BILL HASLAM
GOVERNOR
STATE OF TENNESSEE

December 9, 2013

The Honorable Kathleen Sebelius
U.S. Department of Health and Human Services
200 Independence Avenue, SW
Washington, D.C. 20201

Dear Secretary Sebelius:

In March I outlined a different path forward for health care in Tennessee with a plan designed to address the current misalignment of incentives within our healthcare system. I believe Tennesseans should have access to quality health care, but systemic changes are needed to control costs and promote better outcomes in order for our state to consider expanding taxpayer funded coverage. My hope was that the "Tennessee Plan" would allow us to take innovative steps toward introducing market forces into a broken system in order to both improve health outcomes and address ballooning healthcare costs.

Over the course of the last eight months my administration has engaged in regular discussions with CMS staff as we have worked diligently to hash out the details of the Tennessee Plan to expand access to health insurance within our state. We recognize that Tennessee's proposed premium assistance model deviates in many ways from the Medicaid Expansion model originally envisioned by CMS, and we appreciate your willingness to work with us as we attempt to craft a plan that will best address the needs of the people of Tennessee and draw support from the elected officials who represent them.

As we discussed in our most recent meeting, there are two components that are essential to our overall effort. The first is alignment of consumer incentives in a manner that promotes consumer engagement in healthy behaviors and healthcare utilization decisions. This component must be incorporated into the design of our premium assistance model and thus will require CMS approval. The second is alignment of provider incentives in a manner that moves us from a system that pays for volume to a system that pays for value. This component is the cornerstone of Tennessee's Payment Reform Initiative, which is critical to controlling costs within all of the programs in which we purchase health care and an essential part of our strategy to sustain the expansion in the out years.

We continue to believe that cost sharing has the potential to be an extremely meaningful tool in any effort to promote consumer engagement in healthcare decision making, and we remain concerned that federally-imposed restrictions related to cost sharing amounts and enforceability may limit our ability to use this tool successfully. To that end, Tennessee is proposing a benefit design that would apply cost sharing requirements at the maximum level permitted by CMS and we hope to continue discussions regarding any flexibility CMS has to address our concerns. In addition, we propose to reward consumers

who take certain specified actions intended to promote health and wellness and/or who utilize cost effective services (e.g. generic vs. brand name drugs, visits to primary care physician vs. non-emergency visits to the ER) through a variation of a health reimbursement arrangement or health savings account.

Alignment of provider incentives is the second, equally important component of the Tennessee Plan. We can no longer sustain the current reimbursement system, which simply rewards providers for doing more rather than for delivering the highest quality services in the most cost effective manner. Our payment reform initiative includes two major strategies – a population-based methodology that rewards primary care providers for keeping patients healthy through the delivery of preventive services and the management of chronic illnesses over time and a retrospective episode-based methodology that rewards providers that manage the quality and cost of the full range of care delivered in association with acute healthcare events. Progress has already been made in the first area, though more remains to be accomplished. Significant progress in implementation of the retrospective episode-based reimbursement aspect of this initiative must be realized before Tennessee moves forward in expanding coverage as contemplated under the Tennessee Plan.

There are additional administrative issues of significant importance to Tennessee that we have discussed at length with CMS over the past several months but failed to bring to closure, including an objective process for identifying the "medically frail" and our interest in minimizing the differences between the health insurance the expansion population would receive through the QHPs and the health insurance everyone else will receive through the QHPs. In particular, the latter issue focuses on the requirements (and the ability to waive such requirements) related to wrap around services and supplemental appeal processes. These matters are of the utmost importance to the State and must be resolved to our satisfaction before we approach the General Assembly requesting its support of the Tennessee Plan.

Although we continue to believe the Tennessee Plan is the right approach for our state and hope you will grant us the flexibility to offer coverage to the affected population in a way that fits our unique context, we recognize and are very concerned about the implementation failures of the Affordable Care Act and the law's overall impact on consumers, providers, the health insurance marketplace and state and federal budgets. We do not see a path forward in the current environment that will allow us to extend coverage to the Medicaid Expansion population until the aforementioned issues have been resolved and flexibility is given to allow us to address health outcomes and cost in a way that the traditional program does not.

Sincerely,

Bill Haslam
Governor

cc: Paul Dioguardi, Director, Office of Intergovernmental and External Affairs, HHS
Marilyn Tavenner, Administrator, Centers for Medicare and Medicaid Services
Cindy Mann, Deputy Administrator and Director, Center for Medicaid and CHIP Services