Health Care Finance and Administration
FY 2013 Recommended Budget Presentation

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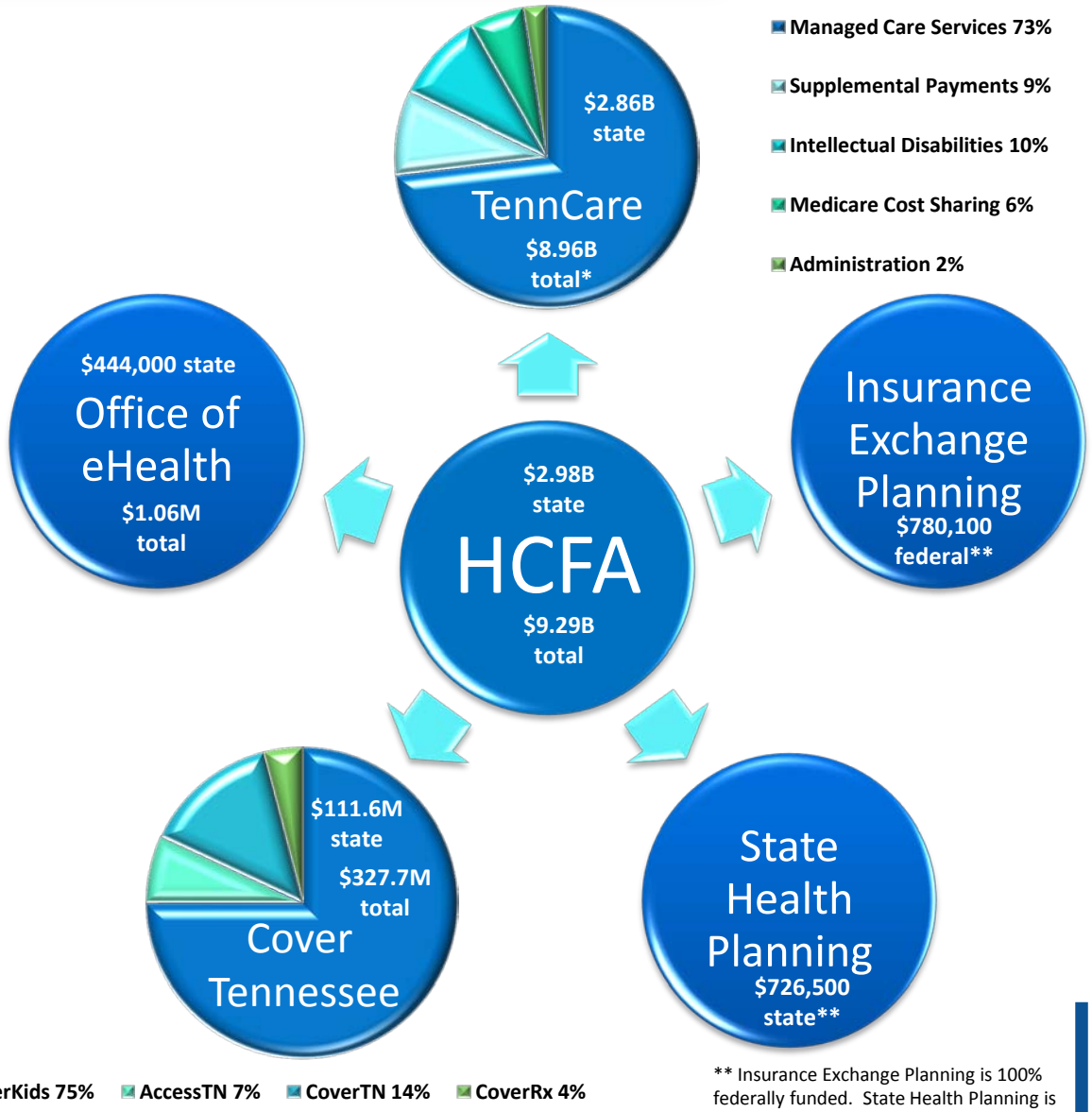
Governor's Recommended HCFA Budget

HCFA Structure

All health care related divisions within the Department of Finance and Administration are now under one umbrella called Health Care Finance and Administration.

Benefits of New Model

It positions the state to run in a more efficient and coordinated way to deliver multiple products to various constituencies.

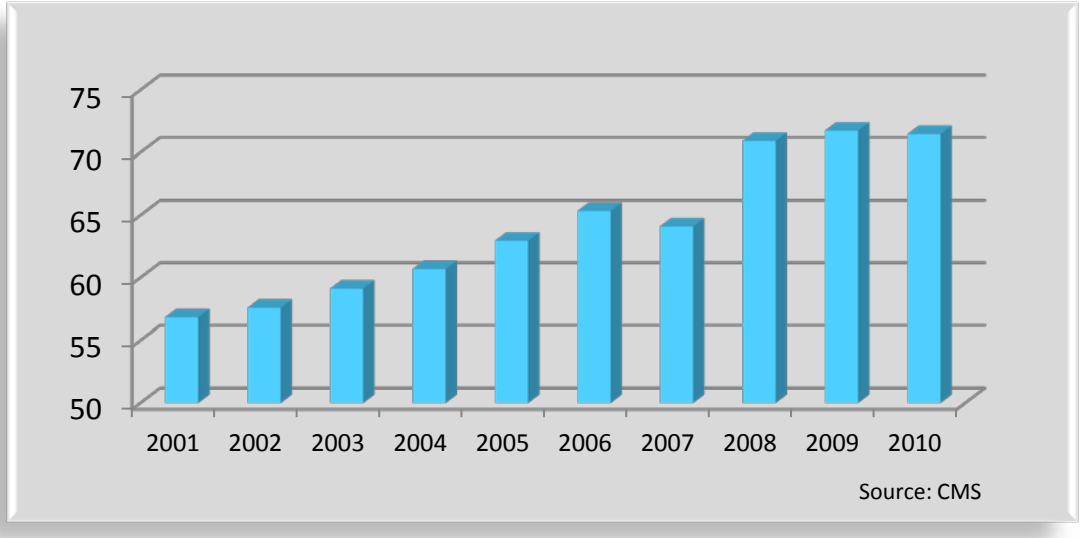


* Tenncare budget assumes approximately $1.3 billion from enhanced coverage fee is renewed.

** Insurance Exchange Planning is 100% federally funded. State Health Planning is 100% state funded.

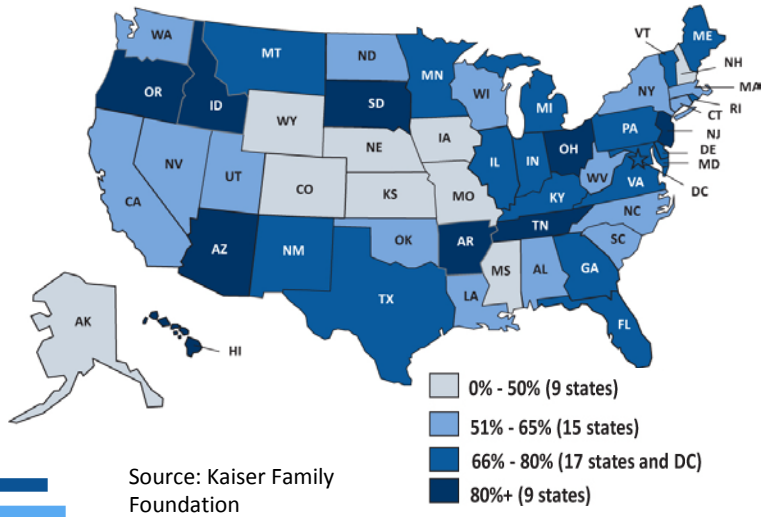
Growth of Managed Care

Percentage of Medicaid Enrollment in Managed Care Nationwide



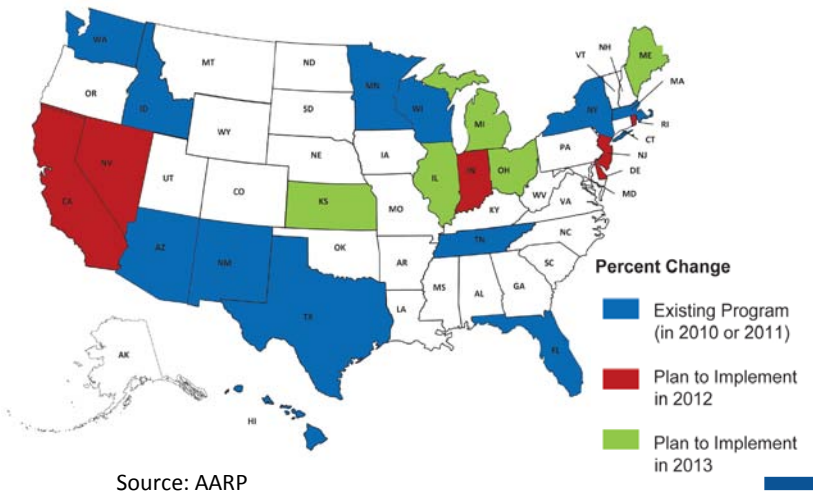
Source: CMS

Penetration of Medicaid Managed Care, 2010



Source: Kaiser Family Foundation

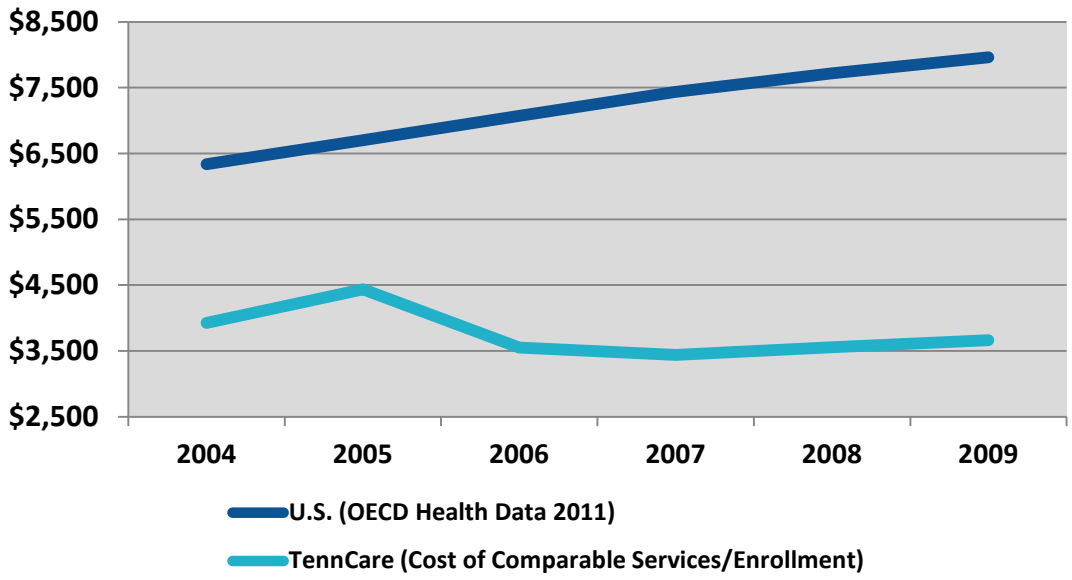
States with Medicaid Managed LTC



Source: AARP

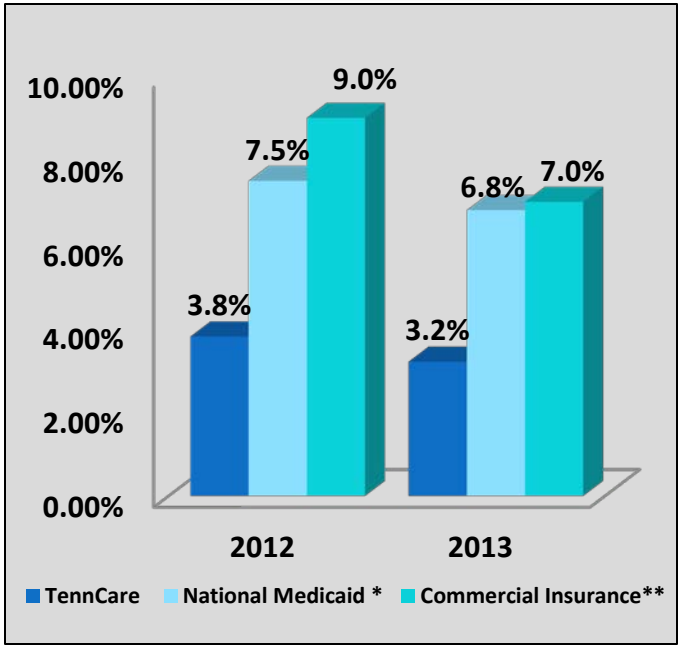
Medical Inflation Trend

U.S. Expenditure on Health Care Per Capita Vs. Comparable TennCare Per Member Cost



Although TennCare continues to beat national Medicaid and commercial insurance inflation trends, some medical inflation will always exist. For FY 2013, we project the trend for the TennCare and Cover Tennessee programs will cost an estimated $87 million state ($79M TennCare, $8M CoverKids). This increase in cost is due to medical inflation, enrollment, and shifts in enrollment within program categories. Additionally, the federally-mandated requirement to fund wraparound payments for Federally Qualified Health Centers and Rural Health Clinics will cost an estimated $10.6 million (state dollars).

Projected Medical Inflation Trends

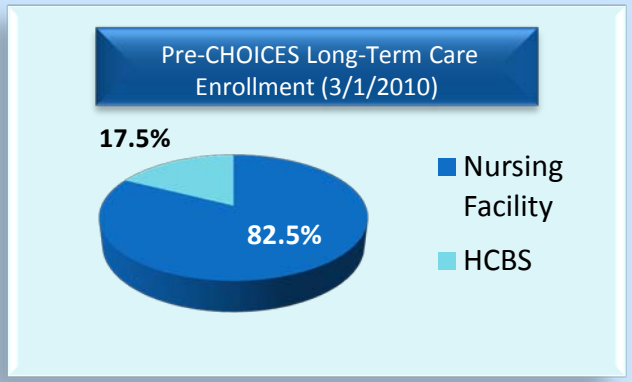


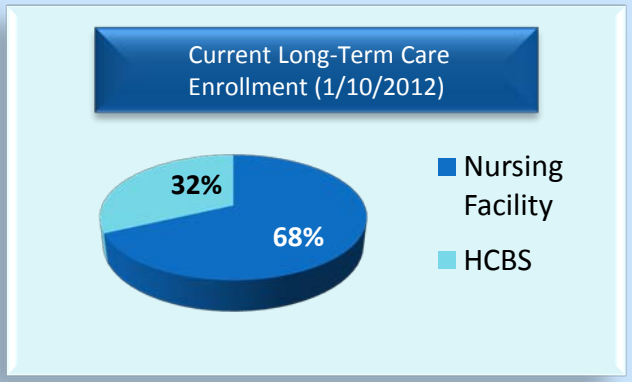
*Source: OMB 2012; CMS National Health Expenditure Data 2013
**Source: PricewaterhouseCoopers

TennCare trend remains below national Medicaid trends even as many other states have made significant program reductions.

TennCare Quality

CHOICES Re-Balancing of Long-Term Care Enrollment



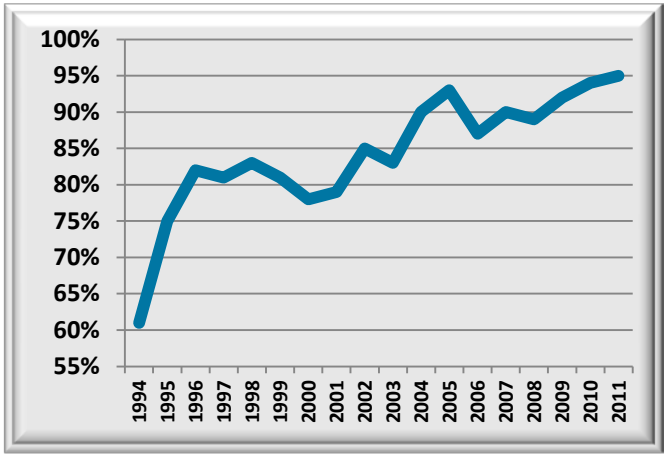


2011 HEDIS Report on MCO Quality

The 2011 HEDIS results showed over the last 5 years (2007-2011):

- Improvement in nearly all child health measures including: well-child visits, access to primary care practitioners and immunizations
- Improvement in 7 of 8 adult diabetic measures including: HbA1c testing, retinal eye exams and LDL-C screening and control
- Improvement in management of cardiovascular conditions including: cholesterol screening, cholesterol management and control of high blood pressure

2011 TennCare Member Satisfaction Survey



Update on Health Plan Initiatives

Amerigroup

Patient-Centered Medical Home

- Focused on improving the quality and efficiency of the care delivered to members
  - 18 PCMH sites
  - 150 Participating PCPs
  - 40,000 members
- Improvement in Quality Metrics
  - Breast cancer screening
  - Tobacco screening
  - Influenza vaccination
  - HbA1c control

UnitedHealthcare Community Plan

Transition Management:

- High-touch, high impact nurse transition model
  - Community-based nurse model designed to educate and empower UHC TennCare members for a healthier recovery after hospital discharge
  - Interventions (i.e. medication reconciliation & PCP follow-up) have significantly reduced unnecessary costs to the delivery system

Volunteer State Health Plan

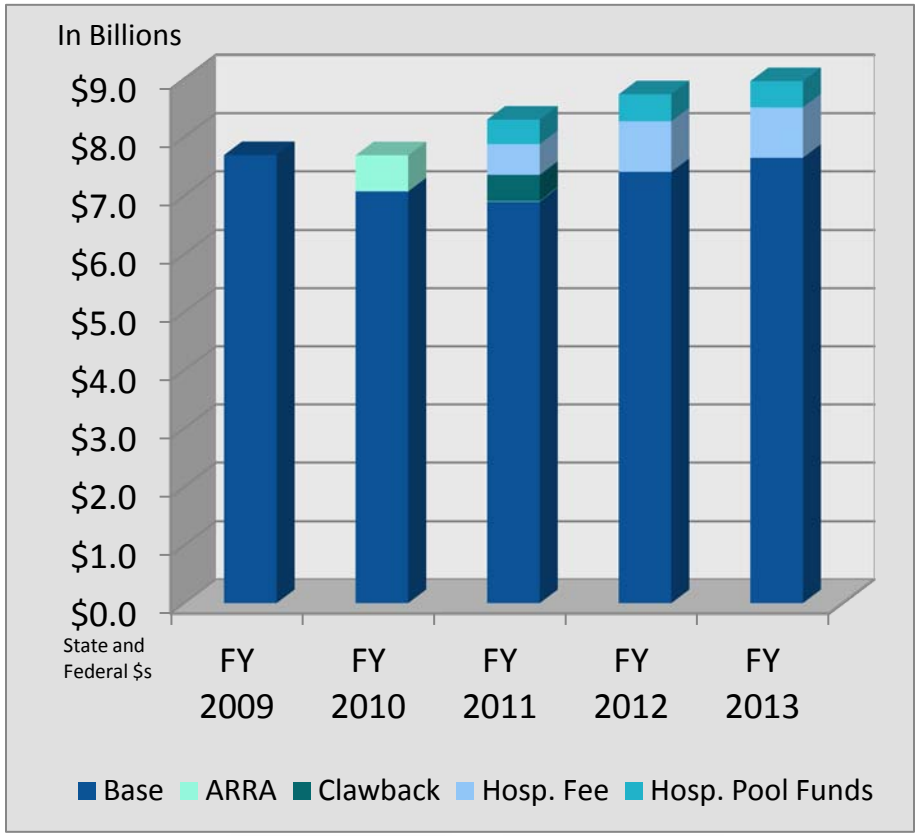
Best Practice Network:

- A network of providers with expertise in children's health problems specifically engaged to serve children in state custody

SelectCommunity:

- An integrated health services delivery model for people with intellectual disabilities to better coordinate health care needs across service delivery settings

Enhanced Coverage Fee



FY 2013 Budget with Hosp. Fee

$8.96 Billion

Items included in the FY 2013 Hospital Fee proposal*	Total	State
8 day in-patient hosp. benefit limit	$140,723,700	$47,581,500
8 lab/xray benefit limit	83,922,900	28,376,000
8 office visit benefit limit	45,428,200	15,360,200
8 outpatient benefit limit	32,981,600	11,151,700
Elimination of PT/OT/ST benefit	13,795,400	4,664,500
Hospital rate reduction	115,212,300	38,955,600
Professional rate reduction**	81,556,800	27,576,000
Essential access hosp. payments	100,000,000	33,812,000
GME (Graduate Medical Education)	50,000,000	16,906,000
DSH match	81,023,000	27,395,500
Critical access hosp. payments	10,000,000	3,381,200
Critical access state-only payments	6,000,000	6,000,000
Change hosp. payment methodology	69,960,600	23,655,100
Medicare Part A	35,550,400	12,020,300
TOTAL	**$866,155,000**	**$296,835,600**

*Approximately $452 million total ($152M state) of Hosp. Fee funds are used as a pool payment to hospitals and not reflected in these budget figures. Standard Spend Down Enrollment for up to the budgeted amount was previously covered by the fee. Enrollment in this category is addressed elsewhere in the TennCare budget. Details can be found on page 8.

** Certain provider types are not included in the ECF rate reduction buy-back: Nursing Homes, MCO Admin. Rates, Transportation, Mental Health Services, Lab and Xray Services, Dental Services, ICF-MR, PACE, Home Health Providers.

Update on FY 2012 TennCare Budget Reductions

Special Disability Workload and Provider Rate Reduction Buy-Back

- The FY 2012 budget contemplated the program being able to postpone additional reductions due to the potential receipt of money owed to the state by the federal government known as Special Disability Workload or SDW. When the budget passed, it included a contingency plan that gave instructions on how those funds would be used should they be received prior to January 1, 2012.
- Since the funds were not received by January 1, those reductions took place (4.25% rate reduction to certain providers).
- Due to increased revenue projections, the Administration is proposing to buy back a portion of the TennCare provider rate reductions that were implemented at the start of the calendar year.
- SB 2245 as filed proposes to buy back 1.75 percentage points of the 4.25% rate reductions that went into place on January 1, 2012 – effectively making the net reduction 2.5% instead of 4.25%.
- Since this is proposed legislation, the buy-back would only go into effect if the bill is passed by the General Assembly and signed into law. If it does become law, providers would be paid the new rates retroactively to January 1, 2012. The new rates are included in the recommended FY 2013 budget. These funds could not be immediately paid out to providers. After the appropriate operational changes are made, new claims would be paid at the revised rates and prior claims would be re-processed as quickly as possible.

Reductions from FY 2012 implemented Jan. 1, 2012

4.25% Rate Red.	Total	State
Nursing Homes	($23,275,800)	($7,859,600)
MCO Admin.	(7,087,900)	(2,393,400)
Home Health	(5,043,200)	(1,702,900)
Lab and Xray	(4,964,200)	(1,676,300)
Dental	(3,109,900)	(1,050,100)
ICF-MR	(2,125,000)	(717,500)
Transportation	(1,660,700)	(560,800)
PACE	(238,900)	(80,700)
TOTAL	($47,505,500)	($16,041,300)

Buy –Back*

Total^	State^
$9,584,200	$3,236,300
2,918,500	985,500
2,076,600	701,200
2,044,000	690,200
1,280,500	432,400
875,100	295,500
683,800	230,900
98,600	33,300
$19,561,300	$6,605,300

*If SB 2245/HB 2383 is passed as amended.

Revised Reductions Retro-Active to Jan. 1, 2012

2.5 % Rate Red.	Total	State
Nursing Homes	($13,691,600)	($4,623,300)
MCO Admin.	(4,169,400)	(1,407,900)
Home Health	(2,966,600)	(1,001,700)
Lab and Xray	(2,920,200)	(986,100)
Dental	(1,829,400)	(617,700)
ICF-MR	(1,249,900)	(422,000)
Transportation	(976,900)	(329,900)
PACE	(140,300)	(47,400)
TOTAL	($27,944,300)	($9,436,000)

^Amounts listed are for a 6 month period. These items are funded with recurring funds in the recommended FY 2013 budget (for 12 months, or double the listed amount).

Update on FY 2012 TennCare Budget Reductions

- Some reductions in the FY 2012 budget were postponed with non-recurring funds. These reductions were set to be implemented at the start of the 2013 fiscal year – **July 1, 2012**. However, not all of these reductions will take place as contemplated in the FY 2012 budget because of funds in the FY 2013 budget.
- Funding for the Standard Spend Down Program is included in the recommended budget ($10.9 million state) with non-recurring funds.

FY 2012 Reductions Postponed with Non-Recurring Funds and Restored or Partially Restored in FY 2013 Budget

	FY 2012 Reduction	FY 2012 NR Restoration	FY 2013 Restoration*^		Net Reduction State	Net Reduction Total
Births paid as a reduced blended rate	($14,932,400)	$5,616,700	$3,309,000	R	($11,623,400)	($34,376,600)
Reduce payment for non-emergent ER services	(8,441,100)	2,500,000	2,500,000	NR	(5,941,100)	(17,571,000)
Perinatal grants	(2,272,800)	2,272,800	2,272,800	R	-	-
State grant to Med/Metro/Jellico	(10,000,000)	5,000,000	3,250,000	NR/R	(6,750,000)	(6,750,000)
Meharry grant	(3,000,000)	2,500,000	2,500,000	NR	(500,000)	(500,000)

*Some items that were restored with non-recurring funds in FY 2012 and therefore were set to be implemented in FY 2013.

^R= Recurring funds; NR= Non-Recurring funds.

Birthing Rates

Births paid at reduced blended rate:

- Original FY 2012 reduction proposal: vaginal rate + 5% for ALL births
- Increased to vaginal rate +17% in approved FY 2012 budget – with non-recurring funds
- Set to go back to vaginal +5% in FY 2013 proposed budget
- Adjusted to vaginal +10% in FY 2013 recommended budget

ER Rates

Reduction in rates for ER services. TennCare pays the lesser of a triage fee or the current contracted rate for non-emergent conditions:

- Original FY 2012 reduction proposal: ≤$27 triage fee
- Increased to ≤$50 triage fee in approved FY 2012 budget – with non-recurring funds
- Set to go back to ≤$27 in FY 2013 proposed budget
- Remains ≤$50 triage fee in FY 2013 recommended budget

HCFA FY 2013 Governor's Recommended Budget

Non-TennCare HCFA Reductions

Cover TN- Total State Budget - $17.8 Million		
Reductions	Total	State
Reduces state cost for CoverTN program based on decreased enrollment projections	($888,100)	($888,100)

State Health Planning - Total State Budget – $726,500		
Reductions	Total	State
Reduce funding for consulting services and systems cost	($30,600)	($30,600)

Office of eHealth - Total State Budget - $444,600		
Reductions	Total	State
Reduce funding for consulting services and internal administrative costs	($23,800)	($23,800)

*Includes: Hospitals, Physicians, Nursing Homes, MCO Admin. Rates, Transportation, Mental Health Services, Lab and Xray Services, Dental Services, ICF-MR, PACE, Home Health Providers (excludes HCBS).

TennCare Reductions

TennCare – Total State Budget - $2.86 Billion		
Reductions	Total	State
Change payment methodology related to retro-eligibility	($69,000,000)	($23,331,700)
Nursing facility level of care requirement	(47,124,000)	(15,934,500)
Changes to NFs sliding scale insulin payments	(1,761,500)	(595,600)
Blended homemaker and hands-on care services and rates	(4,140,000)	(1,399,900)
Targeted HCBS rate reductions (Personal Emergency Response Systems & home delivered meals)	(943,700)	(319,100)
Other department reductions	(5,157,000)	(1,991,800)
Enhanced third party pharmacy collection	(7,200,000)	(2,434,600)
No payment for hospital acquired preventable conditions	(6,000,000)	(2,028,800)
Total	**($141,326,200)**	**($48,036,000)**

Avoided Reductions

Avoided Reductions	Total	State
1.25% provider rate reductions*	$55,874,600	$18,892,300
Eliminate hospice support services for adults	43,019,200	14,545,700
Other department reductions	41,341,400	14,109,900
8.5% rate reduction for mental health providers (phase in- 4.25% 7/1/2012, 4.25% 1/1/2013)	18,958,600	6,410,300
Chronic pain management benefit changes	12,277,500	4,151,300
Meharry grant	10,000,000	3,381,200
Implement copay for non-pregnant adults for some services ($2.50; $3.50)	8,894,200	3,007,300
4.25% rate reduction to private ICF/MR	4,250,000	1,437,000
Medicare part B - reduce from 85% to 80%	1,600,000	541,000
Eliminate coverage of prescription strength allergy medications for adults	1,450,000	490,300
Total	**$197,665,500**	**$66,966,300**

Change in Primary Care Rates and the EHR Incentive Program

Change in Primary Care Rates

The Law

- Part of the national health reform law passed in 2010
- Requires Medicaid agencies to pay 100% Medicare for primary care physician services by January 1, 2013

Providers and Services Included

- Services covered are delivered by a physician with a primary care specialty designation of:
  - Family Medicine
  - General Internal Medicine
  - Pediatric Medicine
- Evaluation and management services codes
- Services related to immunization administration for vaccines and toxoids codes

Cost Estimate

- TennCare currently averages approximately 79% of Medicare for primary care services
- The rate increase will initially cost the state nothing; the federal government will pay the difference until December 31, 2014
- We estimate the rate difference would increase the total payment for those services by an estimated $55 million

The EHR Provider Incentive Program

- The HITECH Act supports the adoption of Electronic Health Records (EHRs) by providing financial incentives under Medicare and Medicaid to eligible professionals and hospitals that implement and demonstrate meaningful use of certified EHR technology
- Medicaid agencies like TennCare are charged with creating a program to award grants to eligible professionals and hospitals to help offset the cost of implementing a certified EHR system
- TennCare has been a leader among Medicaid agencies in creating and implementing a successful EHR Provider Incentive Program
- On November 3, 2011, TennCare launched its EHR Provider Incentive Program Portal which streamlines the enrollment and attestation process for eligible providers
- As of 3/2/12, TennCare has:
  - Received registration from 2,358 eligible professionals
  - Received registration from 95 hospitals
  - Awarded $23,890,840 to 1130 eligible professionals
  - Awarded $17,779,586 to 21 hospitals

Looking Ahead

Program Improvements

Dual Integration:

- Continue working on a plan to integrate Medicare services for those with both Medicaid and Medicare.
- Integration improves quality and coordination of care and ultimately makes the cost of care for duals less expensive.
- This is especially important as the state prepares the program to adapt to the growing aging population in the years to come.

Improve Provider Enrollment Process:

- Improve provider registration process by shifting from paper-based system to a Universal Provider Data Source that minimizes the administrative burden on individual providers ("provider persons"), while we pursue an electronic registration solution for non-individual providers ("provider entities").

Exploring Alternative Payment Methodologies:

- Explore and develop new ways to pay TennCare providers to encourage high-quality, cost-effective care.
- These could include capitated payments or incentives for meeting certain quality benchmarks.

Health Reform

Many changes are coming related to national health reform. Some of these changes have a cost impact. This includes, but is not limited to:

	Estimated Annual Cost
• Excise tax: this is a broad-based tax on health insurance companies including Medicaid managed care companies.	$50M+
• Increased TennCare enrollment: the law requires individuals up to 138% of poverty to qualify for Medicaid; we estimate that will increase our enrollment numbers by about 200,000 – 300,000 by 2019 including some eligible but not enrolled.	$200M+
• Pharmacy changes: required to cover benzodiazepines and barbiturates, changes in rebates and pricing pressures	$50M+

While the current law requires these changes to be made January 1, 2014, we must continue to monitor potential mitigating factors. Factors that have the potential to modify or nullify the Health Reform law:

- New regulatory guidance
- Supreme Court ruling
- The 2012 national election

Conclusion

- Even though economic struggles have led to reductions over the past five years, we have still been able to significantly improve quality and satisfaction.
- While the economic outlook is improving, we must still be fiscally prudent.
  - Revenues have improved – but are only back to 2007 levels.
  - There are continued discussions at the federal level about how to address the deficit. Some options include significant cuts to federal funding for HCFA agencies.
- We will continue to find ways to make HCFA more customer-focused and cost-effective.