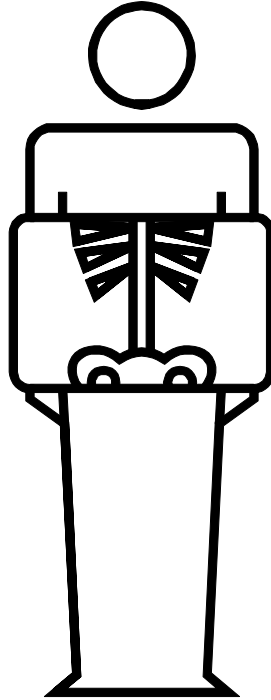


# TennCare:

A Closer Look



a legislative briefing paper by  
the Office of Research  
Comptroller of the Treasury  
State of Tennessee

October 2001

# **TennCare:**

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Despite ongoing concerns about TennCare's cost and success, the program has provided health care coverage to Tennesseans at a reasonable price while benefiting the overall health care economy of Tennessee. This paper examines some of the questions commonly heard about the TennCare program.

### **Why was TennCare Created?**

**TennCare was created to help solve the state's budget problems.** In 1993 Tennessee faced a budget shortfall of over \$250 million state dollars caused largely by increases in Medicaid spending. State officials were forced to choose between massive cuts in spending or large increases in taxes. Cutting Medicaid spending would have resulted in the loss of about two federal matching dollars for every state dollar cut, a loss of hundreds of millions of dollars. The alternative would have been massive cuts in the number of Medicaid services.<sup>1</sup>

That same year, toward the end of the legislative session, Governor Ned McWherter proposed a radical new plan called TennCare. The plan would cover hundreds of thousands of additional Tennesseans with health insurance for about what the state was already spending on Medicaid. It would eliminate<sup>2</sup> an unpopular health services tax that generated over \$400 million annually.<sup>3</sup> To obtain additional federal matching dollars, the state would instead leverage dollars already spent on the health care system on indigent care and care to the uninsured.

### **Does TennCare cost too much?**

**TennCare's cost compares favorably to that of other states' Medicaid programs.** Although the current public perception may be a program out of financial control, this is not the case. In 1998, the latest data available from the federal government, Tennessee had lower spending per enrollee than any other state.<sup>4</sup> From 1992 to 1998, Tennessee's ranking in payment per recipient went from 14<sup>th</sup> to 16<sup>th</sup> place of 16 southern states.<sup>5</sup> In 1999, Tennessee had the lowest average medical services payment per recipient of 12 southern states reporting.<sup>6</sup>

**The program's per person cost increase from 2000 to 2001 was similar to increases in private employers' insurance plans.** TennCare's recent cost increases reflect the health care marketplace nationwide. TennCare's average cost per recipient increased about 10.7 percent from fiscal year 2000 to fiscal year 2001.<sup>7</sup> A recent nationwide survey of employers found that health care premiums increased 11 percent from spring 2000 to spring 2001.<sup>8</sup> Other recent nationwide surveys indicate an overall premium increase of 10.3 percent for health plans, and an average 13 percent increase in large employer health benefit costs, for 2001.<sup>9</sup> A 1999 survey by the William M. Mercer Company found that the cost of employer-sponsored health plans increased 7.3 percent in 1999 and was projected to increase by 7.5 percent in 2000.<sup>10</sup>

TennCare's average costs per person are similar to employer health plans. According to a study of 2,734 companies released by the Henry J. Kaiser Family Foundation and the Health Research & Educational Trust, average annual premiums for employer-sponsored plans grew to \$2,650 for single coverage and to \$7,053 for family coverage from spring 2000 to spring 2001.<sup>11</sup> The estimated state and federal spending per TennCare recipient in fiscal year 2001 was about \$2,986, excluding long-term care costs.<sup>12</sup>

### **Has TennCare wasted millions of state tax dollars?**

**In fact, when compared to what the state might have spent under its old Medicaid program, TennCare has saved significant state dollars.** An analysis by the Comptroller of the Treasury found that the TennCare program cumulatively saved the state over \$2 billion in state tax dollars. The Comptroller compared Medicaid spending growth for TennCare to Southeastern states for 1993 through 2001. This analysis compared state TennCare expenditures with what

the state would have spent if TennCare expenditures had grown at the same rate as the Southern Legislative Conference states. The analysis compared 1993 Medicaid spending and other state dollars folded into the TennCare program, to TennCare spending for 1994 through 2001.<sup>13</sup>

An independent report on TennCare by the Urban Institute shows that the TennCare program saved 245 million state tax dollars and 455 million federal tax dollars from 1994 through 1998.<sup>14</sup> The estimate does not adjust for the drastically increased enrollment in TennCare.

One spending estimate from the Urban Institute report, selectively used by some TennCare reform advocates, is not entirely based upon analysis of actual TennCare expenditures. This estimate indicates that TennCare cost \$3.8 billion more between fiscal years 1994 and 1998 than would have been spent under the former Medicaid program, when all costs are included.<sup>15</sup> However, the estimate includes about \$4.5 billion in assumed cumulative projected spending accounted for by charity care, local governments, and patient premiums. The report states: “This [estimate] assumes that the forecast provision of charity care, local government contributions, and collection of patient revenues took place. To the extent that they did not, Tennessee expenditures on TennCare were lower than these estimates.”<sup>16</sup> Aside from premium dollars, it is virtually certain that these additional expenditures would have occurred in the health care system regardless of TennCare’s existence. Unlike other states, TennCare has enabled the state to capture some of these costs within a managed system to receive federal matching dollars.

Because Tennessee’s per capita income has increased relative to other states, Tennessee’s portion of TennCare costs has also increased. The federal government’s contribution to states’ Medicaid programs is based upon each state’s per capita income relative to other states. This matching contribution is called the federal medical assistance percentage (FMAP). Tennessee’s per capita income ranking rose from 37th in 1989 to 35th in 1999.<sup>17</sup> As a result, Tennessee went from paying about 30 percent of total Medicaid cost in 1990, to paying about 37 percent in 2000, the largest increase in state share of any state.<sup>18</sup> Based on the fiscal year 2002 TennCare budget, excluding long-term care services, Tennessee paid over \$230 million more state dollars for TennCare in 2001 than it would have if the state’s per capita income had not increased during this period.<sup>19</sup>

### **Does TennCare Cost Tennessee More Than the Old Medicaid Program?**

**TennCare’s costs compare favorably to what the state might have experienced under the old Medicaid program.** To obtain a true picture of how TennCare spending compares to state dollars that might have been spent under the state’s Medicaid program, several adjustments are necessary:

- First, long-term care expenditures should be excluded because they are not part of the TennCare waiver.
- Also, about \$156 million in state spending on programs outside of TennCare was folded into the TennCare program. Because this spending occurred outside of the old Medicaid program, it should probably be excluded from TennCare as well.
- Finally, from 1993, the last year of Medicaid, to 2001, Tennessee’s FMAP decreased from about 68 percent to about 64 percent, resulting in about \$151 million in additional state spending not attributable to the program itself.

## How Much Does TennCare Really Cost Tennessee?

	1993	2001
State Medicaid/TennCare Expenditures	\$ 895,875,401	\$ 1,684,258,700
Less: Long Term Care (State Dollars)	\$ 204,995,230	\$ 423,003,600
Medicaid/TennCare Expenditures	\$ 690,880,171	\$ 1,261,255,100
Less: Other State Spending Adjusted for Growth in State Appropriations		\$ 222,535,779
		\$ 1,038,719,321
Less: 3.78% FMAP Adjustment		\$ 150,551,234
Net State TennCare Spending		\$ 888,168,087
1993 <u>Medicaid</u> spending grown at Medical CPI (33.37%)		\$ 921,426,884
Difference between State TennCare Spending and Medicaid at Medical CPI		\$ (33,258,796)

Source: 1993 data from Comparative Data Report on Medicaid 2000, Southern Legislative Conference, Conference of State Governments. FY 2001 data from FY 2002 Budget, State of Tennessee. Medical CPI from Bureau of Labor Statistics.

The Health Care Financing Administration in the federal government approves and oversees state Medicaid waiver programs. A major requirement for approval and continuation of any waiver program such as TennCare is evidence that the program is budget neutral. This means that the program cannot cost the federal government more than it would have spent if the state had retained its original Medicaid program.<sup>20</sup> In Tennessee's case, the program has a global federal budget over the life of the waiver that the state cannot exceed.<sup>21</sup> This constraint, along with Tennessee's historical conservative fiscal management, significantly lessens the probability that the program's cost will be more expensive than the state's former Medicaid program.

### Is TennCare consuming an increasing share of the state's budget?

**TennCare's percent of the state budget is only about one percentage point higher than in 1993.** Based on figures from the National Association of State Budget Officers, total Tennessee Medicaid expenditures for fiscal year 2000 were about 25 percent of the state budget.<sup>22</sup> This was actually less than the 27 percent of total state spending represented by the Medicaid program in 1993 before the TennCare program began. The fiscal year 2002 TennCare Bureau budget, including long-term care, was about 28 percent of the total budget, just slightly more than in 1993.<sup>23</sup> However, this increase in TennCare's share of the total budget may also be attributable as much to continuing constraints on other areas in the state's budget as to uncontrolled growth in TennCare spending. One must also remember that Tennessee is covering over 500,000 more people than under the Medicaid program.

### Are too many people on TennCare?

**Tennessee has a high number of recipients compared to other states.** As of June 2001, about 615,000 uninsured and uninsurable persons were on TennCare. Who are the uninsured and uninsurable on TennCare? About 69 percent, or 426,308, are in families with income below 100 percent of the federal poverty level (\$16,704 for a family of four). Another 160,353, or 26 percent, are in families with income above 100 percent, but below 200 percent, of the poverty level. Only about five percent have incomes above 200 percent of the poverty level. About 217,000, or 35 percent, of all uninsured and uninsurable TennCare recipients are children.<sup>24</sup>

## **Why not just remove uninsured and uninsurable people from TennCare?**

**Removing people from TennCare may save state tax dollars, but will probably not decrease overall public health care costs. It would also result in significant decrease in federal matching dollars.** Based on fiscal year 2002 projected medical costs per capita, removing about 353,000 uninsured and uninsurable recipients 14 years of age and over from TennCare could save about \$374 million per year in state taxes. However, Tennessee would lose about \$655 million in federal matching funds, resulting in a total withdrawal of over \$1 billion dollars from the health care system.<sup>25</sup>

These persons would continue to incur health care expenses, and would likely obtain services at the most expensive possible source—emergency rooms. The public would continue to pay these expenses through an invisible tax—higher insurance premiums or health care prices. In other words, instead of spreading \$374 million in managed health care expenses explicitly across all Tennessee taxpayers, almost \$1 billion dollars in unmanageable expense would be spread across all Tennessee citizens.

One reason for including these persons in TennCare initially was to steer them into less expensive preventive care when possible, and to assign them a health care provider to manage their care. Removing uninsured/insurable persons could also result in removing some relatively healthy people who incur little cost. The federal matching dollars for these persons, which may actually be used for those who are disabled or less healthy, would be lost. This could result in an actual increase in overall health care costs to the citizens of Tennessee.

The Texas Comptroller of Public Accounts calculated that in 1998 \$4.7 billion per year was spent in that state on health care for about 4.9 million uninsured citizens.<sup>26</sup> This represents about \$967 in health care per uninsured person, supplied by health care providers in Texas. As stated by a private consultant to the state, health care exists and is provided whether we acknowledge it or not.<sup>27</sup> TennCare has enabled the State of Tennessee to recognize some of these costs in the system, manage the costs more efficiently under a managed care system, and benefit the state health care system by receiving federal health care dollars in an almost two-to-one match.

The state's TennCare consultant from the Mercer Company separately addressed the full House and Senate membership in 2000. He has worked for numerous state Medicaid programs. According to this consultant, Tennessee has a better Medicaid waiver "deal" from the federal government than most other states.<sup>28</sup> Unique features include Tennessee's ability to receive federal matching dollars for spending by local public entities on TennCare patients, as well as matching dollars for premiums paid by uninsured and uninsurable recipients.

## **Are TennCare's benefits excessive?**

**TennCare's benefits are similar to other Medicaid programs.** Some have suggested that TennCare's benefits are too "rich." However, the 1999 actuarial review by PriceWaterhouseCoopers indicates otherwise. The company surveyed seven other states either near Tennessee (Virginia, Kentucky, Georgia, and Illinois) or with similar managed care programs covering expansion populations (Minnesota, Oregon, and Washington). The actuarial study states: "The results of the survey show substantially similar benefits covered in all states." Further, the report states: "Finally, on the issue of organ transplants, our survey shows that most states explicitly cover organ transplant services."<sup>29</sup>

The 1999 actuarial report also states: "TennCare plans were concerned that patients from other states may be establishing residency in Tennessee to obtain TennCare coverage of costly organ transplants. To address this issue, our request for data from TennCare MCOs included a

request for counts of transplants delivered to TennCare recipients. None of the responding plans provided this information”.<sup>30</sup>

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<sup>1</sup>“Tennessee’s Health Care Problem,” Department of Finance and Administration/Department of Health, April 1993, pp. 2-3.

<sup>2</sup> TCA 67-4-1816.

<sup>3</sup> Tennessee Budget 1992-93, p. A-62.

<sup>4</sup> A Profile of Medicaid: Chart Book 2000. Health Care Financing Administration. September 2000. pp. 48-50.

<sup>5</sup> Comparative Data Report on Medicaid, Southern Legislative Conference, October, 1999, p. xxvii.

<sup>6</sup> Comparative Data Report on Medicaid, Southern Legislative Conference, November, 2000, p. xvi.

<sup>7</sup> Calculations by Comptroller’s staff based on fiscal year 2002 budget figures for TennCare FY 2000 and FY 2001, and TennCare enrollment figures on December 27, 1999 and January 12, 2001.

<sup>8</sup> “Job-Based Health Insurance In 2001: Inflation Hits Double Digits, Managed Care Retreats”. Health Affairs Volume 20, Number 5, September/October 2001.

<sup>9</sup> Insurance Advocate v112 no5 pp. 28-29 Feb 3, 2001, cited in International Foundation of Employee Benefit Plans (IFEBP), HOT TOPICS, “Health Care Cost Statistics”, on their web site, <http://www.ifebp.org/knowledge/ichothcs.asp>, September 26, 2001.

<sup>10</sup> Mercer Report No. 97, pp. 2-3, January 24, 2000 cited in International Foundation of Employee Benefit Plans (IFEBP), HOT TOPICS, “Health Care Cost Statistics,” on their web site, <http://www.ifebp.org/knowledge/ichothcs.asp>, July 14, 2000.

<sup>11</sup> Employer Health Benefits 2001 Annual Survey, The Kaiser Family Foundation and Health Research and Educational Trust. September 2001.

<sup>12</sup> \$4,122,630,500 estimated state and federal dollars (excluding long-term care) for FY 2001, from FY 2002 Budget, divided by 1,380,497 enrollees as of 1/12/01.

<sup>13</sup> Calculations by Comptroller of the Treasury, December, 2000, based on HCFA data contained in Comparative Data Report on Medicaid, Southern Legislative Conference, November 2000.

<sup>14</sup> Christopher J. Conover and Hester H. Davies, The Role of TennCare in Health Policy for Low Income People in Tennessee, The Urban Institute, February 2000, pp. 97-98.

<sup>15</sup> *Ibid.*, pp. 95-98.

<sup>16</sup> *Ibid.*, p. 9.

<sup>17</sup> Bureau of Economic Analysis, “BEARFACTS” at <http://www.bea.doc.gov/bea/regional/bearfacts/stbf/bf1/b147000.htm>.

<sup>18</sup> Federal Funds Information for States, Issue Brief 99-14, “Recent Trends in the Federal Medical Assistance Percentage,” July 20, 1999, p. 4.

<sup>19</sup> Calculations by Comptroller’s staff based on fiscal year 2002 TennCare budget figures for TennCare FY 2001 spending, less long-term care and administrative expenditures.

<sup>20</sup> Health Care Financing Administration Web site at <http://www.hcfa.gov/medicaid/hpg5.htm>.

<sup>21</sup> James F. Blumstein and Frank A. Sloan. Health Care Reform Through Medicaid Managed Care: Tennessee (TennCare) as a Case Study and a Paradigm. Vanderbilt Institute for Public Policy Studies/Center for Health Policy, Law, and Management-Duke University, August 1999.

<sup>22</sup> National Association of State Budget Officers, 1999 State Expenditure Report, June 2000.

<sup>23</sup> Comptroller’s staff calculations from FY 2002 budget.

<sup>24</sup> Bureau of TennCare quarterly enrollment data as of June 30, 2001.

<sup>25</sup> Estimated impact of removing non-disabled Uninsured/Uninsurable TennCare recipients age 14 and over. Comptroller’s staff calculations based on PricewaterhouseCoopers, Bureau of TennCare data.

<sup>26</sup> “Texas Estimated Health Care Spending on the Uninsured,” Texas Comptroller of Public Accounts, at <http://www.cpa.state.tx.us/uninsure/>.

<sup>27</sup> Steve Schramm, Mercer consultant, transcript of comments to the Tennessee House of Representatives February 16, 2000, p. 38.

<sup>28</sup> *Ibid.*, p. 38-40.

<sup>29</sup> Actuarial Review of Capitation Rates in the TennCare Program, March 1999. p. 61.

<sup>30</sup> Actuarial Review of Capitation Rates in the TennCare Program, March 1999. pp. 61-62.