



Date: November 22, 2013

To: Chief Executive Officer
Chief Financial Officer
Managed Care Officers

From: Craig Becker

Subject: **Notice to Hospitals Not Impacted by Changes**
Implementation of TennCare Rate Variation Recommendations

Attached please find background information related to the second year (Year 2) of THA board activities to address the extensive variation in reimbursement from TennCare MCOs that exists among hospitals. The board has been working with the Bureau of TennCare for three years to develop a proposal for reducing the variation in TennCare reimbursement for similar services. The state and THA engaged Aon Hewitt to provide actuarial support for the analyses and to ultimately develop a plan, approved by both the Bureau and the THA board for reducing the variation. Aon was authorized to make minor modifications to the board recommended ranges to ensure the implementation would be budget neutral to TennCare.

The range of reimbursements recommended by the THA board are based on each hospital's individual Medicare rates excluding operating indirect medical education payments (IME) and pass through amounts. The analyses included hospital specific factors (DSH, wage index, etc.) for each hospital applicable to 2010 Medicare payments. Medicare amounts were determined using the Medicare inpatient and outpatient grouper and pricer tables in effect for the date of each claim.

The updated rate variation analysis, based on claims data from the MCOs covering the period September 2010 to August 2011 and paid through November 2011, provided the percent of Medicare reimbursed by the MCOs for each hospital for routine and high-cost routine inpatient services, specialized inpatient services, and outpatient services. To calculate the percentage of Medicare reimbursed by TennCare, Aon compared the actual reimbursement from the MCO to the amount Medicare would have reimbursed based on the above definition.

As indicated in the accompanying background document, the recommendation has no impact on reimbursement for specialized services, defined as neonatal, cardiac surgery and other, including burns, multiple significant trauma, transplants and HIV related services. However, the board recommended that the ranges for future negotiations be set at the ranges that existed in the period September 2010 to August 2011 and paid through November 2011.

Based on the rate variation analysis, your hospital fell within the final budget neutral ranges for Year 2 agreed upon by the THA board and TennCare. As a result, TennCare reimbursement for your facility should not be impacted by this implementation. If you believe this is inaccurate and your hospital's reimbursement is actually below the floor or above the ceiling or if you have questions or need additional information, please contact Mary Layne Van cleave, mlvc@tha.com, or David McClure, dmcclure@tha.com who will work with Aon, TennCare and the hospital to reconcile the difference.