TennCare is the State of Tennessee's Medicaid program that provides health care for 1.2 million Tennesseans. TennCare enrollees are overwhelmingly low-income, and most are children and their caregivers, pregnant women, and adults with disabilities. TennCare covers 750,000 Tennessee children. Approximately half of the babies born in Tennessee are born to mothers on TennCare.

TennCare also provides funding for several “waiver” programs, including the Self-Determination Waiver, which provides home- and community-based services for people with developmental delays and intellectual disabilities.

Through the CHOICES program, TennCare is the major funder of long term supports and services for frail seniors and adults with disabilities. TennCare contributes to the cost of nursing home care for over 20,000 people, or more than two-thirds of all Tennesseans in nursing homes. TennCare also helps over 10,000 families provide care at home to frail seniors or adult loved ones with disabilities. TennCare recovers some of these costs from estates after the patients’ death.

TennCare is funded by both federal and state funds, with about 65% of the funding coming from the federal government. This means that in most cases, every dollar the state spends on health care for TennCare enrollees is matched by two dollars from the federal government. In 2011, the State received over six billion dollars from the federal government for the TennCare program.

Funding
TennCare is the largest source of federal funds in the State. Federal TennCare funds support the Department of Children’s Services, the Department of Health, the Department of Human Services, the Department of Intellectual and Developmental Disabilities, and the Department of Mental Health.

In the last two years, Tennessee hospitals agreed to pay a “hospital coverage assessment fee” to avoid substantial cuts to the TennCare program that would have decreased hospital revenues. Hospitals generated $449 million through the assessment, which drew an additional $851 million in federal matching funds.

TennCare is a very lean program. In 1994, Tennessee was given a waiver by the federal government to insure more people than states are usually required to insure. Nearly all of these 300,000 “waiver eligible” individuals were cut from TennCare in 2005-06. TennCare also cut services for those remaining on the program. TennCare was once one of the most generous Medicaid programs in the country, but now it is one of the most restrictive. It does not cover...
some groups that other states cover. TennCare limits on what it provides are among the lowest in the country. Those limits include, for example, a quota of five medicines a month, only two of which can be name brands.

TennCare’s payments to providers are lower than rates paid by private insurance and Medicare. Many doctors (particularly specialists) have dropped out of the program and no longer accept TennCare patients. This trend got worse in the past two years, when TennCare cut provider reimbursement rates by an additional 7%. The Bureau of TennCare has stated that more cuts could cause more doctors to drop out, leaving patients without access to care.

**Use of Managed Care**
Unlike most state Medicaid programs, TennCare does not generally pay doctors, hospitals, or other providers directly. TennCare pays for their services through managed care organizations (MCOs). The MCO contracts with networks of providers to treat their patients. Except in emergencies, patients can only go to the providers the MCO chooses for them. Many doctors report that MCO networks don’t have enough specialists of certain types or in certain communities.

TennCare pays the MCO a flat monthly premium up front for each beneficiary. These premiums are called capitation payments. Like insurance premiums, the amount of the capitation payment is not tied to the costs of care that a particular patient uses. Instead, these payments are calculated so that, when added together, they cover the cost of care for all TennCare patients enrolled in the MCO.

MCOs have a strong incentive to cut costs. The MCO makes a profit on the majority of patients who use little or no care. That profit is supposed to be enough to cover its losses on the small percentage of patients who are seriously ill and needs a lot of care. If the MCO can keep its total costs below the total of the capitation payments from TennCare, it gets to keep most of the difference in profit.

**Job Creation**
The billions of dollars in federal and state funds flowing through the TennCare program is paid to all types of health care service providers, including hospitals, doctors, nurses, therapists, and numerous small businesses connected to the health care sector. Based on calculations developed by the University of Memphis, federal TennCare funds sustain well over 100,000 jobs throughout Tennessee. These employees in the health care sector spend a large portion of their salaries on goods and services in the local economy.

TennCare is especially important to local hospitals and nursing homes and the communities they serve. Particularly in smaller towns, these institutions could not remain open without TennCare. Hospitals are typical the largest, or one of the largest, employers in their communities. The closure of a hospital not only costs jobs but causes doctors to move away and makes it difficult to recruit new industry.