



Fiscal Year 2008 Budget Presentation

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Fiscal Stewardship

TennCare's budget remains within sustainable levels of growth

New Day in TennCare

TennCare's fiscal control and manageable trends result in the lowest growth rate in its history

Tomorrow's Vigilance

Awareness of outside influences that affect the TennCare program and its financial health



Fiscal Stewardship

CONTINUED PROGRESS

Operational Momentum

- Middle TN MCOs Bear Full Risk / Behavioral & Physical Health Integration
- Reduced Audit Findings from 38 in FY 03 to 4 in FY 06
- CMS Certification of Medicaid Management Information Systems

Initiatives to Improve Care

- Grier Relief Helps Restore Managed Care
- Emergency Department Voluntary Pilot
- Successful Implementation of Shared Health Electronic Medical Records
- HEDIS Performance Quality Measures

Empowering Enrollees

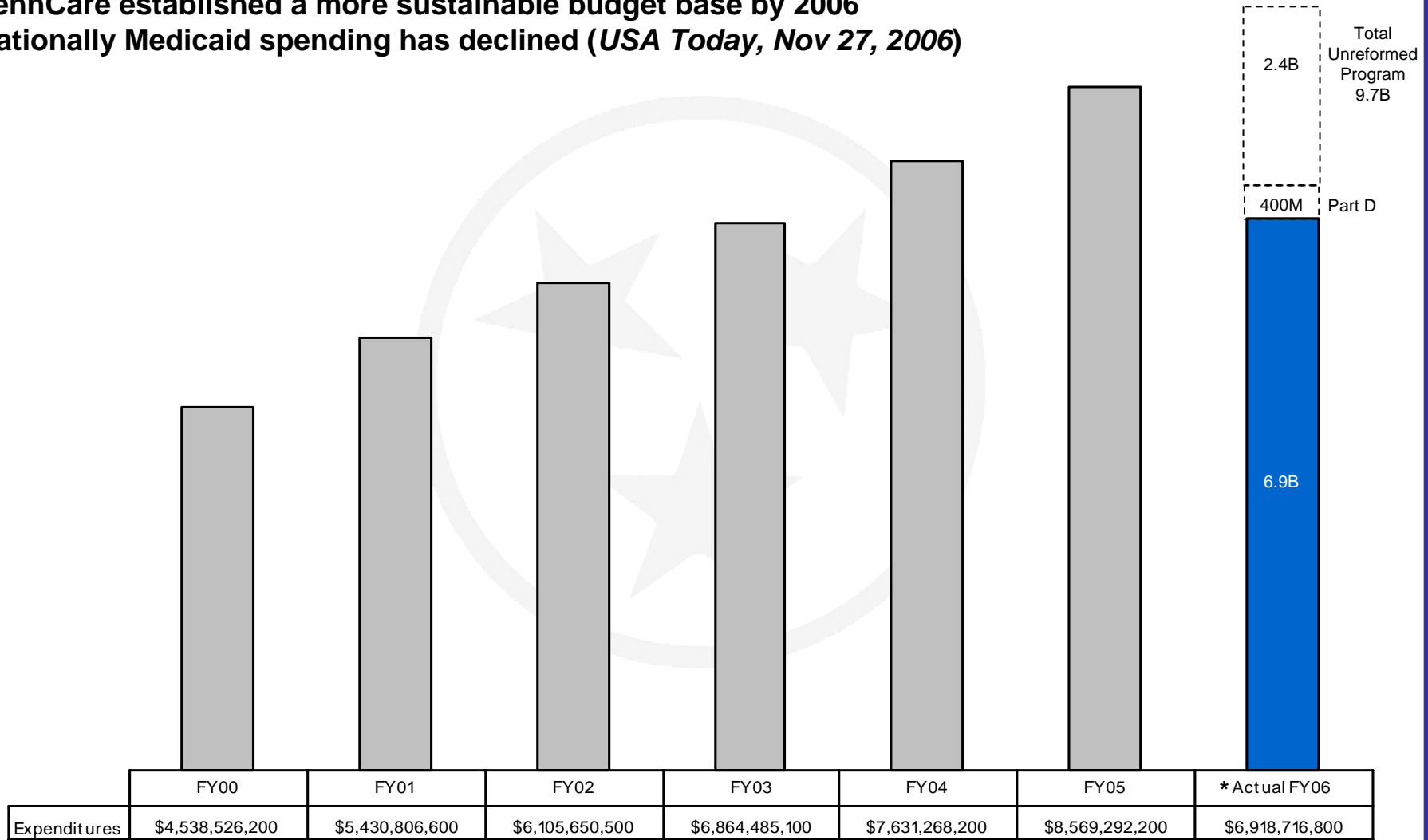
- HCBS Expansion Doubles Number of Offered Services
- Weight Watchers™ Pilot



Fiscal Stewardship

TOTAL EXPENDITURES

- TennCare established a more sustainable budget base by 2006
- Nationally Medicaid spending has declined (*USA Today*, Nov 27, 2006)



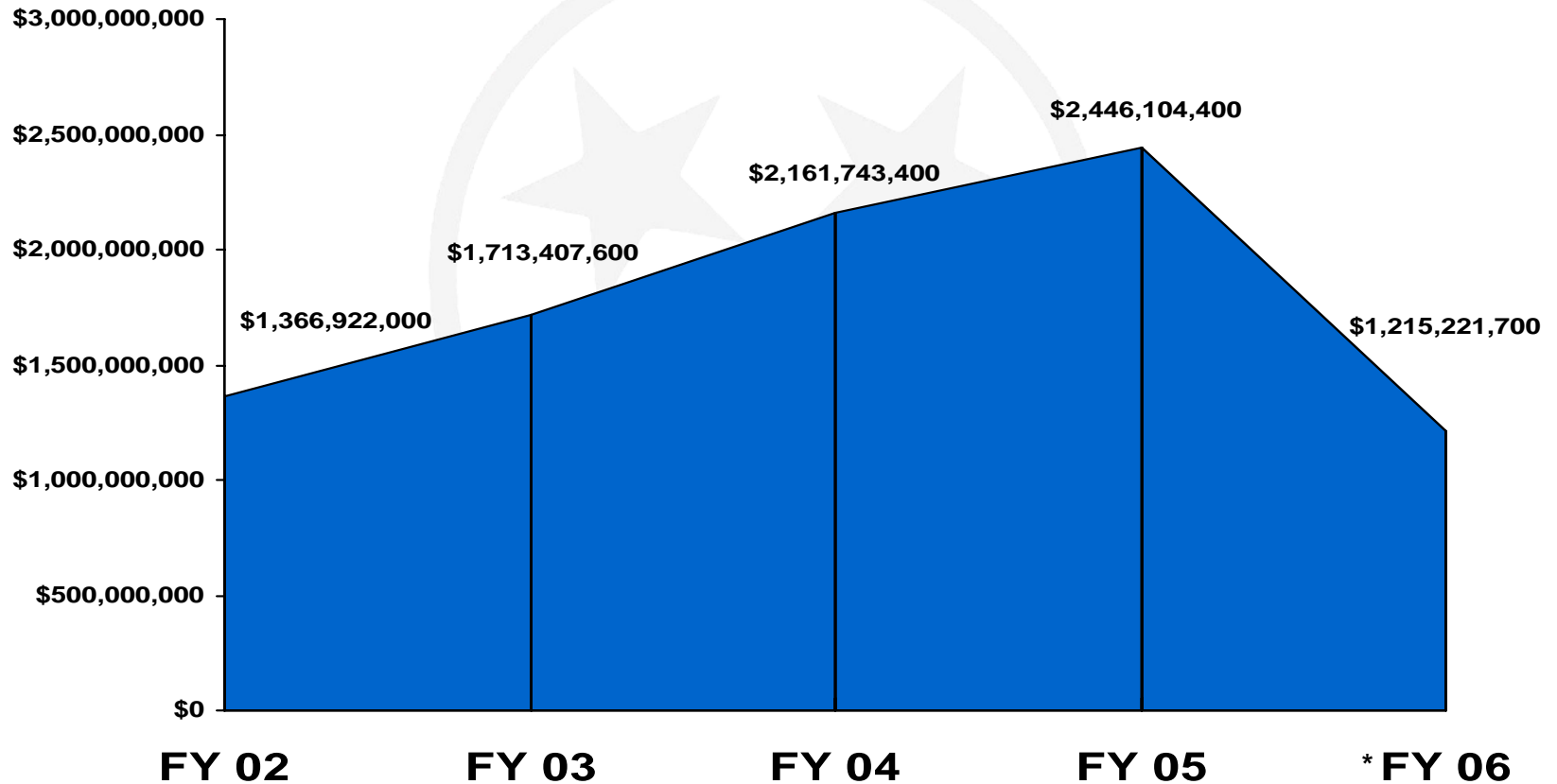
* Reform implementation began Aug 2005 through FY 06



Fiscal Stewardship

TOTAL PHARMACY EXPENDITURES

- Controlled pharmacy expenditures were 60% of reform savings
- TennCare saved \$1.2 billion in pharmacy expenditures



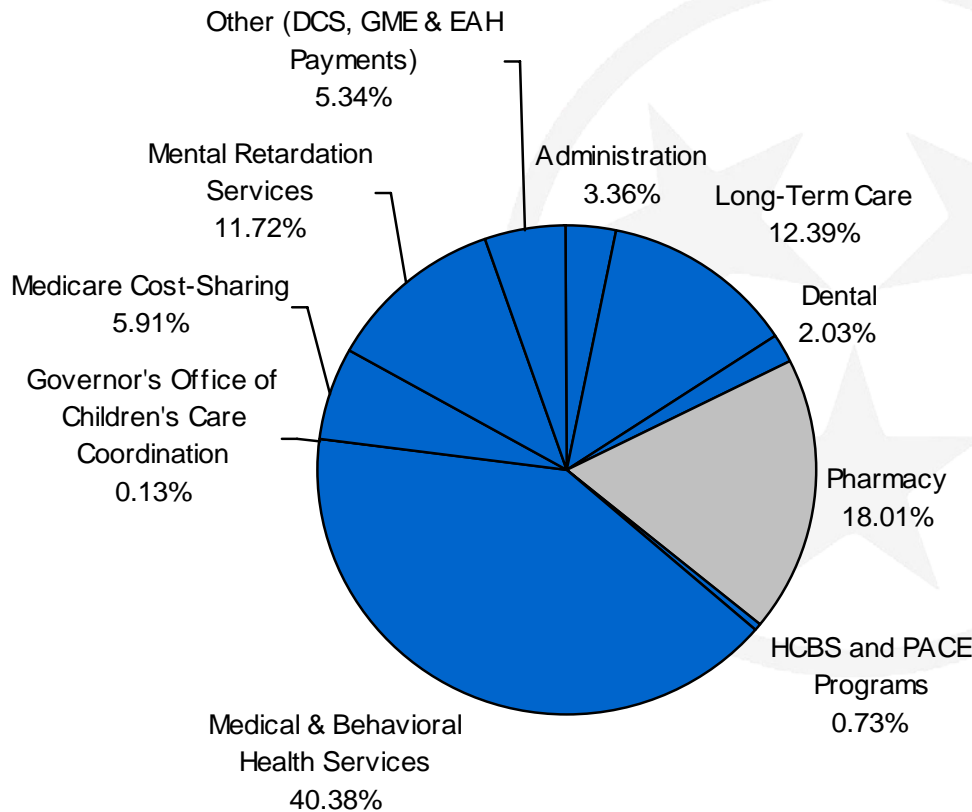
* Six months of FY 06 reflect Part D accounting changes



Fiscal Stewardship

2008 BASE BUDGET BY EXPENDITURE CATEGORY

- Pharmacy trend brought back to reasonable percentage of TennCare expenditures
- Medical service costs are the largest percentage of total TennCare expenditures



Medical & Behavioral Health Services	\$3,061,749,100
Pharmacy	1,365,825,100
Long-Term Care	939,763,200
Mental Retardation	888,753,900
Medicare Cost-Sharing	448,375,700
Other (DCS, GME & EAH Payments)	404,658,600
Administration	254,466,600
Dental	153,559,800
HCBS and PACE Programs	55,495,900
Governor's Office of Children's Care Coordination	9,994,700
Total	\$7,582,642,600

❖ See attachment for FY 08 TennCare improvement summary



New Day in TennCare

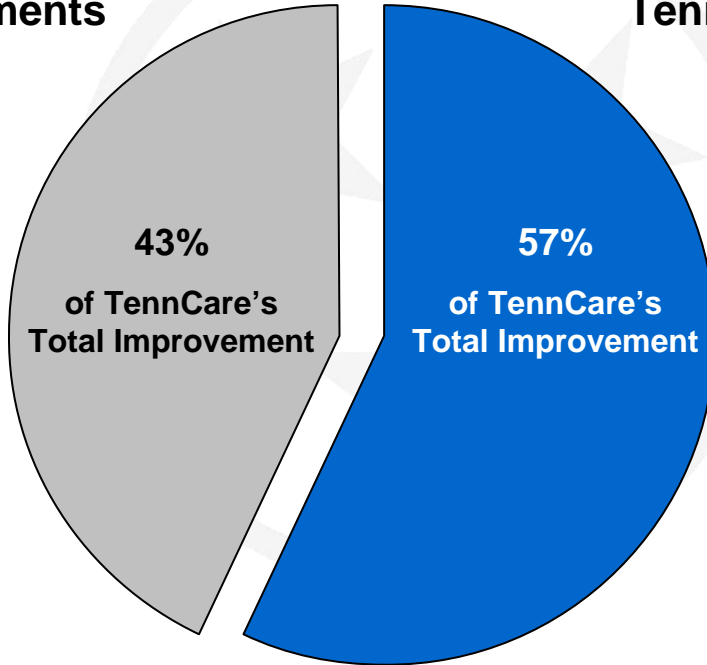
TOTAL IMPROVEMENTS

FY 08 Improvements = \$56,273,400 in State funds

Other Agencies' Improvements

\$23,983,300

- Mental Retardation \$20.4M
- Children's Services \$2.5M
- Human Services \$1M



TennCare Program Improvements

\$32,290,100

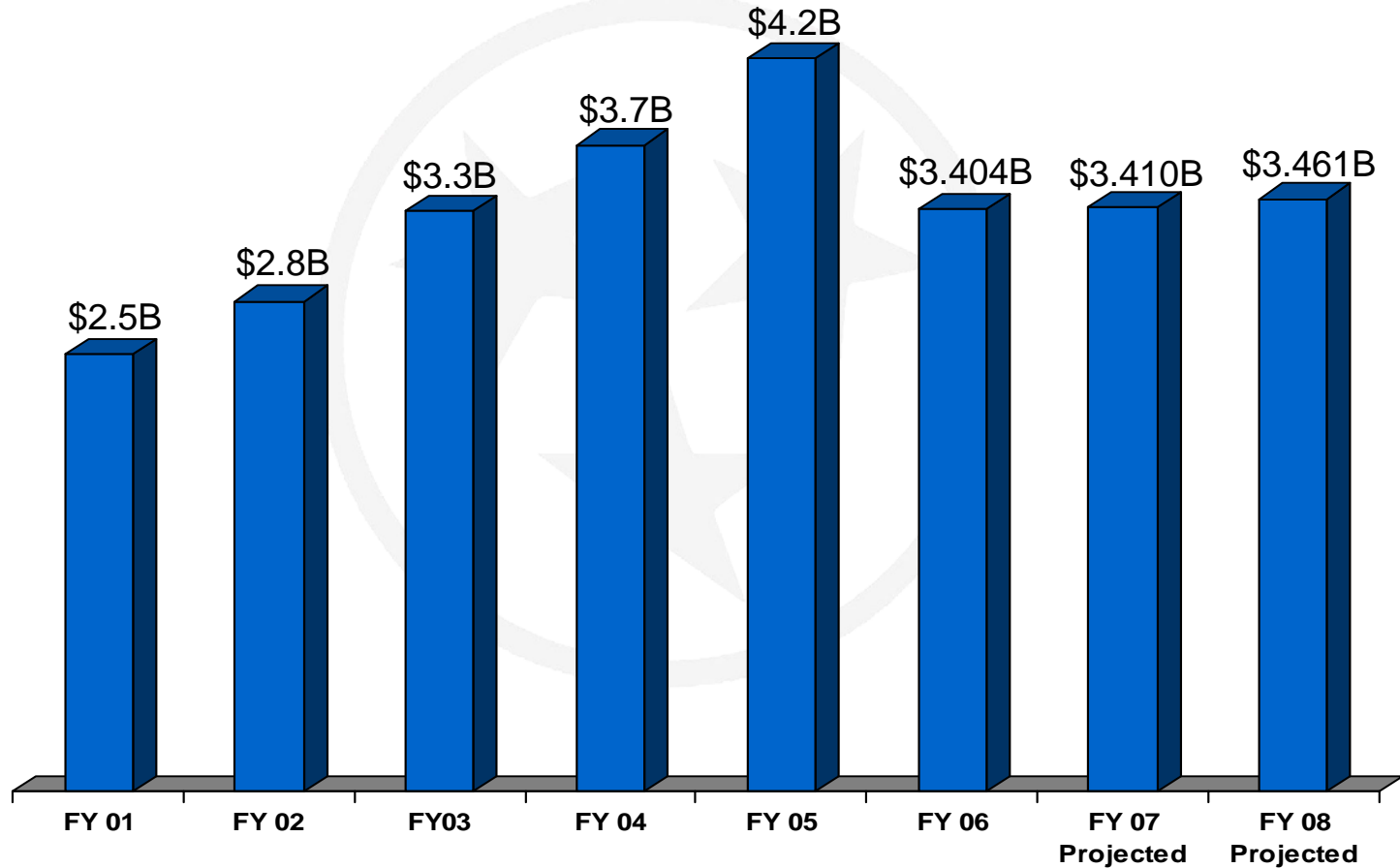
- Federal Matching Percentage \$1.9M
- Medicare Cost-Sharing \$13M
- Medical and Pharmacy Trends \$17M
- Expansion of Weight Watchers™ Program \$274,500



New Day in TennCare

MEDICAL AND PHARMACY TRENDS

- Medical and Pharmacy costs continue to increase, although the new TennCare program is much more stable



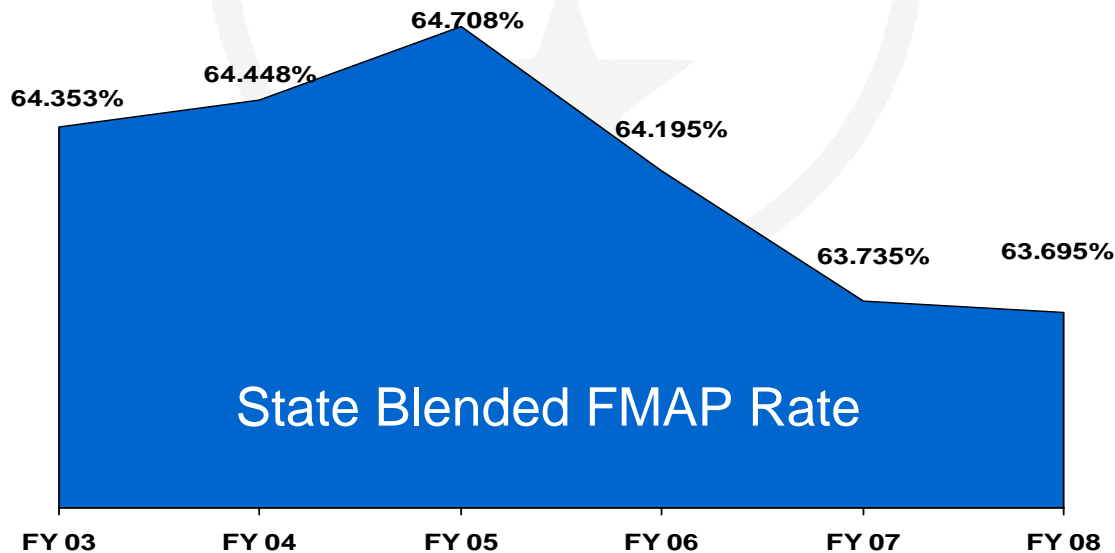
Note: Due to Medicare Part D implementation on 1/1/06, dual pharmacy expenditures are excluded for comparison purposes



New Day in TennCare

FEDERAL MEDICAL ASSISTANCE PERCENTAGES (FMAP)

- The FMAP is the share of state Medicaid costs paid by the Federal Government.
- The FMAP is based upon a three-year average of state per-capita personal income compared with the national average.
- Federal FY 08 is based upon per-capita income from 2003 to 2005.
- Since Federal and State fiscal years do not correlate, a “state blended rate” must be calculated.
- The change in FMAP from FY 07 to FY 08 shifts \$1.9 million to state appropriation.





MEDICARE PART A & B COST-SHARING

- Medicare is health insurance for people:
 - Under age 65 with certain disabilities;
 - Age 65 or older; or,
 - Any age with end-stage renal disease (permanent kidney failure requiring dialysis or a kidney transplant)
- Medicare is operated by the Federal Government
 - Part A – covers hospital stays
 - Part B – is an optional benefit that helps cover medically necessary services like doctors' services, outpatient care, some preventive services and other medical services that Part A doesn't cover
- Both Part A & B have out-of-pocket costs for seniors
 - Some people are jointly enrolled in Medicare and Medicaid, known as “duals”
 - Typically a low-income elderly or disabled individual
 - The State is responsible for the cost-sharing components of Medicare for dual eligibles, as well as for those limited services that are not covered by Medicare
 - TennCare covers 200,000 dual eligibles



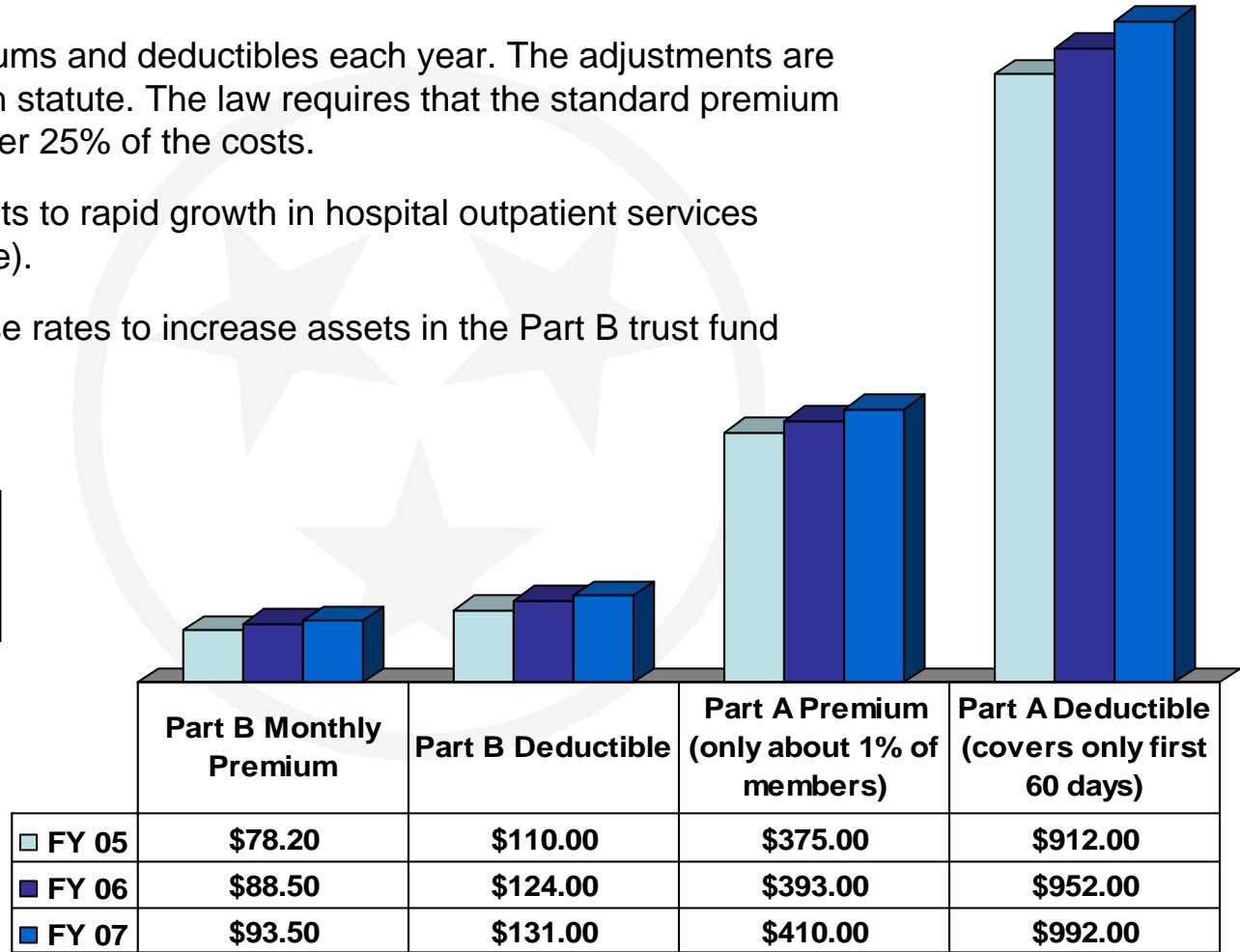
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MEDICARE COST-SHARING

Reasons for increases:

- CMS updates the premiums and deductibles each year. The adjustments are made per formulas set in statute. The law requires that the standard premium must be sufficient to cover 25% of the costs.
- Costs go up – CMS points to rapid growth in hospital outpatient services (one-third of the increase).
- CMS also has to increase rates to increase assets in the Part B trust fund (reserve requirement).

Co-payments are typically 20%



All increases are calculated on calendar year

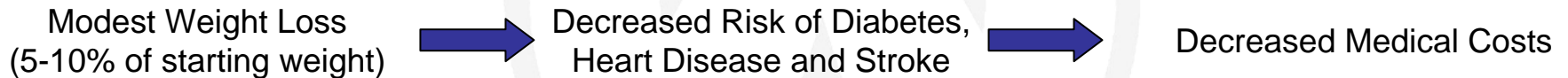


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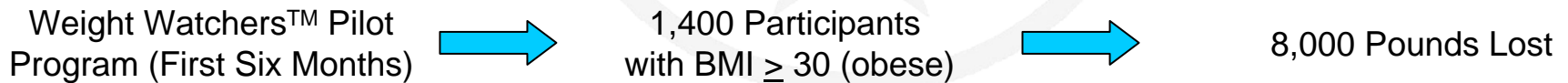
WEIGHT WATCHERS™ PARTNERSHIP

- Tennessee is the 6th-most-overweight state and has the 2nd-highest number of physically inactive adults in the country.
- Tennessee has the 4th-highest rate of adult diabetes and the 5th-highest death rate from cardiovascular disease in the nation.

Studies have shown:



TennCare's Experience:



Improvement Request:





Tomorrow's Vigilance

OUTSIDE INFLUENCES AFFECTING TENNCARE

Volatile American Healthcare System

“Insurance prices are growing cheaper #... health insurance benefits are an exception to the trend. Health insurance costs continue to soar.”

- Wall Street Journal, 11/6/06

Aggressive Legal Environment Continues

Current legal battles and constraining consent decrees require substantial management attention and redirection of resources

- John B.
- Grier
- Daniels
- Newberry
- Ware
- Rosen

Federal Government (CMS) Dependency

- Uncertainty of Funding Mechanisms
- Federal Policy Shifts
- Waiver Extension Negotiation