

Tennessee Medicaid Block Grant Waiver Agreement

Frequently Asked Questions

1. Why did Tennessee pursue a block grant?

Ultimately, Tennessee sought a block grant for one basic reason – to improve the TennCare program by enhancing the benefits and services provided to TennCare members and improving the health of Tennesseans.

Building on Tennessee’s record of prudent financial stewardship and innovation in delivering high quality, cost-effective services in its Medicaid program, and following the directive of Public Chapter 481, which was adopted through legislation by the General Assembly and signed by Governor Lee in 2019, Tennessee submitted a “block grant” proposal to the federal Centers for Medicare & Medicaid Services (CMS) in November 2019.

This modified block grant agreement operates under a simple concept: Tennessee administers its Medicaid program (TennCare) under a specified spending cap (referred to as a budget neutrality cap), which considers historical state spending, inflation and future enrollment changes. If the state can operate successfully at a lower cost than the budget neutrality cap and maintain or improve quality, the state then shares in the savings that traditionally have gone to the federal government to enhance the TennCare program and improve the health of TennCare members and Tennessee communities.

2. Does the block grant agreement make any cuts to existing TennCare eligibility groups or benefits?

No. To the contrary, the agreement is built upon the concept of TennCare continuing to operate efficiently and spending below federal projections for Medicaid program expenditure growth; being rewarded for that efficiency through shared savings/additional federal dollars; and then reinvesting those savings in a manner that improves the TennCare program and enhances benefits and services to TennCare members.

3. How will TennCare services be funded under the block grant agreement?

TennCare services will continue to be funded as they are today, with state dollars that are then matched by the federal government. However, unlike traditional Medicaid, in any year TennCare can manage the cost of health care expenditures to be less than its spending cap, it will be able to access a portion of the resulting savings to make enhancements to the TennCare program or benefits/services to TennCare members.



4. What services/costs are included in the block grant agreement?

The negotiated agreement includes the same member categories, services and costs that are part of the current TennCare waiver agreement.

5. What services/costs are excluded from the agreement?

The agreement excludes costs that have historically been excluded from the TennCare waiver, such as general administrative costs (including IT-related development costs). Other services that have historically been excluded and are not included in the initial agreement include certain home and community-based services (HCBS) for persons with intellectual disabilities; intermediate care facility services for individuals with intellectual disabilities (ICF/IID services); services provided to TennCare members by the Department of Children's Services; and Medicare services.

6. Is there any impact on a TennCare member's services if the services/costs are included or excluded from the block grant?

No. From a member perspective, it makes no difference if his or her eligibility group and associated services/costs are included or not included in the block grant. The member will still receive the same services, benefits, etc. There is no separate "block grant" funding pot or "non block grant" funding. Inclusion or exclusion only impacts the budget neutrality calculation and any corresponding shared savings opportunity.

7. What is the length of the negotiated block grant agreement?

Tennessee has successfully negotiated a 10-year waiver agreement – "TennCare III," which incorporates the block grant structure. Historically, the federal government has approved the TennCare waiver for periods of 3 to 5 years. The 10-year approval will provide the state with more certainty, security and less administrative burden.

8. How will Tennessee be able to receive additional federal funding or "shared savings" through the block grant agreement?

Each year, Tennessee's budget neutrality cap will be set starting with the state's base year historical spending on its Medicaid program – in this case, state Fiscal Year 2019 - which is then trended forward each year using the trends identified in the President's Budget. If Tennessee's actual expenditures are below the budget neutrality cap in a given year, the state will be able to access a portion of the resulting savings, dependent upon meeting certain quality metrics.



9. How much additional federal revenue will the state receive?

The actual amount of savings and available additional federal funds will depend upon the amount of state spending below the budget neutrality cap in a given year and the state's performance on selected quality metrics.

10. What is the base block grant amount?

The base block grant amount is approximately \$8.6 billion. This base block grant amount is established by taking the state's expenditures for state Fiscal Year 2019 and trending them forward. As noted previously, the base block grant amount will be trended forward each year using trends from the President's Budget.

11. Will Tennessee be required to spend more state dollars to receive the additional federal dollars through shared savings?

No. This is a major piece of the agreement and one of the primary benefits of the block grant. Tennessee will be able to access approximately 50% (depending on performance on certain quality metrics) of the savings it achieves if it can manage the cost of health care expenditures to be less than its budget neutrality cap without having to spend any additional Tennessee taxpayer dollars. In this manner, the state shares in the savings with the federal government.

To access shared savings without having to spend additional state funds, Tennessee will receive credit for current state expenditures for programs/services that benefit the health of Medicaid and other low-income populations in the state. These programs include current expenditures in the areas of health, mental health, intellectual and developmental disabilities, and education.

12. What will the state do with shared savings?

The state is committed to using shared savings to improve the TennCare program by enhancing benefits/services to TennCare members and improving the health of Tennesseans. Consistent with Tennessee's original block grant proposal, shared savings target priorities include implementing programs to address maternal health; serve additional needy populations; serve individuals with intellectual and developmental disabilities currently on a waiting list to receive services; and address other state-specific public health crises.



13. What annual inflationary adjustment will Tennessee receive per the block grant waiver agreement?

The projected trend rates for growth in Medicaid spending reflected in the President's Budget will be used to increase the budget neutrality cap each year. Historically, TennCare's comparable annual rate of growth has been below this rate. In fact, Tennessee's Medicaid trend has consistently outperformed the average Medicaid program trend, which makes Tennessee uniquely suited to enter into this type of arrangement with the federal government. For Tennessee, it creates an opportunity to be rewarded for continued strong fiscal management and for the federal government it serves as a model and as an incentive for other states to replicate Tennessee's efforts.

14. Will the state's block grant amount be adjusted for enrollment changes?

Yes. If the state's Medicaid population increases by more than one percent from the base enrollment during the course of the waiver period, the state's block grant amount will be increased accordingly. This will protect the state against any unexpected or atypical enrollment changes and is one of the primary reasons Tennessee's agreement is described as a "modified" (as opposed to traditional) block grant approach. Likewise, enrollment must decrease by more than one percent before the block grant amount is adjusted downward.

15. Will the success of Tennessee's block grant be dependent upon reductions in current spending or enrollment or serve as a disincentive to serve more people or make further investments in the TennCare program?

No. While the ability to achieve shared savings is dependent upon spending below the budget neutrality cap, TennCare has a history of managing the cost of health care expenditures below this type of cap, even accounting for program enhancements and additional members. This past performance indicates a strong opportunity for the state to benefit from shared savings in the future without program reductions. If Tennessee continues to administer and manage its Medicaid program responsibly and efficiently, prior performance should serve as a solid predictor for future success. In addition, the state will receive an adjustment in its budget neutrality cap if enrollment growth exceeds one percent, maintaining the state's ability to achieve shared savings in the future.

It should be noted, however, no Medicaid program in the country, regardless of its financing structure, can guarantee reductions will never occur. This is the case today with TennCare's current financing model and it's the case in the future, with or without a block grant arrangement. State budget and taxpayer dollars are not infinite or constant and state governments must always make decisions based on any number of economic factors.



16. Will the block grant create an incentive for Tennessee to reduce costs by reducing quality or access to care?

No. In fact, access to shared savings will be dependent upon Tennessee demonstrating the quality of care it provides TennCare members is improved or maintained. If the state is unsuccessful in maintaining performance on key quality metrics, its ability to access shared savings will be reduced or eliminated; if the state is successful in improving quality, shared savings opportunities are increased.

Tennessee is committed to providing access and high-quality care to TennCare members and the shared savings opportunity created through the block grant agreement offers further alignment to that commitment.

17. Without a block grant arrangement, doesn't the state have unlimited access to federal dollars with no spending cap and no associated risk?

No. All 1115 Medicaid waivers (like TennCare) are subject to a budget neutrality cap. However, current CMS policy will greatly impact the state's budget neutrality cap in Tennessee's next waiver - as well as the accumulated savings that states like Tennessee have accumulated over the course of a waiver demonstration.

Unlike the block grant agreement Tennessee has successfully negotiated, merely extending the existing TennCare II waiver would remove the reward of accessing shared savings and bringing more federal dollars to Tennessee. In addition, any accumulated savings would not extend a full 10 years, but rather only 5 years, to account for any spending over the budget neutrality cap. Without the block grant, then, the state would be in an environment with similar or greater risk but no opportunity for reward.

18. What happens if Tennessee exceeds its block grant amount in a given year? Will the block grant force the state to remove people from the program or reduce current benefits for current TennCare members during the waiver period?

No. In the event the state's Medicaid expenditures exceed the budget neutrality spending cap in a given year, substantial savings earned during prior years of the TennCare waiver will be available. This means that the state will continue to receive the federal Medicaid matching funds for any expenditures that exceed the cap.

If future reductions in the Medicaid program are necessary, it won't be due to the block grant.



19. What additional Medicaid flexibilities will the state receive with this agreement?

One of the key principles of the block grant agreement is built around the idea that states are best equipped to manage their own Medicaid programs, and unnecessary federal administrative burdens and regulations should be eliminated. Tennessee's negotiated agreement succeeds in this endeavor by providing additional flexibility in five main areas – 1) the ability to more appropriately address Medicaid fraud; 2) the ability to add new populations or new benefits without prior federal approval; 3) the ability to deliver the right care to the right members by structuring different and appropriate additional benefit packages for new population groups; 4) the ability to adopt commercial insurance pharmacy management tools to lower prescription drug costs; and 5) the ability to invest in health rather than simply health care.

20. With the additional pharmacy flexibilities, will TennCare members be able to acquire the prescription drugs they need?

Yes. TennCare members will continue to receive the medically necessary drugs they need to treat their medical conditions. The prescription drug flexibility granted through the negotiated waiver agreement is not a coverage issue - it is an opportunity to help control pharmaceutical costs. This flexibility is a way for Tennessee to help level the playing field against the sometimes extremely and unsustainable high cost of drugs.

For those medical conditions that are addressed by multiple drugs, for adults only, TennCare would have the option not to offer every single drug that treats the same condition. In the event adult TennCare members have a medical need for a specific drug or formulation, TennCare would continue to ensure access to those medically necessary drugs through an exceptions process. For children, no coverage changes would be made.

These tools are currently used by both Medicare and commercial insurance companies and should also be available to state Medicaid programs as a program sustainability and improvement measure.

In addition, the state will have the opportunity to explore different value-based payment structures for newly approved drugs that focus on paying for demonstrated effectiveness of new drugs and maximizing access for TennCare members rather than simply bearing the high upfront costs that can often be associated with new pharmaceuticals.



21. Does the block grant agreement allow the state to forego existing federal laws and regulations around required Medicaid population groups and service categories?

No. All populations and services currently federally required within TennCare will continue and nothing in this new waiver agreement impacts these requirements. The negotiated agreement does not implement or contemplate any eligibility reductions or cuts to benefits.

22. When will the waiver agreement go into effect?

Per Public Chapter 481, the agreement must be approved by the General Assembly prior to implementation. Governor Lee will present a joint resolution authorizing implementation for the legislature's immediate consideration. The agreement will be implemented by TennCare upon approval. If not approved, the state must negotiate a new waiver renewal with the federal government, as the existing TennCare waiver expires on June 30, 2021.

ⁱ TennCare and DIDD are currently working on a plan to integrate these services for members with intellectual disabilities into the TennCare waiver. Integrating these services into TennCare's managed care program will provide greater opportunities to coordinate and align care for these members.