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Obama's Proposed Medicaid Expansion: Lessons from TennCare

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From the beginning of the national health care debate, President Obama made major Medicaid expansion—already a rapidly growing entitlement—a core element of his health policy agenda. Fortunately, results of this approach already exist from the state of Tennessee.

Enacted in 1994, TennCare was Tennessee's attempt to reduce the number of uninsured individuals through a major expansion in Medicaid. The TennCare experience provides ample evidence of the impact of Medicaid expansion on costs to taxpayers and on quality of care.

Down This Road Before in Tennessee. The massive House and Senate health bills would put millions of additional Americans onto Medicaid. In an analysis of the House bill, the chief actuary at the Centers for Medicare and Medicaid Services (the federal agency that runs Medicare and Medicaid) claimed that almost three-fifths of the increased coverage from the House bill would come through Medicaid expansion with a projected 10-year cost of nearly $80 billion.[1] Likewise, in the Senate bill, Medicaid expansion would be responsible for about 50 percent of the reduction in the uninsured population at a projected 10-year cost of $395 billion.[2]

This approach was already tried in Tennessee. Under the TennCare program, uninsured Tennesseans were eligible to sign up for Medicaid. In addition, TennCare also enrolled individuals who were uninsurable because of pre-existing conditions and individuals not eligible for insurance through either place of employment or government.

The idea was that the state would squeeze savings out of its traditional Medicaid program through the use of managed care and this would offset the cost of this vast expansion in coverage. In essence, Tennessee officials promised a free lunch—a way to expand insurance coverage without increasing costs to the state.

Cost Explosion. Within months of the implementation of TennCare, enrollment swelled by half a million individuals so that more than a quarter of the state's population was enrolled. While there was significant crowd-out of private insurance by government insurance—and thus increased burden on the taxpayers—the rate of uninsured individuals in Tennessee dropped substantially.

But at the same time, costs exploded. While inflation-adjusted per capita Medicaid spending across the rest of the states increased an average of 71 percent between 1994 and 2004, the corresponding increase in spending on TennCare was 146 percent. Tennessee's Democratic Governor Phil Bredesen was forced to restructure TennCare dramatically beginning in 2004, calling the program "a disaster,"[3] and stating he would not "let TennCare bankrupt our state."[4]

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No Health Improvements. Even though TennCare failed to control costs, if the increased rates of insurance coverage translated into improved health outcomes for the targeted population, then it may be possible to call the program a success. Of course, health insurance coverage is quite different from access to quality health care. The evidence on quality of health improvement would be found in a comparison of health outcomes for Tennesseans to those of individuals in similar states that did not vastly expand their Medicaid programs. A Heritage Foundation analysis contrasted trends in the mortality rates in Tennessee before and after TennCare with the eight states that border Tennessee: Alabama, Arkansas, Georgia, Kentucky, Mississippi, Missouri, North Carolina, and Virginia.

While the mortality rate does not capture the full meaning of health status, it is likely that healthy individuals have lower mortality rates. Chart 1 shows the mortality rates by state between 1990 and 1998 with a demarcation when TennCare was enacted in 1994.[5]

The essence of the mortality rate trends is that Tennessee compared much less favorably to the surrounding states after the enactment of TennCare than before its enactment. As the figures show, the change in Tennessee's mortality rate between 1990 and 1994 mirrored what was going on in the region with minor fluctuation. After the enactment of TennCare when surrounding states were experiencing robust declines in their mortality rates, the decline in Tennessee was much more modest. In the four years following TennCare, the average decline in mortality rates in the surrounding states was 5.2 percent compared to a 2.1 percent decline in Tennessee.

A Case for Skepticism. Instead of improving health care quality, the mortality data indicates that TennCare may have resulted in a *decline* in the quality of care for Tennesseans. The evidence certainly suggests that health outcomes in Tennessee did not improve after TennCare. Medicaid expansion seems to be a dubious way to increase quality health care. Certainly for Tennessee, the substantial cost from TennCare in the form of higher taxes and reduced spending for other state priorities apparently far outweighed any health benefits achieved in the targeted population.

Tennessee's experience with TennCare demonstrates that the free lunch now promised by President Obama of increased coverage with reduced costs is likely a pipe dream. But more importantly, as Democrats attempt to change America's health care system, they should provide some evidence that their policies will work—not just in expanding coverage but in promoting health among the impacted population. The evidence from TennCare points in the opposite direction.

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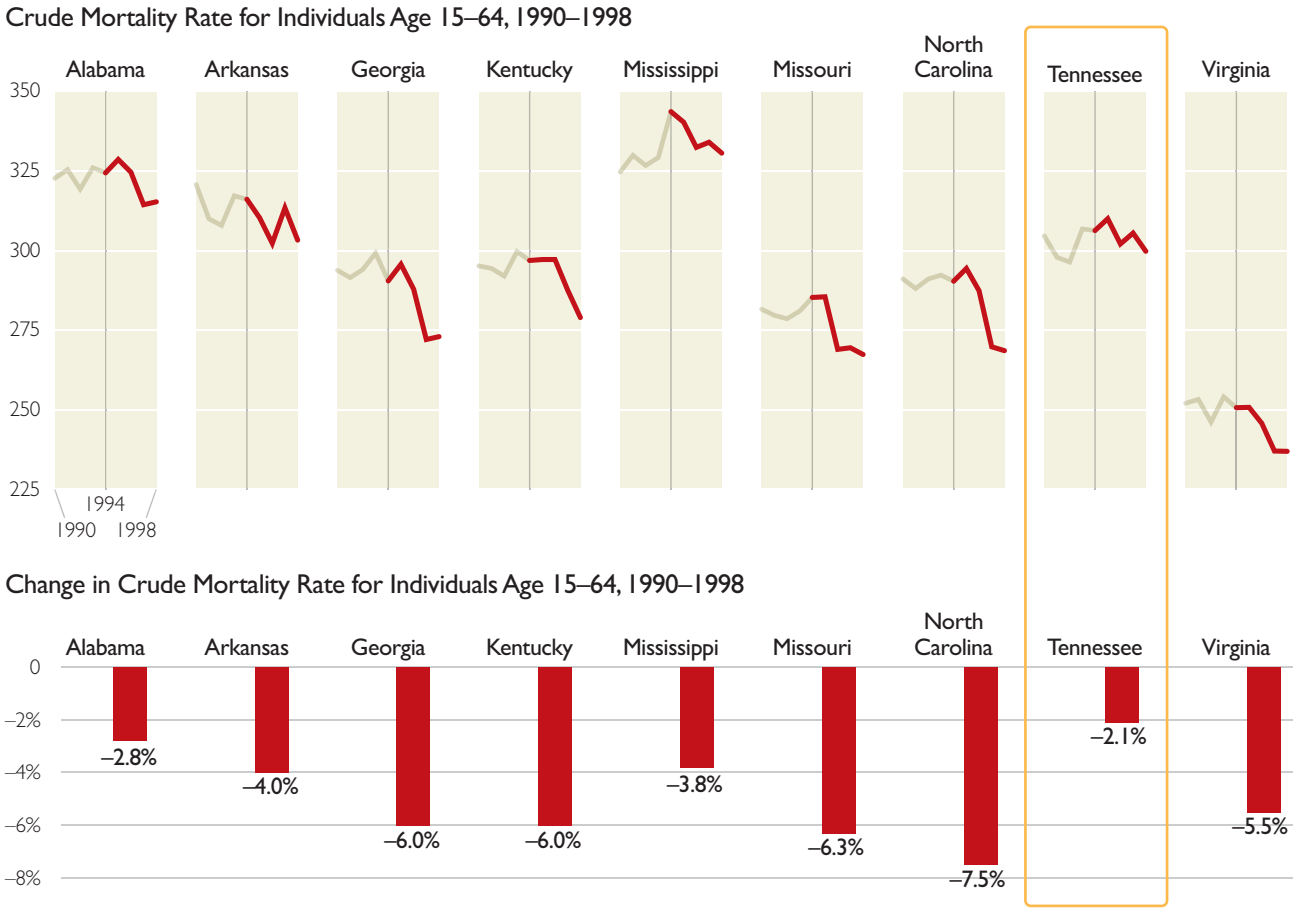
1. Richard S. Foster, "Estimated Financial Effects of the 'America's Affordable Health Choices Act of 2009,' as Passed by the House on November 7, 2009," U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, November 13, 2009, at *http://republicans.waysandmeans.house.gov/UploadedFiles/OACT_Memorandum_on_Financial_Impact_of_H_R__3962__11-13-09_.pdf#page=6* (March 1, 2010).
2. Letter from Douglas Elmendorf, Director, Congressional Budget Office, to Hon. Harry Reid, Majority Leader, United States Senate, concerning the spending and revenue estimates of the Patient Protection and Affordable Care Act, December 19, 2009, at *http://www.cbo.gov/ftpdocs/108xx/doc10868/12-19-Reid_Letter_Managers_Correction_Noted.pdf* (March 1, 2010).
3. Merrill Matthews, "Listen to Gov. Bredesen on Health Care Reform," ABCNews.com, June 24, 2009, at *http://abcnews.go.com/Health/HealthCare/story?id=7917668&page=1* (February 25, 2010).
4. WATE.com, "Bredesen Scraps TennCare," November 10, 2004, at *http://www.wate.com/Global/story.asp?s=2547662* (March 3, 2010).
5. The mortality numbers were obtained from the Centers for Disease Control WONDER data, and they include deaths from diseases and medical conditions, complications, or disorders. They do not include deaths resulting from accidents, homicides, suicides, and the like.

Tennessee's Mortality Rates Remain Relatively Flat

In 1994 Tennessee enacted TennCare, an expansion of the state's Medicaid program. From 1994 to 1998, the mortality rate in Tennessee declined by 2.1 percent, a modest improvement compared to eight other states in the region without a similarly generous government health insurance program.



Note: The crude mortality rate is the number of deaths per 100,000 population per year. Figures exclude accidental or intentional deaths.

Source: Centers for Disease Control and Prevention, CDC WONDER, database of compressed mortality, 1979–1998, at *http://wonder.cdc.gov/cmf-icd9.html* (March 1, 2010).

Chart 1 • WM 2821 heritage.org