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## *Tough Lessons from TennCare*

TennCare — a managed care program that replaced and expanded Medicaid in Tennessee — has been troubled from its inception. Hastily implemented so as to minimize evaluation and opposition, Tennesseans have been paying the high price for an ill-conceived program ever since.

Initially, TennCare covered 1.1 million people — the 766,000 residents then enrolled in Medicaid and an additional 340,000 who were uninsured or uninsurable. Today, it covers more than 1.3 million, nearly a quarter of the state's population, and requires almost a third of the state's budget.<sup>1</sup> A recent independent study concluded that if no changes were made to TennCare, health care costs could consume as much as 40 percent of the state budget by 2008.<sup>2</sup>

Now, 11 years after implementation, Tennessee is a poorer, but wiser, state. In an attempt to address the fiscal crisis, Gov. Phil Bredesen announced in January 2005 that TennCare will revert to a Medicaid managed care program and drop 323,000 people who will not qualify for Medicaid. However, a court has told the governor he cannot implement his plan before June.<sup>3</sup>

The governor and numerous legislators have learned some tough lessons from TennCare, and they want an "exit strategy" — if the courts will let them.

### **A 1999 audit of the program found that TennCare:<sup>i</sup>**

- Included 16,500 enrollees who lived out of state;
- Paid \$6 million to cover 14,000 dead enrollees; and
- Enrolled 450 state employees who had access to the state employees' health plan.

A 2003 audit by the state Medicaid Fraud Control Units recovered \$268 million in court ordered restitutions, fines, civil settlements and penalties and was instrumental in obtaining 1,096 convictions.<sup>ii</sup>

And a 2004 investigation by WSMV-TV (Nashville) found rampant prescription drug abuse as TennCare beneficiaries would get drugs they didn't need and sell them for a profit. One official is quoted as saying, "TennCare is the biggest supplier of the drugs we are seeing on the streets." According to the story, 47 percent of the population of Fentress County was on TennCare, and 224 people were indicted for drug sales.<sup>iii</sup>

**The Origins of TennCare.** Then-Gov. Ned McWherter proposed TennCare on April 8, 1993. By May 5, the Legislature had approved only an outline of the program and authorized the governor to proceed. By June, the state submitted a request for a federal waiver to the Health Care Financing Administration (now the Centers for Medicare and Medicaid Services), and by January 1, 1994, the program was operational.<sup>4</sup>

In return for the waiver, the federal government required the state to cover all Tennesseans who qualified for Medicaid, plus the uninsured and the uninsurable (i.e., those who could not obtain coverage because of a pre-existing condition).

Thus, only about eight months passed between TennCare's inception to its implementation, with minimal input from elected representatives and stakeholders in the health care system. The political objective appears to have been to get a Clinton-style health care reform plan in place before opposition forces could form.

**Tough Lessons for Legislators.** What does Tennessee know now that it didn't know in 1993 — and, considering all of the new state proposals to create some variation of TennCare, what several states have yet to learn?

*States have limited ability to fix the health care system.* Most Americans' health coverage falls under federal, rather than state, law. For example, about 160 million Americans get their health coverage from their employer, and roughly half of them are self-insured under the federal Employee Retirement Income Security Act of 1974 (ERISA). Another 44 million seniors and disabled people get coverage through the federal Medicare program, and about 7 million receive federal coverage from a military-related program.<sup>5</sup>

Thus, grandiose state schemes to move to a single-payer system — some TennCare supporters envisioned expanding it into a statewide single-payer if the more limited version proved successful — are almost certainly doomed to failure because so much of the population's health coverage isn't under state control.<sup>6</sup> A much better approach is for states to ask how they can create a limited, viable and affordable safety net to catch those who really need the help.

*Government-run systems don't really save money.* Proponents of government-run health care systems claim they cost less than market-oriented systems because they are more efficient and eliminate profits.

The truth is that government-run programs simply *spend less*, because they can cut reimbursements and ration care.

The states on average reimburse doctors for Medicaid recipients only about 69 percent of Medicare fees, up from 62 percent in 1998.<sup>7</sup> And Medicare only pays a little more than cost.

According to a recent Kaiser Family Foundation report on Medicaid, “According to the [50 state] survey 39 states were facing increased pressure and another 12 states were facing constant, but intense pressure to control Medicaid costs. For FY 2005, 47 states adopted plans to freeze or reduce provider payments, and 43 states planned pharmacy cost controls to reduce overall Medicaid spending growth. In addition, 15 states made plans to restrict eligibility, nine states planned to reduce or restrict benefits and nine states reported plans to increase copayments in FY 2005.”<sup>8</sup>

That may be saving money, but it’s not because of efficiency; it’s rationing.

TennCare is no different. For example, a March 1999 actuarial review by PricewaterhouseCoopers found that capitated reimbursement rates were \$11 per-member, per-month below what would be considered “actuarially sound.”<sup>9</sup> In May 2004, the Legislature approved proposed cuts that would limit patients to 10 (later raised to 12) doctor visits a year and six prescriptions a month.<sup>10</sup>

“What began as a grand vision had become a political scramble to cut the program as fast as possible,” says one of TennCare’s current defenders.<sup>11</sup>

Unfortunately, when the government sets provider reimbursements below market value, providers must recoup their costs in other ways — like unbundling provided services or limiting access to health care, which leads to higher health care costs at a later point in time.

*Managed care is not a panacea.* Gov. McWherter and other supporters of TennCare sold the program to the public in part by claiming that managed care would save the system so much money that the state would be able to cover not only the Medicaid population, but the uninsured and uninsurables as well.

They were in for a rude awakening. In 1995, TennCare cost \$2.5 billion. By 2004, the program’s cost had swollen to \$8.04 billion (\$2.54 billion state share, \$5.04 billion federal share, and \$462 million other, including drug rebates). That’s one third of the state’s budget.<sup>12</sup>

Managed care attempts to reduce costs by controlling utilization from the top down, by telling patients what they can and can’t have. However, the only effective way to control health care utilization is by ensuring that patients have an incentive to control it. Consumer-driven plans such as Health Savings Accounts do that; managed care doesn’t.

*Fraud is rampant in government-run systems.* When government creates a rich, taxpayer-funded health insurance package, it is an invitation for fraud. [See the sidebar on the front page.]

*Quality of care always declines when the government is paying the bills.* Government health care dollars must compete with other valid claims on government funds such as education, welfare and defense. As a result, there is never enough money. Limited funds mean patients suffer. For example, low reimbursements force doctors to limit the number of TennCare patients they treat. And while the governor’s plan to allow only six prescriptions per month may work well for most patients, some may need more and would not be able to get them — at least through TennCare.

*Once started, it is hard to end the program.* Just ask Gov. Bredesen. The governor announced a TennCare reform plan that included the removal of as many as 323,000 adults currently enrolled in TennCare, as well as new benefit limits for others, saving an estimated \$575 million during the next fiscal year.

However, a lawsuit is preventing the governor from taking action to fix the ailing program, and a federal district court has ruled that the governor’s plan requires its approval.<sup>13</sup> If this ruling is overturned, you can bet that there will be others. Hundreds of thousands of people who have been receiving free health care at taxpayer expense for more than a decade won’t give it up easily.<sup>14</sup>

**Less Expensive Ways to Solve the Uninsured Problem.** TennCare was supposed to be an affordable way for Tennessee to provide quality health care for all of the state’s uninsured. It was anything but.

There are much better — and far less expensive — ways to ensure people have access to affordable coverage.<sup>15</sup> For example, states can:

- Eliminate costly state mandates and regulations that make health insurance unaffordable for many;
- Ensure people have access to consumer driven plans, which provide incentives to control utilization;
- Create a fully funded high-risk pool for the uninsurables; and
- Provide tax credits for the uninsured to buy insurance.

*Note: Endnotes are available at [http://www.cahi.org/cahi\\_contents/resources/pdf/n129tenncare.pdf](http://www.cahi.org/cahi_contents/resources/pdf/n129tenncare.pdf).*

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## Endnotes

<sup>1</sup>Rick Lyman, "Once a Model, a Health Plan Is Endangered," *New York Times*, Nov. 20, 2004.

<sup>2</sup>"Tennessee Governor Bredesen to Dissolve Medicaid Program TennCare," NewsMax.com Wires, November 10, 2004 <http://www.newsmax.com/archives/articles/2004/11/10/152447.shtml>.

<sup>3</sup>Anaita Wadhvani, "TennCare cuts can't be before June; lag to cost \$90 million," *The Tennessean*, February 8, 2005.

<sup>4</sup>For a brief overview of TennCare's implementation, see Merrill Matthews Jr., "Lessons from Tennessee's Failed Health Care Reform," Heritage Foundation Backgrounder No. 1357, April 7, 2000.

<sup>5</sup>Paul Fronstin, "Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2004 Current Population Survey," Employee Benefits Research Institute Issue Brief Number 276, December 2004. [www.ebri.org](http://www.ebri.org).

<sup>6</sup>For other examples, see Merrill Mathews, "The Grand Illusion: The Perennial Qwest for a Single-Payer Health Care System that Works," Council for Affordable Health Insurance, Issues & Answers No. 127, January 2005. [http://www.cahi.org/cahi\\_contents/resources/pdf/n127Singlepayer.pdf](http://www.cahi.org/cahi_contents/resources/pdf/n127Singlepayer.pdf).

<sup>7</sup>Stephen Zuckerman, Joshua McFeeters, Peter Cunningham and Len Nichols, "Changes in Medicaid Physician Fees, 1998-2003: Implications for Physician Participation," *Health Affairs*, June 23, 2004. 10.1377/hlthaff.w4.374.

<sup>8</sup>Vernon Smith, Rekka Ramesh, Kathleen Gifford, Eileen Ellis, Robin Rudowitz and Molly O'Malley, "The Continuing Medicaid Budget Challenge: State Medicaid Spending Growth and Cost Containment in FY 2004 and 2005. Results from a 50 State Survey," October 2004. <http://www.kff.org/medicaid/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=48004>.

<sup>9</sup>Sandra Hunt, et al., "Actuarial Review of Capitation Rates in the TennCare Program," PricewaterhouseCoopers, March 1999, p. iv.

<sup>10</sup>Lyman, "Once a Model, a Health Plan Is Endangered."

<sup>11</sup>Ibid.

<sup>12</sup>Please see the Governor's Communications Briefing on TennCare, January 2005, at <http://www.newsmax.com/archives/articles/2004/11/10/152447.shtml>.

<sup>13</sup>Rosen v. Tennessee Commissioner of Finance and Administration, M.D. Tenn., No. 3:98-0627, January 25, 2002.

<sup>14</sup>"Federal Court Asserts Approval Authority for Plan to Reduce TennCare's Enrollment," Bureau of National Affairs' Health Care Daily, Volume 10, Number 20, February 1, 2005.

<sup>15</sup>For more detailed information, please see [www.cahi.org](http://www.cahi.org).

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<sup>i</sup>Bonnie M. de la Cruz, "Audit: TennCare Paid \$6 Million to Insure Dead People," *The Tennessean*, July 9, 1999, and Paula Wade, "TennCare Finds 16,500 Ineligible," *The Commercial Appeal*, August 11, 1999.

<sup>ii</sup>Department of Health and Human Services State Medicaid Fraud Control Units Annual Report, Fiscal Year 2003. <http://oig.hhs.gov/publications/docs/mfcu/MCFU2003.pdf>.

<sup>iii</sup>See <http://www.wsmv.com/Global/category.asp?C=28416&nav=9Tb0>.