



STATE OF TENNESSEE  
DIVISION OF HEALTH CARE FINANCE AND ADMINISTRATION  
STRATEGIC PLANNING AND INNOVATION GROUP  
310 Great Circle Road  
NASHVILLE, TENNESSEE 37243

**MEMORANDUM**

Date: February 20, 2014

Subject: Update on the Tennessee Health Care Innovation Initiative

---

Stakeholder input from patients, providers, payers, and employers has helped shape Tennessee's Health Care Innovation Initiative. As the initiative moves toward implementation of retrospective episodes of care, provider stakeholders, in particular, have made additional design and process recommendations. Working with stakeholders and incorporating their feedback is an important way to assure the overall success of the initiative.

Highlighted below are the most recent examples of how the initiative is incorporating stakeholder input:

- **Timeline:** The original goal was to send the first reports to provider quarterbacks in January 2014. In order allow ample time to incorporate a number of suggestions from stakeholders, the dissemination of these reports will be delayed. This delay will not; however, reduce the length of the “reporting only” period. The initiative has committed to a **minimum** six month period between when providers will start receiving informational reports and when the first performance period for providers will begin. This will assure providers have time to understand the content of the reports and begin making any necessary adjustments to practice patterns.
- **Risk adjustment methodology:** Risk adjustment models are developed from claims experience, which can vary considerably from health plan to health plan. Currently, there is no off-the-shelf risk adjustment product designed for episode-based payments that could be applied across health plans. In light of these facts and given the wealth of experience TennCare MCOs have working with claims data and data analytics, TennCare is not dictating the methodology each MCO must use to adjust for risk. However, in response to provider requests for transparency, TennCare has decided to require that each MCO make a summary description of its risk adjustment methodology and the resulting risk factors and risk adjustment weights transparent to providers. In addition, TennCare has facilitated discussion between the MCOs regarding risk adjustment methodology and these discussions have led to increased similarity of approach across health plans.
- **Risk adjustment application:** In addition to making risk factors and risk adjustment rates transparent to providers, TennCare will ask the Department of Commerce and Insurance to review MCO procedures for applying the published risk adjustment rates as a part of their ongoing assessment of claims payment accuracy. In addition, quarterbacks will be able to use

the existing independent review process if they believe that there has been an error in calculation of a reward or penalty associated with the episode based payment process.

- **Alignment on thresholds and other design elements:** It had previously been announced that all MCOs would align on basic components of the model such as episode definition. At the request of provider stakeholders, TennCare and the MCOs have explored options for additional areas of alignment and as a result, agreement has been reached for a uniform approach to clinical exclusions, cost outlier provisions and gain/risk sharing limits. In addition, as previously announced, TennCare has decided to set the MCOs' acceptable threshold, which determines whether a provider will be assessed a penalty under the model.
- **Risk and gain-sharing:** The initiative has agreed to provider requests that TennCare MCOs share 50/50 gain-sharing and risk-sharing with providers for all episodes. Therefore, efficient, high quality providers will receive 50 percent of the difference between the commendable threshold and the provider's average risk-adjusted episode cost for the performance period. Penalties will also be shared 50/50 in the same way for providers who have average risk adjusted episode costs above the acceptable threshold.
- **Reporting:** All payers (commercial and MCOs) have agreed to use the standard quality metrics linked to gain sharing that were suggested by the Technical Advisory Groups of Tennessee clinicians. In addition, payers will use the same reporting template which key provider stakeholders have reviewed and approved.

These changes will be incorporated into Tennessee's Health Care Innovation Plan and will be submitted to the Center for Medicare and Medicaid Innovation (CMMI) as a condition of Tennessee's State Innovation Model (SIM) design grant award. To answer any questions you may have on the Tennessee Health Care Innovation Initiative, please email [Payment.Reform@tn.gov](mailto:Payment.Reform@tn.gov). Additional detailed information on the initiative can be found on our website at: <http://www.tn.gov/HCFA/strategic.shtml>