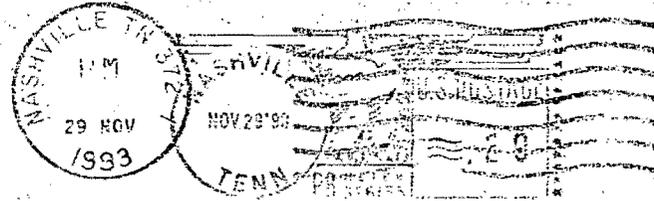


State Capitol
Nashville, TN 37243-0001



Miss Carol Rasco
Asst. to the President
for Domestic Affairs
The White House
1600 Pennsylvania Ave. N.W.
Washington, DC 20500

Ned McWherter
Governor



TENNESSEE

11/26/93

Carol,
Thanks for your help with my
waiver - I will make Tennessee work
to benefit all Tennesseans —

Ned



DEPARTMENT OF HEALTH & HUMAN SERVICES

any: CLK
XC: Kathi Way
Chief of Staff
Heenan (Shane)

Washington, D.C. 20201

APR 8 1994

with health
reform folks
if you feel
approp.)

NOTE TO CAROL RASCO

From: Kevin Thurn *[Signature]*

Re: TennCare Update

Hale
Hart

Attached is a status report on the TennCare waiver. Please let me know if you need further information or clarification.

TENNCARE STATUS REPORT APRIL 6, 1994

The Tennessee Medicaid State Agency submitted a proposal to HCFA in June 1993 requesting waivers to implement a five year demonstration to test Statewide reform involving a managed care system for Medicaid eligibles, uninsured State residents and those whose medical conditions make them uninsurable. The waivers for the State to implement its initiative were granted November 18, 1993, with an effective date of January 1, 1994.

Beneficiary Access to Care

Since enrollment in TennCare began in January, beneficiary participation has improved now that the State is in the second quarter of operations. Enrollment of new Medicaid-eligible enrollees increased about 7 percent resulting in total Medicaid-eligible enrollees now at 733,000. About 93,000 uninsured people have also enrolled.

Initial beneficiary and provider concerns about access appear to be diminishing. For example, beneficiary confusion about how to find a provider or use a managed care delivery system has decreased, judging from calls to both HCFA and the State hotline. More providers are contracting with managed care organizations (MCOs), which will continue to improve access.

Rural west Tennessee (an area where low provider participation was a concern) has experienced a significant increase in provider participation, with the Jackson Clinic and its 80 primary care physicians joining the Blue Cross network. This sizable clinic was initially a strong opponent of TennCare, and its prior refusal to participate had a negative impact on access in the area. The Clinic has also recently joined the Med Access Plus network, the other State-wide provider group. A second 80-doctor group in the Jackson County area has also signed with Blue Cross, providing additional coverage to the area.

A new concern about financial viability of a provider network has surfaced which we are closely monitoring. Tennessee's Medicaid Director indicated that Med Access Plus, a State-wide network, may be having financial difficulties. This has been reinforced by a handful of calls to the HCFA project officer from providers who have complained that Med Access Plus is not paying claims timely or completely. This managed care organization has enrolled about 38 percent of the TennCare population.

Quality of Care

The State contracted for quality of care reviews with an external review group. Independent data is not yet available, since we are only at the end of the first quarter of operation.

All reports HCFA has received about beneficiary problems with receiving care have been investigated by central or regional office staff, with the cooperation of State Medicaid staff.

Reports of two deaths were highly publicized: one involved an AIDS patient who was transferred from a non-participating hospital to a participating hospital 40 miles away. In that case, the attending physician was quoted as indicating that he would not have transferred the patient if he had known he was critically ill. The second death concerns an infant whose mother claims that she was unable to find a provider for the child. Both instances have been thoroughly investigated by the Regional Office and the State. After investigating concerns about a violation of anti-dumping rules, the Regional Office found no violation. The State investigated circumstances involving the infant death and could not substantiate whether the family's difficulty was related to access to TennCare providers or other circumstances. The principal nonparticipating provider in that case has subsequently joined TennCare and will be included in the intensive oversight of the demonstration.

A lawsuit filed by the Tennessee PRO against the State may affect the activities for monitoring quality of care. The suit has been filed because the Tennessee PRO believes the State has illegally contracted with another organization for quality control monitoring. The PRO contends that the State entered into the sole source contract without justification, in violation of State law.

Monitoring TennCare

HCFA Central and Regional Office staff continues to monitor the TennCare demonstration to an unprecedented degree, conducting at least 6 site visits and maintaining continual contact with State officials. HCFA believes the State should take a more active role in monitoring performance of the MCOs. On a recent site visit, HCFA had discussions with the State Medicaid Director about increasing State monitoring activities. He indicated that they would be willing to increase their efforts in this area, and we will continue to work with them to do so. During April, Region IV staff will conduct a beneficiary phone survey to determine the satisfaction level of enrollees.

GAO "Fact Finding" Study

On March 28, GAO held an entrance conference with HCFA to review the purpose of a fact finding study requested by Representative John Dingell. At this point, GAO indicated that this is not an evaluation. GAO is planning to give an oral presentation to the Subcommittee in June. Two site visits are planned, with the first starting the week of April 11.

GAO indicated the purpose of the study is to determine (1) if the program has enough primary care physicians to assure adequate access; (2) if overall program funding levels and the reimbursement rates to providers are adequate; (3) what Federal and State

monitoring and oversight efforts are in place; and (4) what implications the TennCare program and the approved waiver have for other States seeking waivers.



State of Tennessee

NED McWHERTER
GOVERNOR

**MEDIA AVAILABILITY
Southern Governors Conference
Governor Ned McWherter
Nashville August 29, 1994**

I appreciate all of you who came out this morning. I extend a special welcome to our friends from out-of-state. I'm here this morning to do two things.

First, I want to share some extremely good news about a survey taken to measure the progress of Tennessee's health care reform program called TennCare. Second, I want to announce three policy changes that will, I am confident, significantly improve the TennCare program.

Over the past eight months most of the media coverage of TennCare has been based on the stories of individual patients and doctors. What the media has lacked, and what we have lacked in the Administration, has been some hard numbers that tell us accurately what percentage of Tennesseans now have health care insurance, and how many of those people are satisfied with the health care they have. Today we have that data for the first time, and the news about two items is extremely encouraging.

First, as of August 12th, 94.1 percent of Tennesseans now have health care coverage through private insurance, Medicare or TennCare. While in Washington they are talking about a goal of 95 percent coverage by the year 2002, these numbers indicate that Tennessee will achieve 95 percent coverage by Christmas of this year.

The second encouraging finding in the survey is that 9 out of 10 persons in TennCare rate their health care as the same or better than when they were uninsured. Even more encouraging, the survey also finds that all Tennesseans except those who remain uninsured think that the quality of their health care is at least as good or better today than before TennCare was implemented. Dr. Bill Lyons and Dr. Bill Fox will have more to say about the survey, but the results say a great deal about the progress we have made in just eight months of total health care reform.

In addition to these survey findings, I want to announce three policy changes in TennCare that will affect both patients and providers. We have closed the books on the 1994 fiscal year, and find that the savings we predicted from TennCare now allow us to go forward with these three changes.

First, anyone who became uninsured between March 31, 1993 and July 1, 1994, can now apply for TennCare. Second, any person who has had a small insurance policy for cancer or any other specialized item will now be eligible for TennCare. Finally, we will provide a 28 percent increase in the capitation rate to assure funding for mental health services, services to children and very high cost conditions such as AIDS. The increase will not require us to raise taxes or take funds from other state programs.

This increase will come from the TennCare reserve fund and responds to many health care providers who have asked the state to assume more of the risk for these services. This increase is expected to eliminate most of the risk for coverage of high-cost items like coverage for the seriously mentally ill or AIDS patients.

Before I recognize Commissioner Manning, I want to make two comments. This survey tell us what my instinct told me, that TennCare has moved beyond most of the problems we had with implementation. I want to thank President Clinton, Secretary Shalala and Bruce Vladeck for their confidence in us. And I want to thank all the hospitals, doctors, and all other health care providers who have made TennCare work.

I made a promise on the day I was inaugurated that I was going to try to provide affordable health care to every Tennessean. Beginning today, I plan to spend a dollar a person to try to encourage the remaining 300,000 Tennesseans to sign up for TennCare.

My message to them will be very simple. I know some people who used to be on Medicaid don't like TennCare. I'm not surprised because many of them used to go to the emergency room every time they got a bad cold.

The data we have gathered in recent weeks has enabled us to make these improvements to TennCare. As we receive more data, you can probably expect more changes in the coming weeks. But TennCare is working, and regardless of what happens in Washington, in Tennessee we have health care reform.



FOR IMMEDIATE RELEASE
B-2700829

TENNCARE NEARS NATIONAL COVERAGE GOAL; PAYMENTS IMPROVED

NASHVILLE -- The TennCare health reform program allowed Tennessee to cover 94.1% of its citizens with health insurance by mid-August, according to a survey conducted by an independent research organization, Governor Ned McWherter announced Monday.

The figures mean Tennessee will cover at least 95% of its citizens with health insurance by the end of 1994, seven years faster than the most aggressive goal set for the nation under legislation now being debated in Congress, McWherter said.

The survey also shows that all insured Tennesseans, including those with private insurance, TennCare and Medicare, have good access to care and believe the quality of their health care is as good or better than it was before implementation of TennCare.

At a news conference, the governor also announced TennCare funding improvements that will raise the average capitation payment under TennCare from \$1,275 to \$1,507 per year. This new rate is about 11% greater than the \$1,360 average annual capitation payment for private HMOs doing business in Tennessee.

The improvements will include a \$300 million expansion of funding to assure that services will be available for troubled youth and the seriously mentally ill.

An additional \$40 million "Adverse Selection Account" will be established to more fairly compensate TennCare managed care organizations who have a disproportionately large percentage of patients experiencing high-cost health problems, such as AIDS, hemophilia and organ transplants.

McWherter said the adjustments are in response to health provider requests that the state bear a greater portion of the financial risk in TennCare.

Funding for these improvements will come from the existing TennCare supplemental funding pool and savings derived from a smaller pool of potential TennCare clients than previously estimated. No tax increases are required.

The changes have been presented to federal officials, whose approval of the plan is expected prior to its October 1 effective date.

Finally, McWherter said he is also removing two restrictions on qualifying for TennCare that will make more Tennesseans eligible for coverage:

1. Effective immediately, TennCare coverage will be open to anyone who did not have private insurance available to them on or before July 1, 1994.

Previously, those who had coverage available to them on or after March 1, 1993 were ineligible for the program.

2. Those persons previously disqualified from TennCare because they had various incidental and highly specialized health policies, such as policies paying only for cancer treatment, will now be eligible for TennCare. TennCare will provide primary coverage for those conditions not already covered by other insurance, and secondary coverage for conditions covered by the specialized policies.

McWherter said he can make the improvements in TennCare because a new survey conducted by the Social Science Research Institute and the Center for Business and Economic Research at the University of Tennessee shows the state can cover all its remaining 300,000 uninsured citizens without exceeding the cap of 1.4 million enrollees for which TennCare is now budgeted.

"These improvements will help us extend coverage to uninsured individuals who were formerly disqualified from TennCare. They will also let us assure the availability of TennCare benefits for our most vulnerable citizens -- children, those with debilitating medical problems and people with serious mental illness," McWherter said.

SURVEY RESULTS

The survey, conducted among 5,000 randomly selected respondents on Aug. 6-12, shows that 90% of roughly 360,000 previously uninsured working Tennesseans now covered by TennCare say their insurance coverage is as good or better than before.

Surprisingly, nearly half of former Medicaid enrollees reported they found their new TennCare insurance coverage to be as good or better than their coverage under Medicaid.

"We changed a totally unrestricted program into a managed health care program, so we expected some Medicaid recipients would be unhappy. But the truth is that we could no longer afford to provide more expensive health coverage under Medicaid than taxpayers could afford for themselves," McWherter said.

The survey also shows that Tennesseans with private insurance are more satisfied today with their coverage than they were before TennCare, demonstrating that implementation of TennCare has had little impact on the private insurance marketplace.

The survey detects no change among Medicaid/TennCare recipients over the past year in their perception of the quality of medical care that they are receiving.

In 1993, 58% of heads of households rated the quality of care they were receiving under Medicaid as "excellent" or "good" compared with 57% who gave TennCare similar ratings this year. When asked about the quality of care their children were receiving, 67% rated it "excellent" or "good" in both the 1993 and 1994 surveys.

MARKETING TO UNINSURED

To reach the remaining uninsured population, McWherter said he is launching a \$300,000 media program -- roughly \$1 for each uninsured person -- to persuade them to join TennCare before the open enrollment period ends.

Three television ads produced by the Washington D.C.-based firm of Grunwald-Eskew-Donilon will air throughout Tennessee in the next 14 days to provide information on TennCare's achievements to date and to help those eligible for the program obtain further information on enrollment.

"We believe this is a worthwhile expenditure to reach those who still are an illness or injury away from bankruptcy and welfare. The more of these people we enroll in TennCare, the less costs will be shifted to those of us who pay for our medical care," McWherter said.

The governor noted that it is particularly important for uninsured persons who earn more than 200% of the federal poverty level to sign up soon for TennCare since enrollment for that group will be closed first as the state nears its overall enrollment cap.

The governor expressed his appreciation to doctors, hospitals and TennCare recipients for their cooperative efforts to make TennCare a success.

He also thanked the Tennessee General Assembly, President Clinton, Health and Human Services Secretary Donna Shalala and Bruce Vladek, administrator of the Health Care Financing Administration, for having confidence in Tennessee's ability to make the reform program work.

SUMMARY OF FUNDING IMPROVEMENTS

THE CHILDREN'S PLAN

One TennCare improvement will expand funding for individuals receiving services through the state's Children's Plan under TennCare.

Case management will be provided for each young person to make certain he or she receives a comprehensive plan of care, all needed services and periodic monitoring of his or her progress.

There will be no limitations on the outpatient mental health services or alcohol and drug services (inpatient or outpatient) that can be provided.

TennCare will pay for these services through a special supplemental capitation payment.

HELP FOR THE SERIOUSLY MENTALLY ILL

The funding improvement for the seriously and persistently mentally ill will involve full implementation of all the services envisioned by the state's far-reaching Mental Health Master Plan.

The purpose of the improvement is bring the advantages of case management to the problems of the seriously mentally ill while providing a full range of community-based services to meet their needs.

Case management services will be provided by existing teams approved by the Department of Mental Health and Mental Retardation.

Payment for care provided to the seriously mentally ill under this plan will be made in the form of a supplemental capitation rate based upon the level of services each client requires.

ADVERSE SELECTION

Manning said establishment of the \$40 million Adverse Selection Account is a response to concerns that some managed care organizations have received a disproportionately high percentage of clients requiring expensive treatment programs for ailments like AIDS, hemophilia and organ transplants.

He said separate accounts will be established for several categories of illnesses so that a managed care organization experiencing financial problems due to a high percentage of AIDS patients, for example, will be paid more for those cases.

file: TENNCARE

**NRM & CO.
22 BYPASS/P.O. BOX 30
DRESDEN, TN 38225**

**FAX TRANSACTION COVER SHEET
SENDING VIA OUR FAX 901-364-2130**

FAX MESSAGE

DATE: March 13th TIME: 12:15 P.M. CST

NO. OF PAGES: 4 (INCLUDING THIS PAGE)

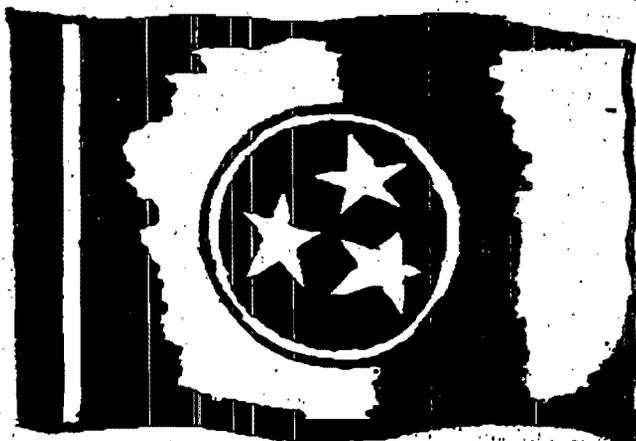
TO FAX NUMBER: 1-202-456-2878

ATTENTION: Carol Rasco

REFERENCE: APPOINTMENT

FROM: Ned R. McWhorter

**PLEASE NOTIFY US IF YOU DO NOT RECEIVE ALL PAGES.
CALL US AT 901-364-2130.**



NED R. McWHERTER

P6/(b)(6)

March 13, 1995

**Ms. Carol Rasco
The White House
Washington, D.C.**

Dear Carol:

Enclosed please find a copy of a letter from Mr. Bob Corker, the new Commissioner of Finance and Administration. Also you will find the issues that we would like to discuss with the Health Care Financing Administration, under Title XIX regulations and funds.

Commissioner Corker and the Sundquist Administration have endorsed the TennCare Program and are totally committed to make adjustments from time to time, to make the TennCare Program for Tennessee successful.

Please advise me if your office will make an appointment with Secretary Shaiala or Director Vladeck, for next Monday the 20th or Tuesday the 21st. I will be at The White House Monday night and the 20th or 21st would be helpful for me.

Best Regards,


Ned R. McWherter

NRM:mbp



STATE OF TENNESSEE
DEPARTMENT OF FINANCE AND ADMINISTRATION
STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0285

BOB CORKER
COMMISSIONER

March 13, 1995

The Honorable Ned McWherter

P6/(b)(6)

Dear Governor McWherter:

Thank you very much for your willingness to help us pursue the block grant for medical services. We would not be in the position to pursue this without the bold steps you took to create TennCare. If we are successful in securing a block grant, it will be a culmination of your previous efforts in this area.

The material we discussed last week is enclosed, relating what needs to be done and what we are requesting. It is broad enough to leave room for discussion. As you know, we believe the level of those with health insurance in Tennessee is now at the 95 to 96 per cent range, but our position is that the level must be at least 92 per cent. Also, we are taking the position that the assured annual increase in federal participation must match the ceilings agreed during the waiver period. Obviously, this could be adjusted somewhat.

You also will be interested in knowing that the House of Representatives overwhelmingly passed HJR 116 endorsing the TennCare block grant and that the Senate will take up concurrence this week.

If you feel there are changes which are necessary or appropriate, please let us know. I look forward to our trip next week and to a successful conclusion to our efforts, which we believe are good for Tennessee, good for the country, and good for those citizens who lack health insurance. Thank you again.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bob", written in dark ink.

Bob Corker

BC:bt

TennCare: A Proving Ground for Insured Health Services

Tennessee now operates the broadest health care insurance program in the nation - which is called TennCare - under waivers granted by the Health Care Financing Administration under Medicaid statutes. After one year, the covered insured population has increased by 50 per cent (the working poor), while the expanded program has saved \$1 billion. (In the current program year, Tennessee is spending \$2.9 billion, instead of the \$3.9 billion which had been projected for the pre-existing Medicaid program.)

Tennessee is proposing federal legislation which would authorize it to operate a health care program for the poor and uninsured under a Medicaid block grant which provides relief from Title XIX regulations.

Under the current waiver, during the past year Tennessee already has expanded the public health insurance program for the poor to include 800,000 Medicaid-eligible persons AND 400,000 of the working poor who have had no access to health insurance where they work. The result is that the state knows that 92 per cent of all Tennesseans have health insurance, although it is believed that coverage may be in the range of the 95 per cent national goal.

To support the improved program, Tennessee is seeking:

- o Passage of an amendment to Title XIX of the Social Security Act to authorize Tennessee to operate under a Medicaid block grant with no state matching requirement beyond Tennessee's current dollars committed to the program.
- o Total flexibility to operate, with the only stipulation being that funds be spent to provide needed health services to the TennCare population.
- o Continued recognition of Tennessee's funding base year (1993-94) at the presently authorized level of \$2,108,000 in federal funds.
- o Recognition of the annual growth assumptions contained in the existing approved HCFA waiver, as well as a guarantee that these recognized rates will not be reduced unless, in the intervening time, Congress should convert the traditional Medicaid program to block grants available to all states.

Tennessee believes that it is ready to be the proving ground for the entire nation. With the cost of health services provided through Medicaid climbing dramatically each year nationwide, Tennessee has contained TennCare growth to half of the national Medicaid cost increase and is serving 50 per cent more citizens than the Tennessee Medicaid population - the working poor.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care Financing Administration



MAY 18 1994

The Administrator
Washington, D.C. 20201

NOTE TO: Carol Rasco

FROM: Administrator
Health Care Financing Administration (HCFA)

SUBJECT: Tennessee TennCare Monitoring Report

HCFA's Atlanta Regional Office (RO) has completed its quarterly report on TennCare for the period January through March 1994. This report includes information gathered during two site visits in March and other monitoring activities. Highlights include:

- Eligibility and Enrollment - TennCare's enrollment process appears to be operating smoothly, with eligibility determination for the Medicaid population averaging 4 to 8 weeks. Applicants for AFDC are encouraged to apply for TennCare at the same time they apply for AFDC. TennCare began enrolling the uninsured and uninsurable populations in March, with applications available at all county offices of Tennessee's Department of Human Services.
- Provider Access - The RO has fielded two provider surveys to assess access under the demonstration. Based on the standards listed in the special terms and conditions in the waiver approval notice, access is adequate, and more providers are beginning to participate in TennCare. The RO will continue to monitor access to ensure that the terms and conditions continue to be met.
- Quality Assurance - Quality is being closely monitored by the RO; they participated in the first certification review for the Blue Cross and Blue Shield Plan, and have requested copies of the certification review reports for the other plans as soon as they are completed.
- Minimum Data Sets/Systems - The State expects all systems to be operational by July, with the first complete encounter data available in September. As part of the quality assurance certification review, each Managed Care Organization (MCO) is assessed on its capability of capturing encounter data and developing reporting mechanisms to measure services and claims data.
- Eligibility Quality Control - Because Tennessee is contracting with a private company to make final eligibility determinations, they do not believe that the entire TennCare population should be included in the regular Medicaid quality control (QC) sample. The State contends that the contractor's action constitutes a "look behind"; therefore they would be absolved of any QC requirements for Medicaid eligibles. This issue is currently under review in HCFA.

Page 2

- **Fiscal Issues** - RO staff visited Nashville on March 28 through April 1 to discuss remaining fiscal issues with the TennCare Director and staff. HCFA recently requested information to supplement the State's submissions relating to several of these issues, such as supplemental pool payments and the sharing of premium revenues. HCFA anticipates that further negotiation will be needed on some of these and other fiscal issues.
- **Infant Death** - The State submitted a brief, confidential report on the occurrence of an infant death which paraphrases the infant's mother's statements about her attempts to obtain care for the baby, who died in late January. The mother stated that, after several attempts to obtain appointments with providers, she went to the emergency room at Jackson-Madison County General Hospital (JMCGH) in early January and was told the hospital did not accept TennCare. However, by encountering a clerk who did not understand the emergency, the mother (who had left the baby in the car with her husband) may have been inadvertently turned away. The Tennessee report states that JMCGH has clearly adopted a well documented policy to treat patients in the ER regardless of insurance status. There is no evidence that JMCGH had violated the anti-dumping provisions.
- **Public Reaction** - The character of calls to the State hotlines has changed from the initial confusion of finding providers to requests for applications and help in enrolling in TennCare. There may also be a softening of provider resistance, as there is an increasing number of physicians who are contracting with MCOs.
- **Second Quarter Monitoring** - RO staff will continue to monitor the first quarter issues of access, EPSDT requirements, fiscal issues, systems requirements, procurement requirements, and quality assurance, in addition to any issues that arise as monitoring proceeds.
- **Conclusions** - HCFA believes the initial implementation problems that created beneficiary confusion, which in turn created impaired access, are receding. Most systems that will be needed for monitoring of the demonstration operation are in place, and HCFA's Regional and Central Offices continue to closely monitor TennCare.

We will continue to keep you informed on the TennCare demonstration project. Please let me know if you have any questions on this report.


Bruce C. Vladeck



MAY 18 1994

The Administrator
Washington, D.C. 20201

MAY 20 REC'D

NOTE TO: Carol Rasco

FROM: Administrator
Health Care Financing Administration (HCFA)

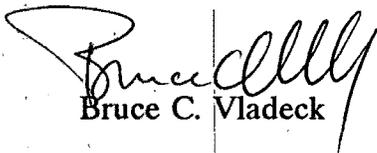
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We will continue to keep you informed on the TennCare demonstration project. Please let me know if you have any questions on this report.


Bruce C. Vladeck

THE WHITE HOUSE
WASHINGTON

bcc Jennings
Fortuna

April 24, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: Carol H. Rasco *CHR*
SUBJECT: BC/BS Threatens to Abandon (TennCare) *file*

HHS has people visiting Tennessee regularly, and they are monitoring TennCare. The attached does yet again point out the need to be careful in any public statements. I will keep you posted.

Attachment

cc: Leon Panetta
Alice Rivlin
Laura Tyson

TENNESSEE: BC/BS THREATENS TO ABANDON TENNCARE

BC/BS's Glen Watson bestowed an "ominous warning" on the TennCare program in reporting his organization's \$8.8M loss resulting from the company's treatment of "nearly half" of TennCare's patients. Watson said BC/BS "doesn't intend to continue to operate in a deficit position" and "called for a 10% increase" in plan payments to be applied retroactively for three months. Watson said that absent an increase, "we will be faced with a decision that will have a major impact on TennCare later in" '95, Nashville TENNESSEAN reports. Watson and other representatives of health plans serving TennCare aired their complaints at a 4/17 meeting of the TennCare Roundtable (see AHL 4/5).

MORE COMPLAINTS: Representatives of university-based health plans said their problems with treating TennCare patients were bad and "getting worse." The academic centers plans' concerns result from healthy patients having "switched into other plans, leaving behind a mix of patients who are even sicker and more expensive to treat." Univ. of TN Health Plan's (UTHP) Richard Wickert: "UTHP's membership continues to fall as the healthy enrollees who no longer need specialized care move into less restrictive PPO arrangements." TENNESSEAN notes that under the original TennCare proposal, "plans with greater numbers of very sick patients" were supposed to be provided with extra funds from a \$100M pool. However, that pool has already "been whittled" to \$40M "and has not been paid out."

TIME FOR A CHANGE: Wickert and others "called for reforms ... including higher funding and new rules." They recommended that Tennessee adopt a plan similar to California's, where "the sickest [Medicaid] patients are separated from the rest, and groups are allowed to bid to provide care at higher payment rates." The Roundtable will meet again 4/24 to hear from primary care physicians and specialists (Fox, 4/18).

NEW DIRECTION FOR TENNCARE: Manny Martins, a chief architect of TennCare, has resigned as the program's director and will be replaced by "health-care entrepreneur" Rusty Siebert.

Nashville TENNESSEAN reports, "Where career government employees ... once directed the program ... a troika of business veterans now hold the key posts." In addition to Siebert, Finance and Administration Commis. Bob Corker and TennCare Roundtable Chair Carroll Shanks are running the program. TENNESSEAN: "Their business backgrounds promise to bring a greater emphasis on the operations and financial performance of the TennCare system, while they endeavor to safeguard the quality of care." Expected changes under the new leadership team include: improved cost/quality measurement; "a stronger adoption of managed care by the private health plans"; a "removal of bottlenecks" in reimbursing providers; and improved patient education about the program. TN Health Care Campaign's Tony Garr said his "only concern is that they remember that the ultimate goal is not to pay a higher reimbursement to [providers]. The goal is to provide health care to people" (Fox, 4/17).



DEPARTMENT OF HEALTH & HUMAN SERVICES

Chief of Staff

JUN 20 1995

Washington, D.C. 20201

file: TENNCARE

JUN 20 1995

Carol - I have
a copy. The real
memo is on p2.

The State may object
because the original
offer was miscommunicated.

Diana

MEMORANDUM TO: CAROL RASCO
KITTY HIGGINS

SUBJECT: Announcement of Modification to TennCare Demonstration Permitting One-Time
Payment of \$54.5 Million in Federal/State Funds

Background

TennCare, approved on November 18, 1993 and implemented January 1, 1994, is a statewide section 1115 demonstration that provides health care benefits to Medicaid beneficiaries, uninsured state residents and those whose medical conditions make them uninsurable. Enrollment is capped at 1.4 million. All enrollees are served through capitated managed care plans that are either HMOs or PPOs.

Because the state has not collected the amount of TennCare premiums and federal matching funds it expected, it has not had the level of funding for TennCare that it projected. The state has capped new enrollment in the program and discontinued payments from its special pools, including medical education payments.

To address its funding shortfall, the state originally approached HCFA with a proposal to reinstate a disproportionate share hospital program in a way that would allow the state to receive intergovernmental transfers of appropriated funds from two counties and provide payments to the Regional Medical Center (the Med) in Memphis and Metro General/Hubbard in Nashville equal to twice these hospitals' uncompensated care costs. We believe the state intended to use these overpayments to the public hospitals to generate more federal matching payments for TennCare. The Med and Metro General have both experienced financial difficulties as a result of TennCare.

Issue

Today, the Department plans to give Tennessee approval to make one-time payments to the Med and Metro General equal to these hospitals' uncompensated care costs. The Department will allow the state to use an existing TennCare supplemental payment pool as the funding mechanism. These additional payments of approximately \$54.5 million will not violate the budget neutrality of the TennCare demonstration.

Page 2 - Kitty Higgins

As a condition of our approval and to ensure that federal funds are not "recycled" into state share of additional TennCare payments, the state must agree that, of the federal share of the one-time payment, \$12 million will remain with the Med, \$6 million will remain with Metro General, and approximately \$4 million will be used for medical education payments to medical institutions. Based on conversations with HCFA last week, the state has already informed the two hospitals that they will receive these payments. The state does not yet know about and could possibly object to our requirement that the remaining funds be used to pay for medical education. We will keep you informed of our discussions with the state. }

Our approval of additional pool payments is a short-term solution to the broader issue of the adequacy of state funding for the TennCare demonstration. Consequently, another condition of our approval is for the state to agree to develop a long-term plan for funding the demonstration.



Kevin Thurm