



Division of TennCare

TennCare III Demonstration

Project No. 11-W-00369/4

Amendment 4

Program Modifications

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Amendment 4 to the TennCare III Demonstration

Since 1994, Tennessee has operated its Medicaid program under the authority of an 1115 demonstration program known as TennCare. TennCare is a comprehensive Medicaid reform project, consisting of innovations in multiple aspects of the Medicaid program, including eligibility, benefits, and service delivery systems. Tennessee currently provides Medicaid coverage to more than 1.6 million Tennesseans under the authority of the TennCare demonstration.

The current iteration of the TennCare demonstration, known as “TennCare III,” began operating on January 8, 2021. From August to September of 2021, the Centers for Medicare & Medicaid Services (CMS) held a public comment period on the TennCare III demonstration, and on June 30, 2022, CMS sent a letter to Tennessee identifying a limited number of issues based on the public comments received. CMS requested that Tennessee submit a demonstration amendment to address these considerations.

We believe that Tennessee and CMS share the same primary goals for Tennessee’s Medicaid program, and like CMS, the state values public input on all aspects of its Medicaid program. Out of consideration of these comments and to mitigate the issues identified by CMS, Tennessee proposes the changes outlined below to the TennCare demonstration. These changes will be referred to as “Amendment 4.”

I. Description of the Amendment

In its June 30, 2022, letter, CMS requested the state submit a demonstration amendment to address the following areas:

- Financing of the demonstration and limitation on reductions in benefits and coverage,
- Demonstration expenditure authorities, and
- Closed formulary.

Each of these areas is addressed below.

Financing of the Demonstration and Limitations on Reductions in Benefits and Coverage

As with all Medicaid 1115 demonstration projects, CMS requires that Tennessee be able to demonstrate that the TennCare demonstration is budget neutral for the federal government (i.e., the demonstration does not result in Medicaid costs to the federal government that are greater than what the federal government’s Medicaid costs would have been absent the demonstration). CMS policy provides a number of ways in which states can demonstrate budget neutrality. Budget neutrality is most commonly demonstrated through either an “aggregate cap” framework or a “per capita cap” framework.¹

¹ See for example State Medicaid Director Letter #18-009 (August 22, 2018) regarding budget neutrality policies for Section 1115(a) Medicaid demonstration projects.

The TennCare demonstration’s budget neutrality framework is currently calculated on an aggregate cap basis.² In its June 30, 2022, letter, CMS requested that the state submit an amendment in which the demonstration’s budget neutrality would instead be calculated on a per capita cap basis. The state believes that the TennCare demonstration is budget neutral for the federal government and that it can be demonstrated to be so via any number of methodologies. Therefore, consistent with CMS’ request, the state proposes in this amendment to assess budget neutrality for the TennCare demonstration via a “per member per month cap” framework and requests that the demonstration’s special terms and conditions be modified accordingly.

In proposing this modification, the state is requesting only that the basis by which the demonstration’s budget neutrality is calculated be changed (i.e., from an aggregate basis to a per capita basis). The state is requesting no changes to any other elements of the demonstration’s budget neutrality framework, including (but not limited to):

- The baseline PMPM costs associated with each beneficiary category,
- The trend rates for each beneficiary category,
- The methodology for rebasing the demonstration’s budget neutrality for Years 6 through 10 of the demonstration, and
- The state’s ability to carry forward savings from the last five years of the preceding iteration of the TennCare demonstration (TennCare II).

As such, the demonstration’s proposed per capita cap budget neutrality model will be calculated based on the following parameters:

	Base Year	Trend Rate	DY 1	DY 2	DY 3	DY 4	DY 5
EG 1 Disabled	\$1,515.31	5.4%	\$1,728.83	\$1,822.19	\$1,920.59	\$2,024.30	\$2,133.61
EG 2 Over 65	\$1,182.01	4.5%	\$1,319.83	\$1,379.22	\$1,441.28	\$1,506.14	\$1,573.92
EG 3 Children	\$253.67	5.5%	\$290.11	\$306.06	\$322.89	\$340.65	\$359.39
EG 4 Adults	\$442.62	5.3%	\$503.79	\$530.49	\$558.60	\$588.21	\$619.38
EG 5 Duals	\$890.18	5.5%	\$1,018.04	\$1,074.03	\$1,133.10	\$1,195.42	\$1,261.17

The above PMPMs will be multiplied by the applicable member months for each beneficiary category based on actual TennCare enrollment, and the resulting values will be added together to calculate a portion of the TennCare budget neutrality cap. Additionally, the TennCare demonstration authorizes

² In actuality, the TennCare III demonstration’s current budget neutrality cap was only initially an aggregate cap. Under the terms of the demonstration, the aggregate cap became a *de facto* per capita cap once TennCare enrollment grew by more than 1 percentage point above the baseline enrollment level established for the demonstration in 2019.

certain supplemental payments to hospitals and other safety net providers in Tennessee totaling \$622,384,474 annually. These expenditures will be added to the expenditures attributable to beneficiary member months described above to derive the total budget neutrality cap for the demonstration.

Tennessee agrees with CMS that the approval of TennCare III and the accompanying special terms and conditions make clear that nothing in the demonstration authorizes the state to reduce coverage or benefits below the levels that were in place on December 31, 2020. Any such reductions, should they be necessary, would be subject to the standard amendment process. The state has no objections to stating this even more explicitly in the demonstration's special terms and conditions.

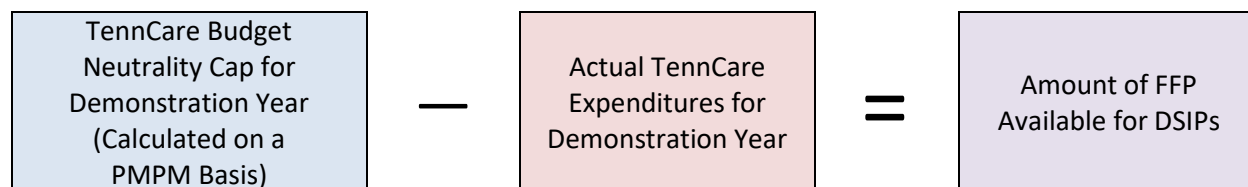
Demonstration Expenditure Authorities

Consistent with CMS' request of June 30, 2022, and the proposed change to TennCare's budget neutrality framework described above, the state proposes corresponding changes to the framework governing the state's expenditure authorities under the demonstration. This component of the demonstration recognizes savings produced to the federal government by the state under the demonstration and provides a mechanism for the state to reinvest a portion of those savings in initiatives to improve the health of Medicaid beneficiaries.

In this amendment, Tennessee requests federal financial participation (FFP) for designated state investment programs (DSIPs). These federal expenditures would be authorized by Section 1115(a) as costs not otherwise matchable (CNOMs). A list of identified and approved programs is included as Attachment O of the TennCare demonstration. These programs support access to healthcare across a variety of domains, spanning mental health, public health, community services, and child health services. Currently, state funds support these services and programs to meet health needs that Medicaid, as it is currently structured, does not. Many of the individuals served by these programs receive services alongside of people who are Medicaid-eligible, and many of them are individuals who churn in and out of Medicaid eligibility, creating a confusing and inefficient system for consumers and communities to navigate.

In order to ensure the budget neutrality of these additional federal expenditures, the state requests that the amount of DSIP expenditure authority each year be based on the extent (if any) to which the state's expenditures for that year are below its budget neutrality cap (now calculated on a per member per month basis), up to a maximum amount equivalent to the federal share of the designated state investment programs specified in the demonstration. This arrangement recognizes the role that these programs play in improving the health of Medicaid enrollees and the communities in which they live and will support the state's efforts to make investments in improving the health of Medicaid beneficiaries over the life of the demonstration (e.g., adult dental services, expanded 12-month postpartum coverage, enhancements to home- and community-based services, etc.).

This new framework for the demonstration’s DSIP expenditure authority is illustrated in the figure below.



Closed Formulary

The TennCare III demonstration includes expenditure authority for pharmacy and related flexibilities that allow Tennessee to exclude certain drugs from the state’s Medicaid prescription drug formulary (subject to a number of conditions and protections). This flexibility was requested by the state and approved by CMS in recognition of the growing costs of prescription drugs—an increasing number of which are accelerated approval drugs with limited or inadequate evidence of clinical efficacy—and the lack of tools available to states to meaningfully manage these costs within the existing Medicaid policy framework.

While we regard this flexibility as a permissible and reasonable use of the Secretary’s authority under Section 1115 to test novel approaches to the financing and delivery of Medicaid benefits, at CMS’s request, the state is proposing to remove this expenditure authority and its associated flexibilities from the TennCare demonstration. In lieu of this flexibility, the state requests that the demonstration’s STCs be modified to provide for an adjustment to the demonstration’s PMPM caps in instances when prescription drug costs materially affect the average per-member cost of care.

Other Waiver and Expenditure Authorities

The state is requesting no changes to the waiver and expenditure authorities of the demonstration other than those described above. All other waiver and expenditure authorities approved for the TennCare demonstration will continue to be in effect under this amendment. This includes (but is not limited to) waiver and expenditure authorities related to eligibility for individuals not eligible for Medicaid under the State Plan, benefits not covered under the State Plan, use of a statewide managed care service delivery system, the CHOICES program, the Employment and Community First CHOICES program, Tennessee’s Katie Beckett/Medicaid Diversion program, retroactive eligibility, and supplemental payments to hospitals and other safety net providers.

II. Expected Impact on Budget Neutrality

Implementation of this amendment will not result in any changes in enrollment or expenditures under the TennCare demonstration. This amendment will result in changes to the way that the demonstration’s budget neutrality is calculated, as described in Section I above.

III. Expected Impact on CHIP Allotment Neutrality

This amendment will not result in any changes to Tennessee’s CHIP allotment neutrality.

IV. Updates to Monitoring and Evaluation Processes

The state's evaluation design for the demonstration (currently under CMS review) will be modified to reflect that the expenditure authority related to pharmacy and its associated flexibilities are no longer part of the demonstration. Research questions and hypotheses related to the implementation of a closed formulary will be removed from the evaluation design.

In addition, the tools used by CMS and the state to monitor budget neutrality for the demonstration will be modified to reflect the changes to the budget neutrality framework described above (i.e., to reflect the change from an aggregate cap budget neutrality framework to a per member per month cap budget neutrality framework).

V. Demonstration of Public Notice and Input

The state has used multiple mechanisms for notifying the public about this amendment and for soliciting public input on the amendment. These public notice and input procedures are informed by—and comply with—the requirements specified in STC 12 of the TennCare demonstration and 59 Fed. Reg. 49249.

Public Notice

The state is holding a formal notice and comment period on this proposed demonstration amendment from July 19, 2022, through August 19, 2022. During this time, a comprehensive description of the amendment to be submitted to CMS is available for public review and comment on an amendment-specific webpage on the TennCare website. In addition, a notice of the state's intent to submit a demonstration amendment has been published in newspapers of general circulation in Tennessee communities with 50,000 or more residents. This newspaper notice describes the major elements of the proposed amendment and provides instructions for how to access the proposal on the TennCare website. The newspaper notice also provides instructions for submitting comments on the proposed amendment to the state during the notice and comment period. In addition, the state notified the public of its intent to submit a demonstration amendment via social media (i.e., Facebook, Twitter) with links to the comprehensive notice on the state's website. The state has made copies of its notice available in county health departments throughout the state. TennCare also notified the members of the Tennessee General Assembly of this amendment via an electronically transmitted letter.