

### Preserves Full Coverage for Children

NASHVILLE — Governor Phil Bredesen today announced TennCare changes are moving forward under a plan that stops short of returning to traditional Medicaid by preserving full coverage for children, and limiting benefits and reducing enrollment for adults.

The plan for "basic TennCare" preserves full coverage for all 612,000 children on the program and maintains a reasonable level of benefits for 396,000 adults who are eligible for Medicaid, the state and federal program for individuals and families with low incomes. As many as 323,000 adults who are not eligible for Medicaid will lose TennCare coverage — although 24% of those enrollees still will be covered under Medicare, the federal program for people who are older or who have disabilities. The State still could maintain limited care for some enrollees losing coverage if it succeeds in challenging legal constraints that public-interest attorneys have placed on the program over the years.

After the changes are complete, at least 75% of TennCare's 1.3 million enrollees will continue receiving healthcare coverage. Under a return to Medicaid as contemplated in November, the State would have removed as many as 430,000 enrollees, including 112,000 children, which would have left just 68% of TennCare enrollees with healthcare coverage. The revised plan will generate at least \$575 million in cost-savings for the State in the upcoming fiscal year.

Bredesen said the plan is in keeping with his desire to protect children in TennCare reform. "In my heart I believe the right thing to do is to continue providing full health care to children and at least some level of care to as many adults as we can," the Governor said. "It might not be the level of care we want to provide, but it's the level of care we can afford without bankrupting our State. We're putting limits into what has been the most generous healthcare program in the nation."

In addition to reducing benefits and enrollment for adults, Bredesen announced TennCare is taking initial steps toward returning to a managed-care model that will require managed-care organizations (MCOs) — more commonly known as HMOs — to assume more financial risk in the delivery of TennCare benefits. Managed care, a mechanism to control costs in the delivery of health care, was dropped from TennCare in 2002 in an effort to stabilize the program at a time when MCOs were collapsing. "It's time to put MCO accountability back into the

program," Bredesen said. The State will insist on additional risk for MCOs as it gains relief from longstanding legal constraints.

Most immediately, the State will file documents in federal court today as part of its effort to implement critical reforms including a formulary encouraging the use of generic drugs when appropriate. The State also is pursuing a range of other cost-savings measures, including new care- and disease-management practices that will improve the quality of care while reducing costs.

Bredesen instructed the Bureau of TennCare and the Department of Human Services, which provides customer service to TennCare enrollees, to begin the lengthy process of implementing benefit and enrollment changes. "No enrollee will lose coverage overnight," the Governor said. "We'll give as much advance notice as possible." The process of notifying TennCare enrollees of changes could begin as early as March and changes could begin taking effect as early as April, pending federal approvals. Conversion to basic TennCare is expected to be substantially complete by 2006.

Under basic TennCare, children will not be subject to benefit limits or enrollment reductions. However, adults eligible for Medicaid will be subject to medical and prescription-drug benefit limits similar to those found in other states' healthcare programs. Despite reductions in adult benefits and enrollment, Bredesen added that Tennessee still will provide more extensive healthcare coverage than nearly 40 other states.

Cost containment is necessary due to continually rising utilization of prescription-drug and medical benefits fueled in part by longstanding legal constraints, as well as a recent change in the formula for federal funding that will result in fewer dollars from the federal government. New fiscal projections indicate TennCare "as is" would require \$647 million in additional state revenue in order to sustain it in the 2005-2006 fiscal year – approximately \$322 million more than the State anticipates collecting in total new revenue. Under the revised plan, TennCare will require no more than \$75 million in new revenue.

Public-interest lawyers for the nonprofit Tennessee Justice Center argue that TennCare's cost overruns can be reduced by borrowing money from the federal government, making administrative changes or passing new taxes. Bredesen disagrees. "Looking to Washington, making minor adjustments or throwing new tax dollars at TennCare will not solve the problem," the Governor said. "Nothing short of fundamental change will help our situation."

Last year, Bredesen outlined a broad strategy in an effort to salvage TennCare, including controls on pharmacy spending and cost-sharing with enrollees. The plan, which would have maintained full enrollment, was widely viewed as a sensible approach by TennCare enrollees, legislators, physicians, hospitals and other stakeholders. However, lawyers with the Tennessee Justice Center refused to lift legal roadblocks to reform, including "consent decrees" brokered in the 1990s that obligate TennCare to provide benefits well beyond federal requirements.

As a result, Bredesen in November announced the State would reduce TennCare enrollment in a return to Medicaid, but noted the decision could be reversed if lawyers for the Justice Center stood down from legal challenges. The lawyers agreed to temporarily suspend portions of the consent decrees, but insisted that most provisions remain in force and even threatened to bring new lawsuits challenging TennCare reform. Bredesen said the threat of ongoing litigation made wholesale reductions unavoidable. "We can't truly reform this program until we get it out of the courts," he said. "At this point, the only option is to reduce benefits as well as enrollment."

TennCare began in January 1994 as an experiment to expand Tennessee's Medicaid program to deliver health care to a larger number of people for the same amount of money. But the program was beset by problems and cost overruns. Over the course of a decade, TennCare grew at an unexpected rate and now consumes roughly one in three dollars in the state budget. Prescription-drug costs are particularly problematic, in part due to the legal constraints. For example, TennCare's pharmacy benefit in recent years has grown at a rate of 26% annually versus average growth of 17% in neighboring states' healthcare plans. The total cost of TennCare's pharmacy benefit (\$2.11 billion) now is greater than the cost of Tennessee's higher education system (\$1.89 billion).

Last year, Bredesen characterized the unchecked growth of TennCare as "the clear danger" to the State's fiscal situation. "Scrambling to keep up with the TennCare bills means we starve to death other things that in the end are equally important, like education," the Governor said in a speech to the General Assembly. Unchecked growth must be brought under control, he added, or the State risks jeopardizing all its priorities.

"This is not the approach to TennCare reform that I originally envisioned," the Governor acknowledged. "But under the legal and economic circumstances, it's our best chance for maintaining care for as many Tennesseans as possible."

