HOW TENNCARE'S BLOCK GRANT PROPOSAL COMPARES TO NEW FEDERAL GUIDANCE

Yesterday, the federal government released its guidance for states interested in applying for a Medicaid block grant or per capita cap. It's clear that the plan Tennessee proposed last year will not be approved as-is under this particular set of rules. However, state and federal officials have both hinted that Tennessee's plan may still have a separate path to approval. (1) (2)

Since the new federal guidance may offer clues about where negotiations over Tennessee's plan go from here, let's see how the two plans compare. For a side-by-side comparison, see **Table 1** at the end of this report.

Editor's Note: This post may be updated with more details as we digest the new guidance.

KEY TAKEAWAYS

- TennCare's proposal includes few (if any) enrollees who are eligible for the type of demonstration program outlined in new federal guidance.
- The federal funding caps proposed by TennCare are substantively different and more advantageous for Tennessee than what the federal guidance envisions.
- The federal government offers flexibilities that are largely in line with those proposed by TennCare.
- Even if Tennessee's plan still has a separate path to approval, it's likely to undergo significant changes during negotiations with federal regulators.

What is the Federal Guidance?

The federal Medicaid agency (i.e. CMS) released guidelines for state Medicaid programs interested in applying for a new "Healthy Adult Opportunity" (HAO) demonstration. The HAO demonstration would cap federal Medicaid funding to states for certain enrollees in exchange for more administrative flexibility. The guidance lays out a set of parameters that federal regulators would consider in reviewing these proposals – "reflect[ing] the conditions that CMS expects will be necessary to approve an application to implement an HAO demonstration." (3)

How the Guidance Compares to TennCare's Proposal

When compared with TennCare's proposal (4), the HAO guidance proposes (3):

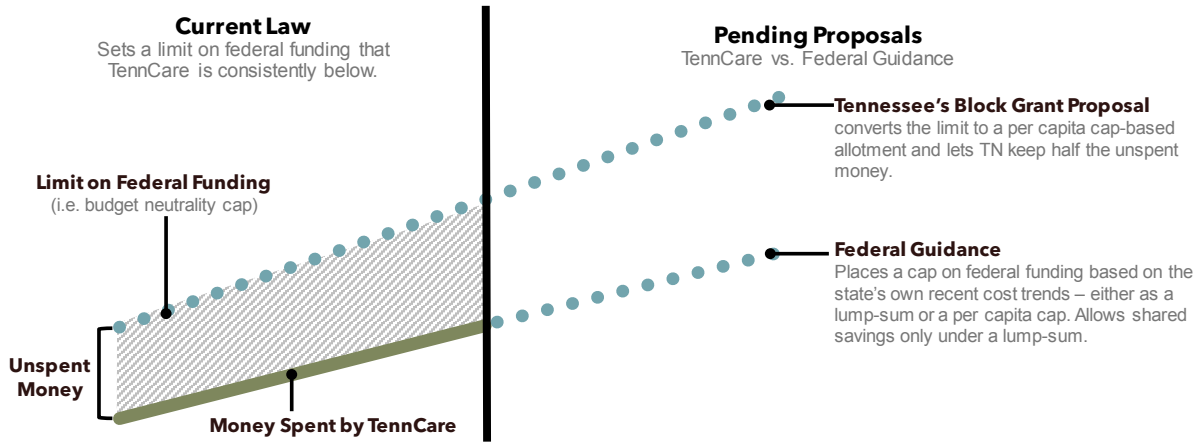
- Fundamentally different approaches to how the funding caps are set and the types of enrollees that could be affected.
- Similar administrative flexibilities.
- More specific requirements around transparency and performance monitoring.

Affected Populations

The guidance largely limits the potential HAO demonstration population to adults eligible under Medicaid expansion. It excludes children, adults over 65, anyone eligible based on disability or the need for long-term services and supports, and anyone who is already eligible under the state's Medicaid plan. What is left is largely the group of non-disabled adults eligible under the Affordable Care Act's (ACA) expanded eligibility criteria.

TennCare's proposal includes few (if any) enrollees who could be included in an HAO demonstration. Tennessee's proposal applies to nearly all current TennCare enrollees, and the state has not expanded Medicaid eligibility under the ACA. The only remaining group within Tennessee's proposal that may qualify under the HAO demonstration appears to be a small population for which enrollment closed in 2016. (5) If state policymakers wanted to tap into the HAO opportunity, they would likely have to be open to making at least some new people eligible for Medicaid.

Figure 1. TennCare Proposed a Different, More Advantageous Funding Cap than Federal HAO Guidance Envisions



This graphic is illustrative only and does not necessarily reflect precise numbers, trends, or projections.

Federal Funding Caps

The federal funding caps proposed by TennCare are substantively different and more advantageous for Tennessee than what the HAO guidance envisions. The guidance offers the option of either a per capita cap that accounts for changes in enrollment or an aggregate cap that does not. Either approach would cap funding based on each state's own spending trends. In contrast, TennCare proposes a per capita cap based on national spending trends – effectively extending the current "budget neutrality" cap to which the state is already subject (**Figure 1**). Because of the state's relatively low costs, TennCare is all but guaranteed to meet its proposed cap. However, it may have a harder time meeting caps designed to keep state spending at or below its own relatively low recent trends.

Shared Savings

The shared savings offered in the federal guidance differs from that proposed by TennCare. TennCare's plan would let the state tap shared savings below its proposed cap and without the need for state match dollars. The HAO demonstration would allow shared savings only for states choosing a lump-sum cap that does not account for changes in enrollment. In order to access those dollars, the state would have to spend its own money to meet existing Medicaid match requirements.

Administrative Flexibilities

The HAO guidance proposes flexibilities that are largely in line with those proposed by TennCare. For example, it seeks to let states tap into existing flexibilities without getting prior federal approval (e.g. to change the amount, duration, and scope of covered benefits). It would also allow states to use a drug formulary like those used in the private market without losing federally-required discounts from the drug industry.

Transparency and Performance

The HAO guidance lays out more specific requirements for transparency and performance monitoring than those proposed by TennCare. TennCare's proposal leaves the door open for specific requirements in these areas but does not fill in the details itself. The federal guidance, on the other hand, lays out certain requirements for using the offered flexibilities – including things like public notifications, comment periods, quarterly implementation plan updates, performance reporting, evaluations, and establishing alternative procedures for managed care plans.

What It Means for Tennessee

TennCare's proposal differs from the standards laid out in the HAO guidance in a number of substantive ways. Public statements suggest, however, that TennCare's proposal is not yet dead and may still get considered separately from the new guidance. Even so, if the HAO guidance reflects the goals and priorities of federal regulators when thinking about federal funding caps, we can expect significant changes to TennCare's proposal if it does indeed move forward.

Table 1. How TennCare's Block Grant Proposal Compares to New Federal Guidance

	Tennessee's Proposal *(11/20/2019)*	Federal Guidance *(1/30/2020)*
General		
Affected Enrollees	Applies to nearly all TennCare enrollees, including children, pregnant women, caretaker relatives, individuals with disabilities, and those eligible for long-term services and supports.	Only individuals not covered by a state plan. State plans generally include all the standard categories of mandatory and optional eligibility groups. Those not covered by state plans largely include adults eligible under the ACA expansion and other populations a state may carve out for coverage (e.g. adults with substance use disorders).
Time Period	Not explicit, but the proposal amends TennCare's current five-year waiver, which expires in June 2021. However, it also requests consideration for longer or permanent waivers.	Five years with the opportunity for renewals.
	Tennessee's Proposal *(11/20/2019)*	**Federal Guidance** *(1/30/2020)*
Funding		
Structure	A per capita cap based on actual enrollment or average enrollment in FYs 2016-2018, whichever is higher.	The option of 1) a per capita cap based on actual enrollment or 2) a lump-sum cap that does not change based on enrollment.
Baseline	Based on the state's current per capita budget neutrality cap. Tennessee's average actual per capita costs for the last two years were about 52% lower.	Based on the state's actual costs over the last two years.
Cap Growth	Based on the national projections of Medicaid spending growth for different enrollee types used in the state's budget neutrality cap. Over the last 5 years, the state's budget neutrality cap assumed 3.5% average annual per capita spending growth. (6)	The lower of the state's most recent Medicaid spending growth or medical inflation. Over the last five years, the state's actual average annual per capita spending growth was about 2.3%. (6) Annual medical inflation during this time period averaged 2.7%. (7)
Shared Savings	Tennessee could receive 50% of the federal share of savings between the cap and actual spending.	Only for states with an aggregate cap. States could receive 25-50% of the federal share of savings between the cap and actual spending – based on performance reporting and outcomes.
State Shared Savings Spending	Shared savings could be spent without a state match requirement on broadly-defined services/programs that benefit Medicaid enrollees.	Shared savings spending would require the traditional Medicaid funding match (i.e. in TN, 65% federal / 35% state).

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Table 1(continued). How TennCare's Block Grant Proposal Compares to New Federal Guidance

	Tennessee's Proposal *(11/20/2019)*	Federal Guidance *(1/30/2020)*
Examples of Flexibility		
Overall	Eliminates administrative requirements for a set of new and existing flexibilities. Includes a range of potential flexibilities that may be used and an initial priority list of how.	Eliminates administrative requirements for a set of existing flexibilities and tweaks some current administrative requirements. The initial application must identify the range of flexibilities that the state may use and how.
Benefits	Allows "additive" benefit changes without federal approval for benefits that states must seek permission to add under current rules.	Allows changes to the amount, duration, and scope of covered benefits without federal approval for changes that states must seek permission to make under current rules. Requires benefits for any affected enrollee category to meet the rules for plans on the healthcare.gov marketplace. Traditional Medicaid benefits are generally more comprehensive than marketplace plans.
Prescription Drug Formulary	Allows a commercial insurance-style drug formulary that covers a minimum of one drug per therapeutic class.	Allows a commercial insurance-style drug formulary that complies with the rules for Obamacare plans (including a minimum of one drug per class). Carves out exceptions for medications to treat mental health issues, HIV/AIDS, and opioid use disorder.
Enrollee Requirements	Does not explicitly address.	Lets states implement criteria like work requirements and premiums/co-pays.
Managed Care Regulations	Waives all existing requirements in federal regulation.	Waives some existing regulations (e.g. approval of payment rates, network requirements) as long as new standards are developed and followed.

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Table 1(continued). How TennCare's Block Grant Proposal Compares to New Federal Guidance

	Tennessee's Proposal *(11/20/2019)*	Federal Guidance *(1/30/2020)*
Transparency and Oversight		
Transparency	Not explicitly addressed.	If a state elects to use a flexibility, it must give federal regulators at least 60 days' notice. If the change may impact enrollees, providers, or insurers, the state must notify the public at least 60 days before planned implementation and solicit public comments.
Reporting and Assessments	Commits to identifying specific quality goals and metrics.	Requires a quality strategy and performance assessment, quarterly public reports on a set of performance indicators, and quarterly updates to an implementation plan articulating how the flexibilities are being used.
Evaluation	Commits to identifying specific quality goals and metrics.	Requires an interim and final independent evaluation that assesses health outcomes and quality.

Source: The Sycamore Institute's analysis of information from TennCare (4) and the Centers for Medicare and Medicaid Services (3)

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