy over-utilization

- Under the previous decree*, “the enrollee need do nothing more than return to the pharmacy later to receive the balance of the prescription as originally written”
- According to Judge Nixon’s order released Tuesday, “the Court finds that the [Grier] Consent Decree prevents an effective prior authorization system”

* C.14.a.4 of the Grier consent decree

TENNCARE

Additional Recommendations Within FY07 Budget Target

Suggested approach:
Moderate reinvestment

Focus limited new resources on priority Medicaid populations
- Children
- Pregnant women
- Elderly
- Mental health populations

Maintain provider network stability

Offset the continued loss of federal financial support
- Annual adjustment to federal match rate ($28M)
- Recently announced Medicare premium increase ($27M)
- Elimination of IMD matching funding availability ($27M)
- Dual eligible Part D “clawback”

Corresponding recommendations	Early cost Estimate (FY07 budget)
• Maximize enrollment in new Medically Needy program sooner with broader eligibility criteria	$20M
• Raise income threshold for pregnant women and newborns from 185% to 200% of FPL	$4M
• Dedicated funding for new HCBS service expansion possibilities	$3M
• Increased appropriations for new HCBS enrollment	$2M
• Modest (2.5%) rate increase for all MCO, BHO and HCBS providers	$27M
• Targeted pharmacist dispensing fee increase to promote generic drug utilization	Minimal net budget impact

TENNCARE

FY07 Budget Request – State Dollars

Savings

Item	Amount
Returning MCOs to risk	($23,908,500)
Non-Rx benefit limits	(55,000,000)
ME annualized savings	(46,696,800)
Other savings	(2,819,300)

Base Adjustments

Item	Amount
Critical Access Hospitals	$1,894,700
Meharry Medical College	1,805,100
Contractual obligations	6,166,100
Declining premium revenue	5,000,000
Rx & Medical cost trends	20,100,500
FFP match change	27,586,600
IMD exclusion	27,181,600
Medicare Prem. & X-over	27,380,800
Shared Health Initiative	3,312,000
Other State Depts.	1,005,000
Subtotal Svgs/Base Adj.	**($6,992,200)**

Improvements

Item	Amount
Provider rate increase	$16,659,500
New MN program	20,000,000
Broaden children's elig.	4,000,000
HCBS	5,000,000
Enrollment growth	31,883,600
Long Term Care	11,845,500
Other State agencies	13,758,600
Private ICF-MR	7,250,600
Grier Court Order Improv.	811,900
Subtotal Improvements	**$111,209,700**

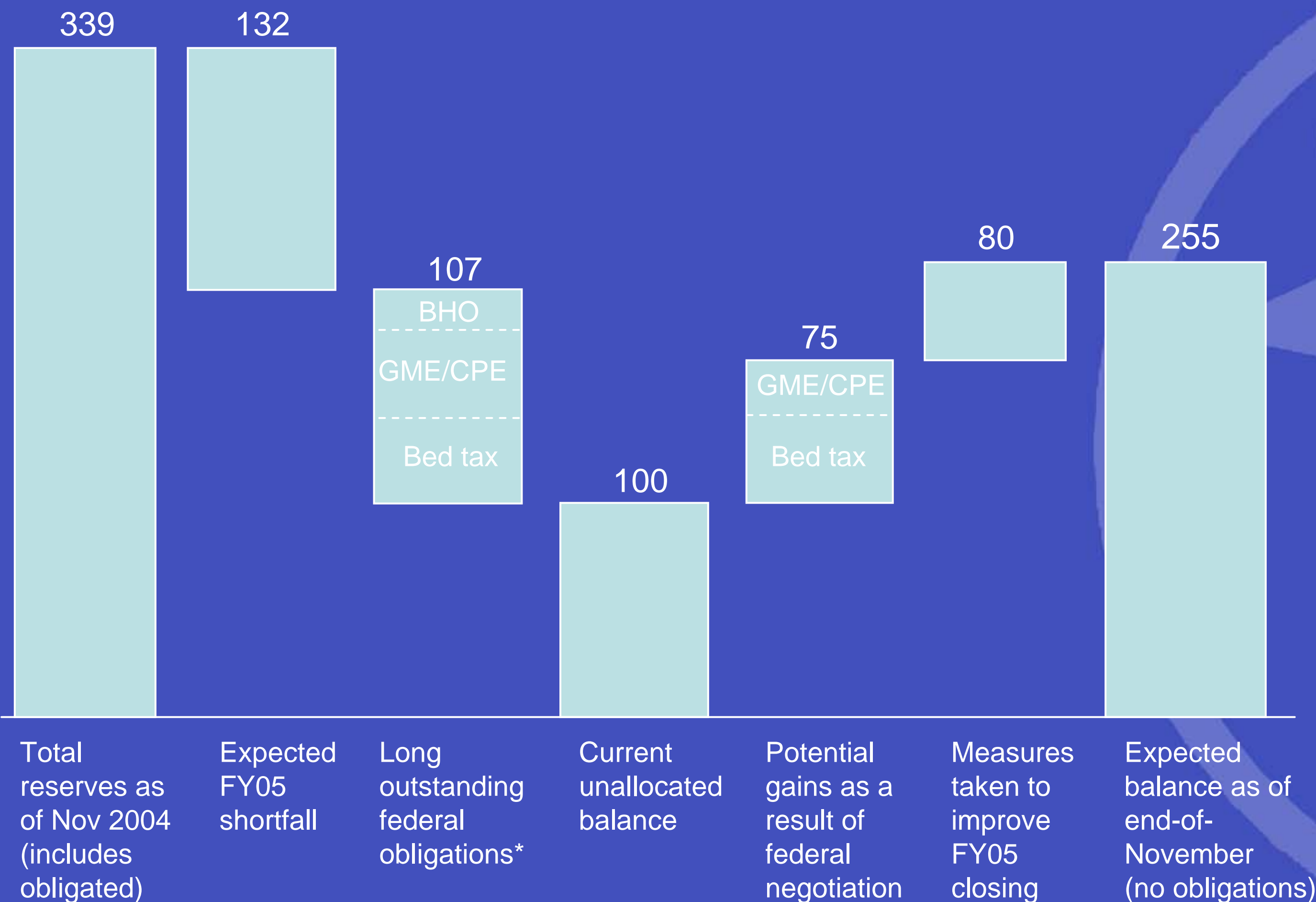
New funding request: $104,217,500*

* 26% of estimated new state revenue

TENNCARE

Shoring Up Unallocated TennCare Reserves

FY06 state dollars ($, M)



Substantial improvements in reserves likely

- **Ongoing negotiation at the federal level related to the nursing home bed tax** and historical GME disputes**
- **Early reform actions significantly lessened the severity of the pending FY05 closing deficit**

* TennCare has been holding reserve balances related to these obligations, in some cases, for nearly four years

** Nursing home bed tax back in settlement discussions after the federal government filed for reconsideration of the state's recent legal victory

Stabilizing TennCare…

- Reformed Medicaid program now consistent with traditional federal design; serves
  - Children
  - Pregnant women
  - Disabled
  - Elderly
  - Medically needy
- Ongoing program modifications still needed
  - Core eligibility expansions (medically needy, children)
  - Availability of critical services (e.g., PDN, HCBS)
  - Continued network evolution (e.g., risk, rates)

…creates opportunities to serve the state's broader uninsured population

- Substantial one-time program savings sufficient to launch more sustainable non-Medicaid insurance options for the
  - Previously covered uninsured
  - Previously covered uninsurable
  - 600,000 people who were never enrolled or eligible for TennCare
- As proven in other states, forgoing the federal match can result in *lower* costs
- Leaving behind federal regulation and entitlement litigation allows a program more in line with the Governor's principles
  - "Everybody pays for something"
  - "Pay for what works"
  - "Pay for the important things first"

High-level Summary of Potential Reserve Funding Options

Potential constraints

TennCare reserves represent a one-time funding source inappropriate for large recurring costs

Any new Medicaid options even those achieved through Title 21 or federal waiver requests would be subject to existing consent decrees

- For example, meaningful cost-sharing allowed under the S-CHIP regulations and pending national Medicaid legislation would still be prohibited under Grier

Current federal-level administration not supportive of non-Medicaid coverage expansions (see recent TennCare budget history documented on previous pages)

Examples of available options	Pros	Cons
• Additional safety net activity – Pharmacy assistance, additional disease-specific programs	-Quick -Can represent a total solution for targeted groups	-Not a sustainable approach for large populations
• New optional Medicaid populations – S-CHIP, disease-specific waivers (e.g., HIV), mental health expansions, additional medically needy allocations, other	-Provides rich benefits for those included -Potential for matching funds -Smaller-scale models proven in other states	-Neglects needs of broader uninsured -Questionable long term fed support -Consent decrees -Federal design restrictions -Budget will require more than 26%
• Broader non-Medicaid health insurance alternatives – E.g., individual mandates, high-risk pools, subsidized catastrophic coverage	-Broad-based -Permits rational benefit design -Has proven to be sustainable in other states	-Fundamental policy shift for TN -Requires ongoing state investment -Near-term federal support unlikely

Regaining Control of TennCare Returns Balance to the State's Broader Priorities

- More reasonable levels of TennCare budget growth provides funding for other critical state budget programs (e.g., pre-K, public safety, job training)
- Cost savings from aggressive management and court relief allows new program reinvestment for the first time in years (e.g., broader core eligibility, increased provider reimbursement)
- Significant one-time savings creates opportunities to launch new, more sustainable – and non-entitlement – health coverage options for the broader uninsured and working poor populations