HEALTHY DEBATE 2018

A PRIMER ON HEALTH & BUDGET POLICY IN TENNESSEE

January 2018

THE SYCAMORE INSTITUTE

BUILDING A STRONGER TENNESSEE THROUGH DATA AND RESEARCH

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Established in 2015, The Sycamore Institute is an independent, nonpartisan public policy research center for Tennessee. The organization's mission is to provide accessible, reliable data and research in pursuit of sound, sustainable policies that improve the lives of all Tennesseans.

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Introduction

The Sycamore Institute's *Healthy Debate 2018* seeks to help current and aspiring policymakers understand key issues that affect the health and well-being of Tennesseans. This data-driven information and analysis highlights the connection between health and prosperity and that all policy decisions have trade-offs.

Healthy Debate 2018 covers 4 broad topics based on work we have published to date:

- **Section 1** introduces basic concepts about Tennessee's state budget.
- **Section 2** reviews the state of health and well-being across Tennessee.
- **Section 3** connects the dots between Tennessee's budget, economy, and health and well-being.
- **Section 4** outlines some key challenges state policymakers could face in 2018 and beyond.

This document was designed to be a resource for any Tennessean who hopes to make or influence public policy in our state.

The Sycamore Institute is committed to putting reliable data, research, and analysis in the hands of our state policymakers and the public. Our leadership and staff represent a wide range of political perspectives, yet we are bound by a shared vision of a healthier and more prosperous Tennessee. We believe in data-driven decision-making and the value of robust debate to guide progress toward that vision.

SECTION 1
Understanding Tennessee's Budget

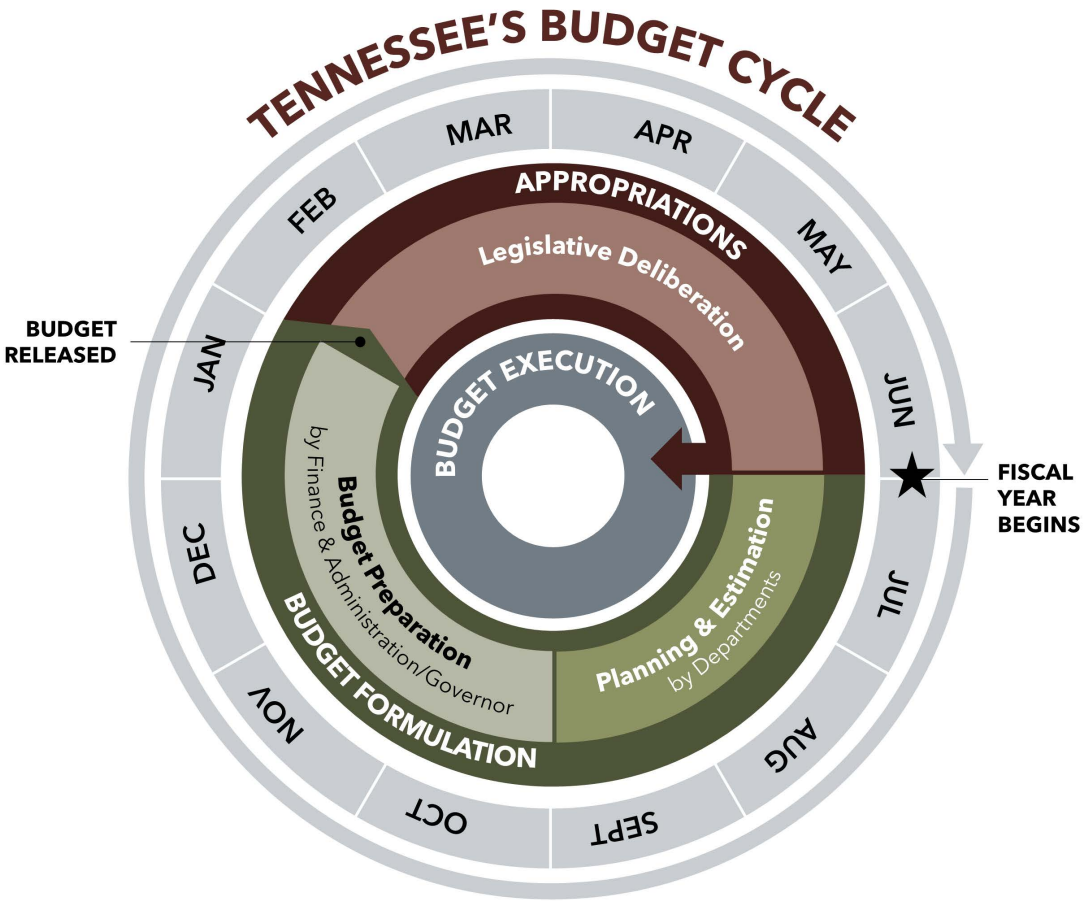
Tennessee's budget is one of the most significant pieces of public policy our governor and General Assembly propose and enact every year. It represents the goals our state policymakers want to achieve, the public goods and services intended to help meet those goals, and detailed plans for how to finance them.

The Sycamore Institute's ***Tennessee State Budget Primer*** *provides detailed information on the state budget process, historical lookbacks, and the difficult trade-offs policymakers face in making budget decisions. This section summarizes key pieces of the Budget Primer and lays out a new governor's immediate budget responsibilities.*

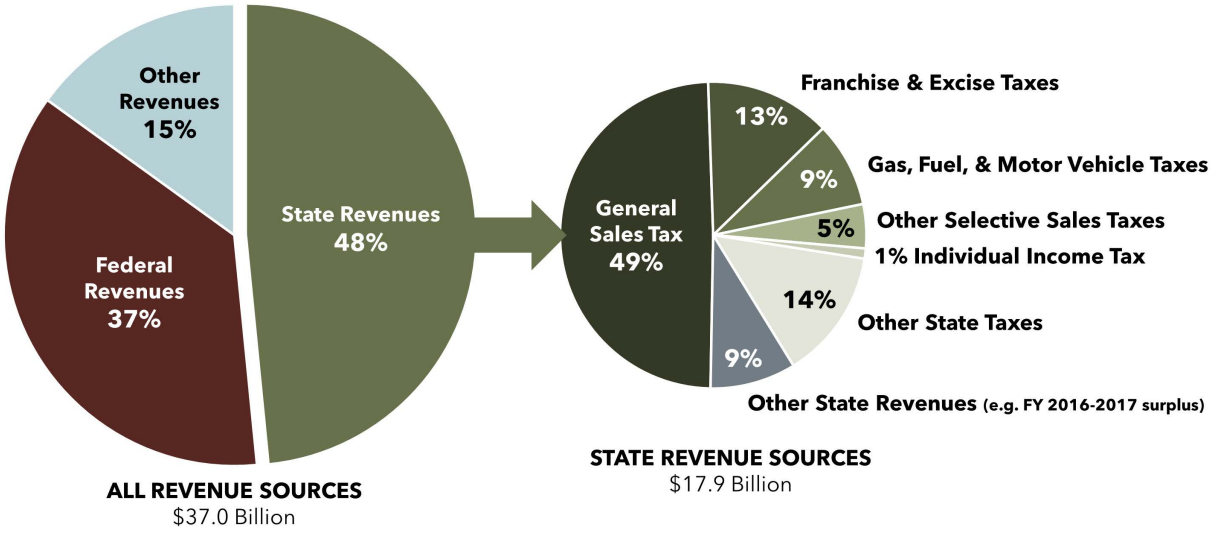
Tennessee's Budget Process

The state's budget is an accounting of all the money coming into and going out of the state government. It also represents a delicate balance where all the pieces work in concert to achieve public policy goals. Key elements of the state's budget process include:

- The state's fiscal year (FY) runs from **July 1 to June 30**. At any given time, policymakers in Tennessee's legislative and/or executive branches are working on preparing, executing, or closing out up to 3 fiscal years.
- **The state constitution requires a balanced budget.** That means, in any given fiscal year, spending can't exceed revenue collections + reserves. As a result, the budget is often dynamic – changing throughout both the planning and spending phases as the state's revenue estimates change.
- The baseline for the governor's budget recommendation to the legislature is the prior year's **recurring base budget**. The governor's recommendation serves as the starting point for the legislature's work.
- To help with longer-term planning, the budget makes a distinction between **recurring and non-recurring expenditures and revenues**. However, Tennessee does not publish long-term estimates of revenue collections and potential spending needs.
- **Lawmakers have limited discretion over a significant share of the budget's revenues and expenditures.** Issues that limit lawmakers' ability to adjust the numbers can include federal matching requirements, entitlement program obligations, and court mandates. Only 18% of General Fund spending in FY 2016-2017 was considered discretionary for the purposes of formulating the FY 2017-2018 budget recommendation.[1]
- **The legislature gives the executive branch flexibility to manage the budget** and to spend less to keep the budget balanced. As a result, the "actual" numbers shown in the budget for the prior year do not always lend themselves to direct comparisons with the "estimated" current year and "recommended" upcoming year.



FY 2017-2018 RECOMMENDED TENNESSEE STATE BUDGET
BY REVENUE SOURCE



Note: Reflects the impact of the IMPROVE Act and other tax legislation as proposed in January 2017.

State Budget Revenues

The revenue in the Tennessee state budget primarily comes from state revenue sources ($17.9 billion) and the federal government ($13.5 billion).[2]

State Tax Revenues

By most accounts, Tennessee is considered a low-tax state. The state collects about $2,300 per Tennessean[3] to pay for the state's programs and services – the 4th lowest per person tax load in the country.[4]

In Tennessee, state revenues are predominately collected through general sales tax and the franchise and excise taxes ($8.8 billion or 49% and $2.4 billion or 13%, respectively, for FY 2017-2018).[5] Tennessee relies more on these two tax streams and less on individual income tax than do other states, on average.[6]

Under a balanced budget, revenue forecasts have a major influence on decisions about spending. Recent budget surpluses were the result of greater-than-forecasted growth in annual state tax collections. For this reason, the FY 2017-2018 budget relied on a sizeable surplus from previous fiscal years. Historically, such large surpluses are an anomaly.

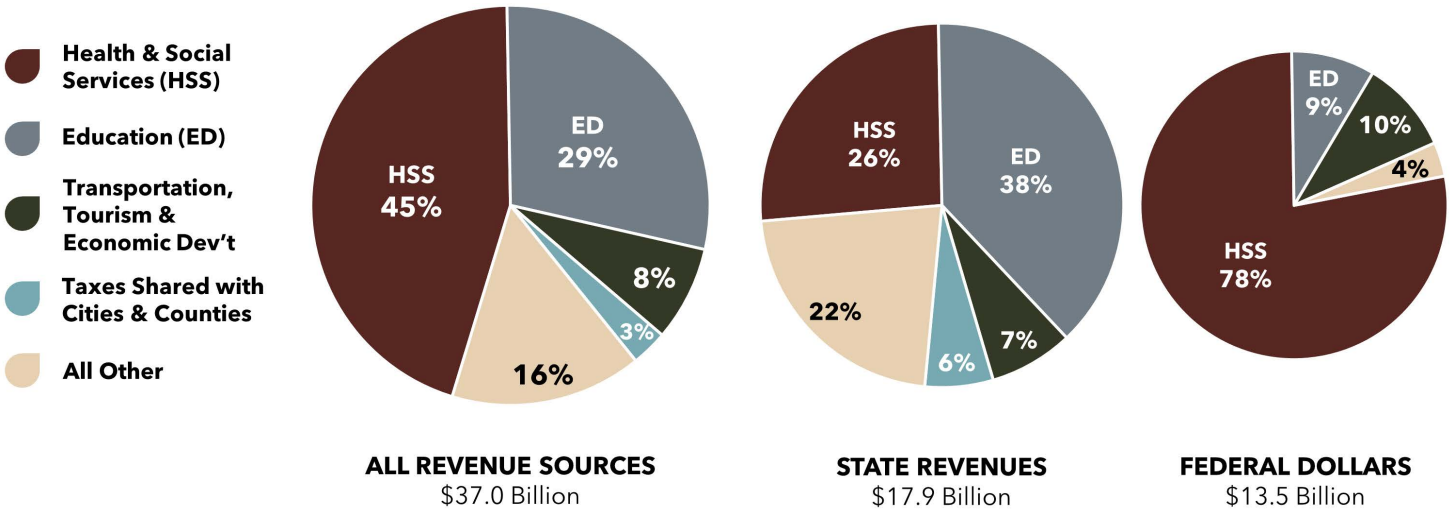
From 2011 to 2017, the General Assembly and Governor Haslam enacted over $771 million in annual, recurring tax cuts. These include -$323 million once the Hall Income Tax on investment income is phased out, -$171 million from reducing the general sales tax on groceries, -$119 million from modifying the franchise and excise taxes on businesses, -$111 million from repealing the inheritance and gift taxes, and -$47 million in other tax reductions. These cuts were partially offset by increases to transportation-related taxes and fees that will amount to $347 million once they are fully phased in on July 1, 2019. [7]

Federal Revenues

Tennessee relied more on federal dollars than all but 2 states in 2016 (Mississippi and Arizona).[8] The state currently relies less on federal funds than it did during the most recent recession, when federal revenues made up 44% of the state's budget.[9]

These dollars represent only those in the state budget – not all federal dollars being spent to serve Tennesseans. In state FY 2015-2016, for example, the budget included $12.6 billion in federal funds, but in federal FY 2016, an estimated $73.9 billion in federal funds came to Tennessee via direct awards, contracts, and benefits.[10]

FY 2017-2018 RECOMMENDED TENNESSEE STATE BUDGET BY SPENDING CATEGORY



ALL REVENUE SOURCES
$37.0 Billion

STATE REVENUES
$17.9 Billion

FEDERAL DOLLARS
$13.5 Billion

Note: Reflects the impact of the IMPROVE Act and other tax legislation as proposed in January 2017.

State Budget Expenditures

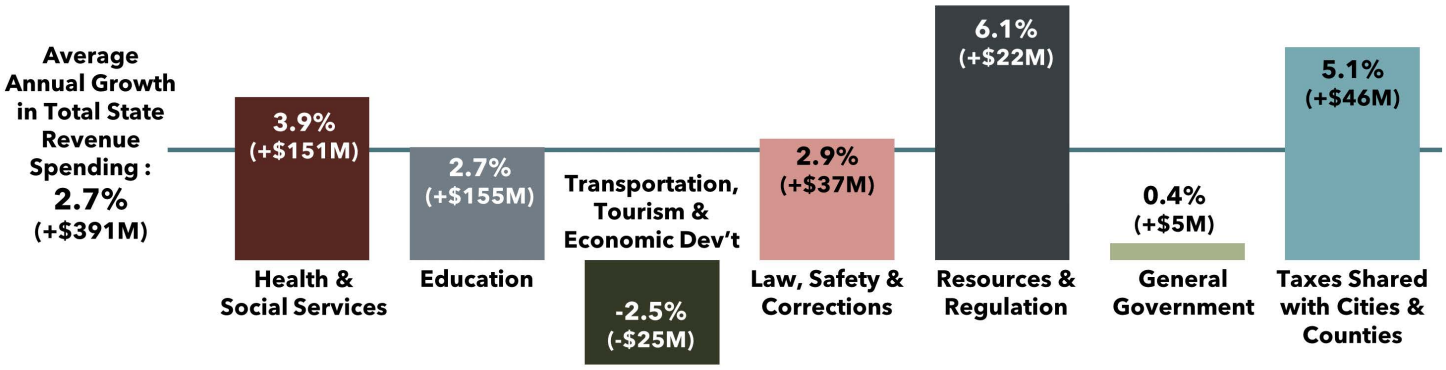
Health and social services ($16.6 billion) and education ($10.7 billion) account for about 3/4 of the state budget.[11] Different types of revenue, however, get spent in different ways. More state dollars are spent on education than on any other category, while most federal dollars are spent on health and social services.

Different programs and services also get funding from different revenue mixes. Funding for health and social services and transportation, tourism, and economic development programs and activities comes predominantly from federal dollars. Tennessee dollars account for most of the funding for education and law, safety, and corrections programs and activities.

Expenditure Growth Trends

Spending from state revenues grew by an average of 2.7%, or $391 million, each year between FY 2011-2012 and FY 2015-2016.[12] The largest share of new state spending has been for education. The IMPROVE Act, passed in 2017, will increase transportation funding by an estimated $347 million annually once fully phased in, a 37% increase in state revenues over FY 2015-2016 for transportation, tourism, and economic development.

AVERAGE ANNUAL GROWTH IN SPENDING FROM STATE REVENUES FY 2011-2012 to FY 2015-2016



A New Governor's First Budget

The first weeks of a new governor's first term are an intense period of state budget decision-making. New governors have until March 1 to send the General Assembly their recommended budget for the next fiscal year. Due to the time required to finalize and print the document, this leaves the new governor about 4 weeks after inauguration to review options and make decisions. In 2003 and 2011, Governors Bredesen and Haslam also chose to hold public budget hearings with each department during this time. These governors were granted 1-2 week extensions of the March 1 deadline by the General Assembly.

During the Transition

Incumbent governors typically offer governors-elect assistance during the transition period between the November election and January inauguration. The Department of Finance and Administration (F&A) may brief governors-elect and their designees on the status of budget development for the coming fiscal year. F&A's Division of Budget traditionally prepares materials on budget-balancing issues and options, as well as the timeline the new administration will face in its first weeks in office. Traditionally, each department also prepares transition papers for the incoming administration.

The Budget Division usually allows the governor-elect's finance and policy designees to sit in on budget meetings with outgoing department heads during November and December. These meetings help Budget Division staff prepare their budget analysis and organize additional funding requests for the incoming administration. During the transition, Budget Division staff continue to report to and take direction only from the incumbent administration.

After the Inauguration

Upon taking office, the new governor may ask the new department heads to reevaluate budget priorities. The Budget Division will incorporate any changes into the materials used to review budget options with the new governor and commissioner of F&A.

The Budget Division is led and staffed by career budget analysts and employees, providing continuity between administrations. This office will help the new administration complete all the work necessary to transmit the budget, the appropriations bill, and other budget-related legislation to the General Assembly by the legal deadline.[13]

SECTION 2
Health and Well-Being in Tennessee

The health status of the average Tennessean is worse than the average American. To improve our state's health outcomes, policymakers should understand the complex set of factors that influence them. This section summarizes the state of health in Tennessee and several unique challenges facing rural areas of the state. It also introduces the ***Tennessee Health & Well-Being Index****, a tool created by The Sycamore Institute to track the drivers of population health in Tennessee.*

The State of Health in Tennessee

Tennessee trails the rest of the nation in many key health indicators and outcomes. Adults rate both their own and their children's overall health status worse in Tennessee than nationally. Additionally, Tennessee has higher rates than most other states of infant mortality and chronic conditions like diabetes, depression, cardiovascular disease, and adult and childhood obesity.

Seven of the top 10 leading causes of death in Tennessee can be attributed to chronic health conditions. The leading causes of death in Tennessee largely mirror the nation's leading causes. However, for each of the top 10 causes of death, Tennessee's mortality rates are higher than the national rates.

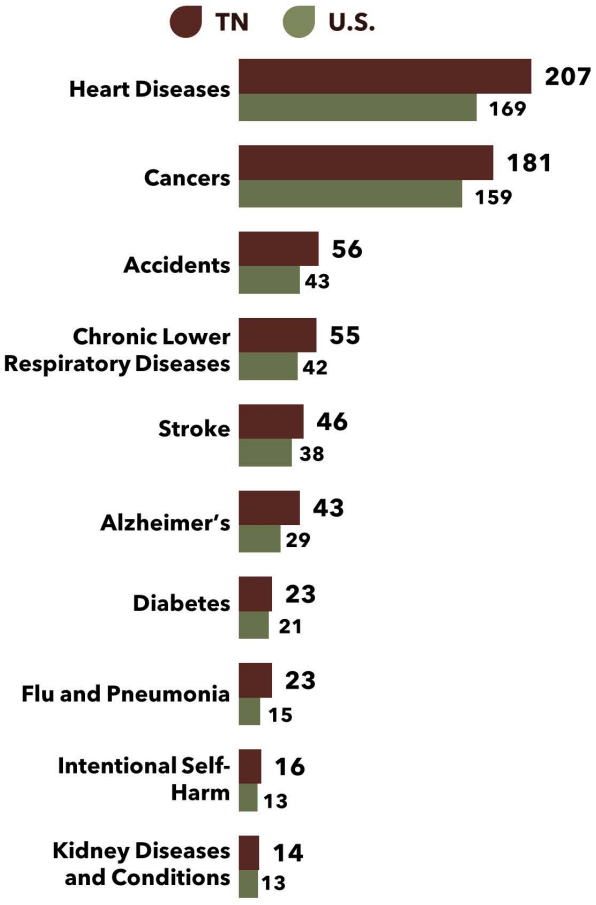
Tennessee typically ranks in the bottom 10 states on national health rankings because of these differences in both death and disease rates.[14]

Health disparities are prevalent in Tennessee. Population-based averages often hide differences in health between particular groups. Racial and ethnic minorities, individuals with lower levels of education and income, and individuals living in rural areas experience poorer health outcomes largely due to differences in the drivers of health.

THE STATE OF HEALTH IN TENNESSEE[15]

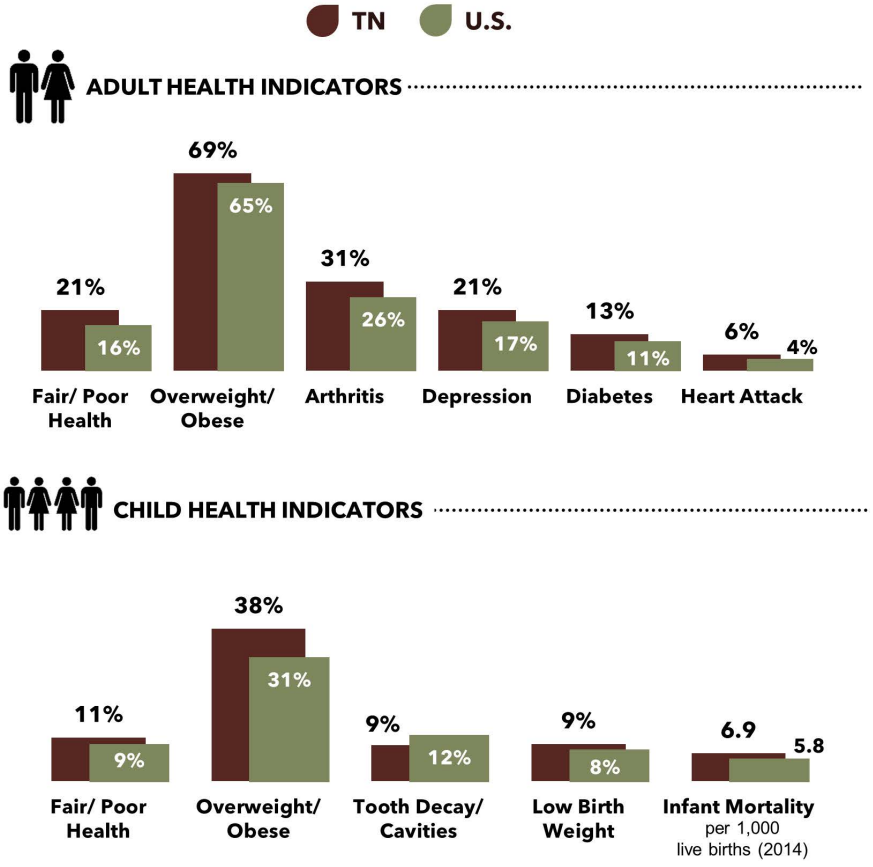
TOP 10 LEADING CAUSES OF DEATH

adult deaths per 100,000 population (2015)

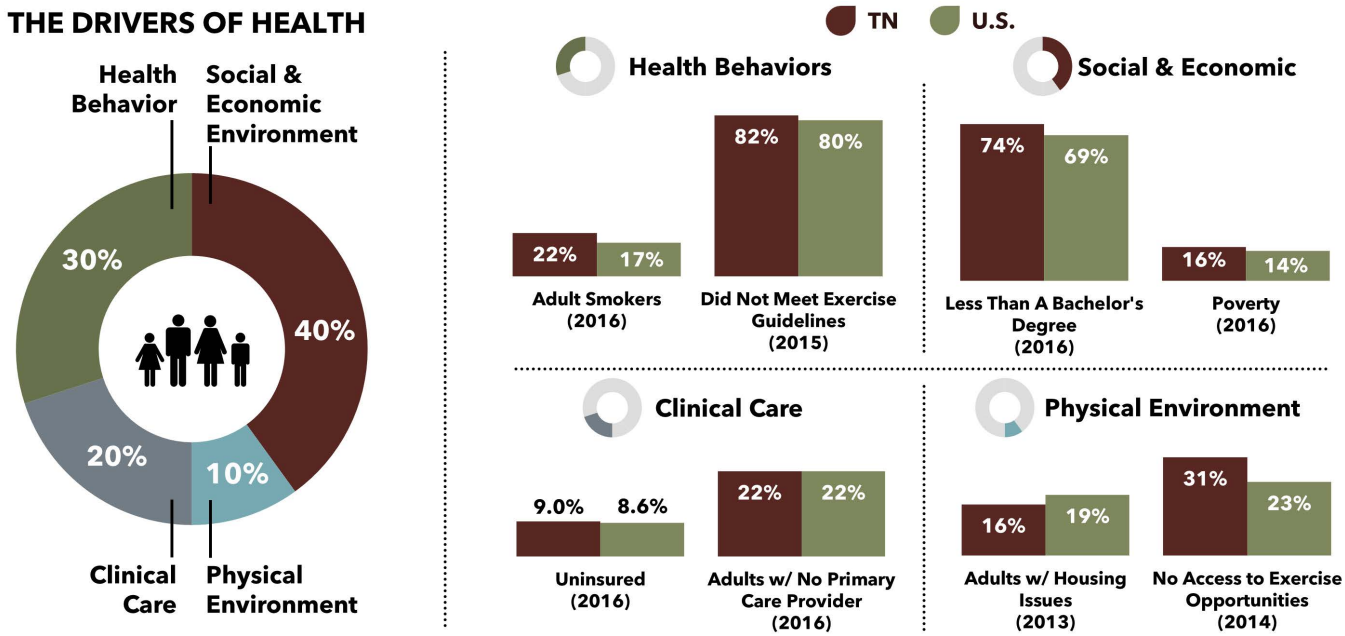


DISEASE PREVALENCE & HEALTH INDICATORS

(2016 unless otherwise noted)



THE DRIVERS OF HEALTH IN TENNESSEE[16]



The Drivers of Health

Health means more than just health care. While access to clinical care is a contributing factor, health behaviors and our social and economic environments are the leading drivers of health outcomes. For example, poor nutrition, lack of physical activity, and tobacco use all increase one's risk of developing a chronic condition. Risk also increases as income and education decline. These factors interconnect in complex ways. For instance, our environments can encourage or discourage certain health behaviors.

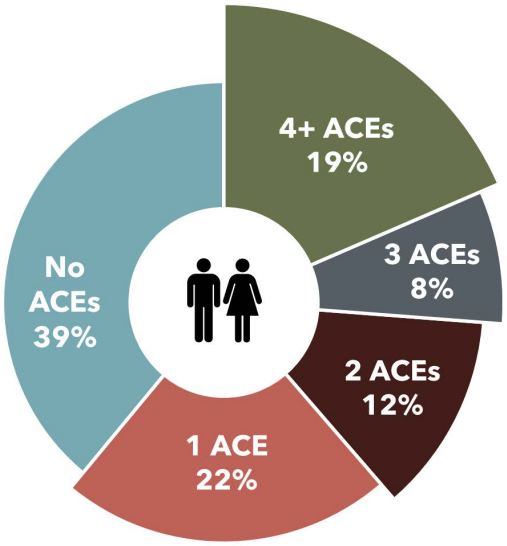
Many key factors that contribute to poor health are more prevalent in Tennessee than nationally. Tennessee has higher rates of smoking and poverty and lower rates of exercise and insurance coverage than the U.S. as a whole. In fact, nearly 1 in 4 adult Tennesseans smoke cigarettes, a higher rate than all but 7 states.[17] Smoking is the most preventable cause of premature death in the country, and it is associated with heightened risk of coronary heart disease and stroke.[18]

Adverse Childhood Experiences (ACEs)

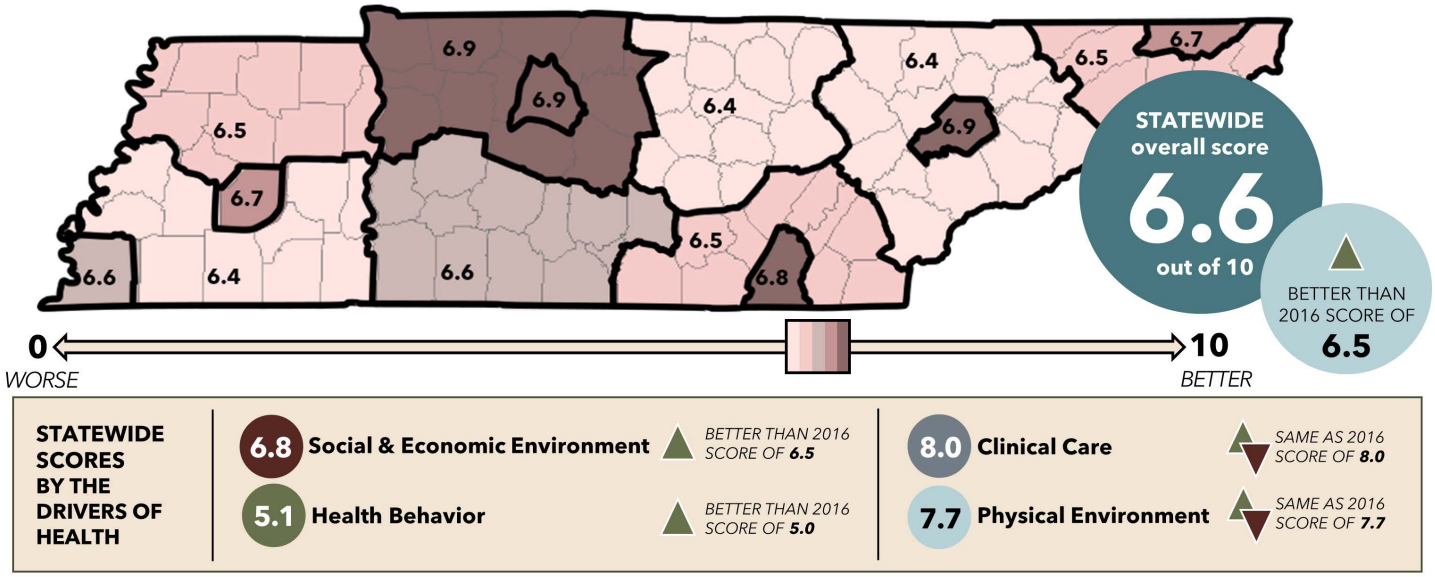
Adverse childhood experiences (ACEs) are among the best examples of the complex set of factors that influence health. Childhood and adolescence are critical times for human brain development. Science has found a clear link between experiences at this age that cause chronic and severe stress – such as exposure to household dysfunction or psychological, physical, or sexual abuse – and health and well-being later in life. As exposure to ACE-related toxic stress increases, so does the risk of a wide variety of outcomes with long-term negative effects, such as alcohol abuse, drug abuse, smoking, and heart disease.

Increasing children's resilience to toxic stress can reduce or overcome the effects of ACEs. Successful approaches to ACEs recognize that a wide variety of influencers (e.g. the health care system, education, child welfare, and criminal justice) can play a role in supporting children, parents, and families. Identifying and addressing sources of childhood toxic stress can have a lasting, multigenerational impact on Tennesseans' health, productivity, and prosperity.

TENNESSEANS WITH ADVERSE CHILDHOOD EXPERIENCES 2014[19]



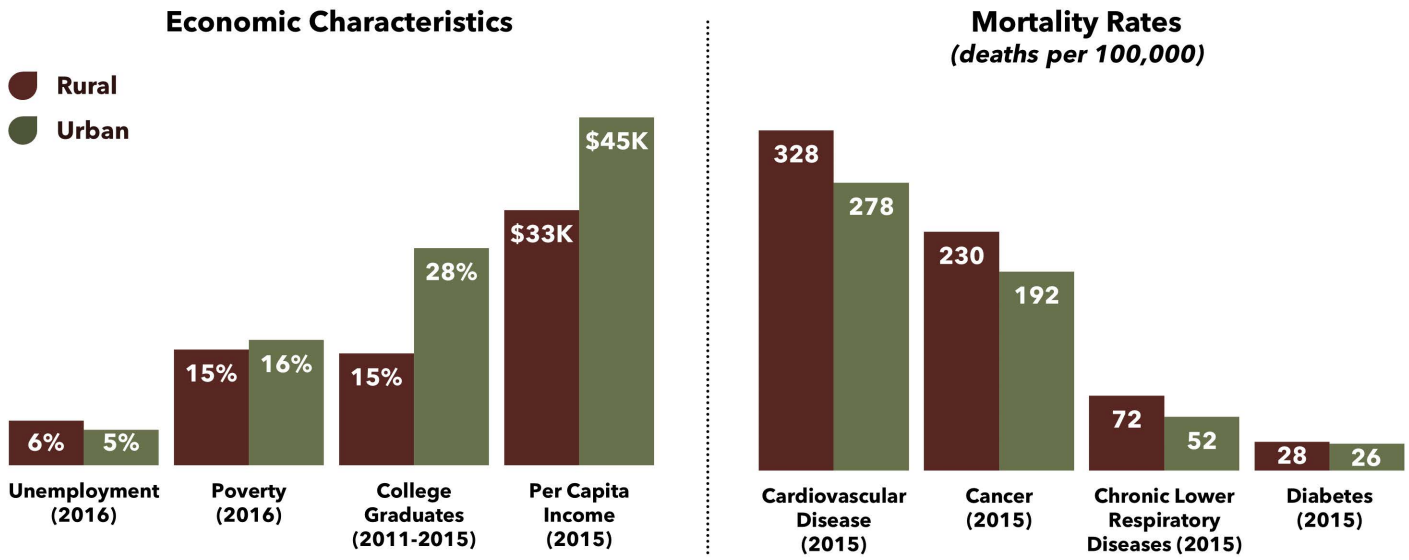
TENNESSEE HEALTH & WELL-BEING INDEX 2017
OVERALL SCORES BY REGION



The Tennessee Health & Well-Being Index

The Sycamore Institute's Tennessee Health & Well-Being Index is a tool for measuring the drivers of population health in our state and tracking them over time. Using the most recent data available, the Index measures factors that influence health at the state and regional level. It also highlights health outcomes and areas of relative strength and opportunities for improvement in the drivers of health. First published in 2017, it will be updated regularly.

RURAL vs. URBAN TENNESSEANS[20]



Tennessee's Rural Health Challenges

Tennessee's rural areas face unique demographic, economic, health, and health system challenges. About 1.5 million Tennesseans (or 22%) live in a rural area.[21] Tennesseans living in rural areas tend to be older, sicker, and have lower incomes on average than those in other areas. [22]

Compared to urban areas, Tennesseans living in rural areas:

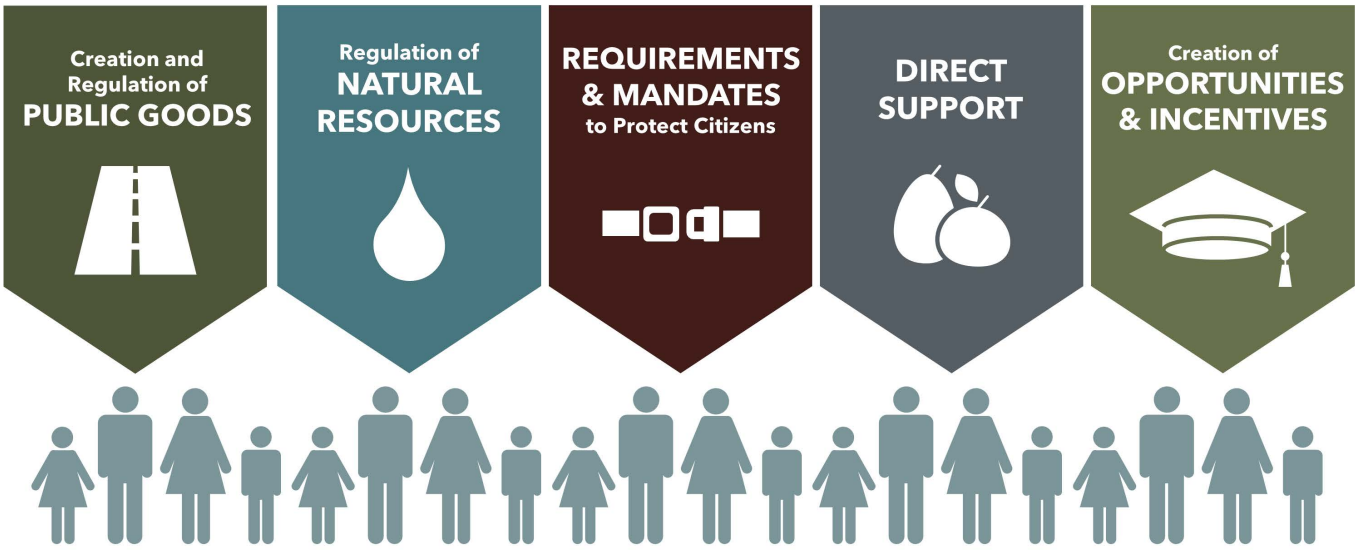
- Are older.
- Have lower per capita incomes.
- Are more likely to be unemployed.
- Have less education.
- Suffer from higher rates of diabetes, obesity, heart disease, chronic obstructive pulmonary disease, prescription drug overdoses, and premature death.

Residents of rural areas often have less access to health care due to provider shortages, hospital closures, and increased travel distances to providers. Eight rural hospitals in Tennessee have closed since 2010, resulting in a loss of 326 inpatient care beds, and at least 1 more is expected to close in the near future.[23] As of 2015, almost 1 in 4 Tennessee hospitals was at increased risk of closure.[24] Hospital closures leave many people without a local source of care, particularly for emergencies. In 2015, Tennessee's rural hospitals provided more than $292 million in uncompensated care.[25] Hospitals also provide employment and produce economic growth for the communities they serve.

SECTION 3

Connections Between Tennessee's Budget, Economy, and Health and Well-Being

All public policy decisions have trade-offs. As they weigh these trade-offs, state policymakers may want to consider how budget and economic policies affect the health and well-being of Tennesseans and, in turn, how Tennesseans' health and well-being affects our prosperity. This section outlines several ways public policy impacts public health, the specific parts of the budget directly related to health, and the economic cost of chronic disease in Tennessee.



How Public Policy Impacts Tennesseans' Health

Public policy is the system of laws, regulatory measures, courses of action (or inaction), and funding priorities implemented by a government entity or its representatives. While many debate the proper size and role of government, public policies play an important role in Tennesseans' daily lives.

Just as health encompasses more than health *care*, the realm of health policy extends beyond health *care* policy. Public policies that do not initially appear health-related can have a significant health impact due to their effects on the drivers of health.

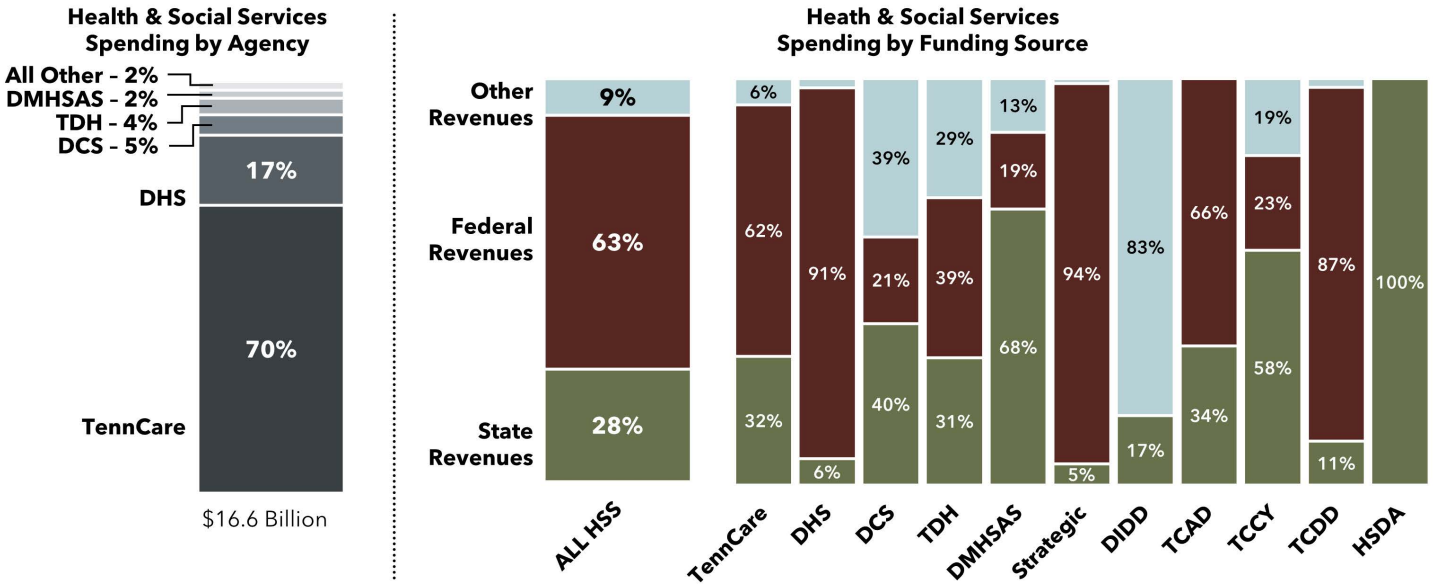
Tennessee's public policies, programs, and services shape and influence our physical, social, and economic environments and influence our behaviors by:

- **Creating, regulating, and maintaining public goods.**
- **Regulating natural resources.**
- **Setting requirements and mandates.**
- **Providing direct support in ways that affect the drivers of health.**
- **Reducing barriers, creating opportunities, or providing incentives that influence the choices that impact health.**

For example, anyone can use our state roads and highways, which are funded by taxes and user fees. How we plan, build, connect, and maintain these roads affects the accessibility of needed services and the walkability of our communities. Research shows that these factors can create opportunities (or barriers) to getting the care and making the choices that keep people healthy.

Another example –Tennessee's HOPE scholarships are designed to reduce financial barriers and give some Tennessee students the opportunity to attend college. Research shows that education and income are the greatest predictors of health. Individuals with higher levels of education and income tend to live longer, healthier lives.

HEALTH & SOCIAL SERVICES SPENDING IN THE FY 2017-2018 RECOMMENDED TENNESSEE STATE BUDGET[26]



Health in the Tennessee State Budget

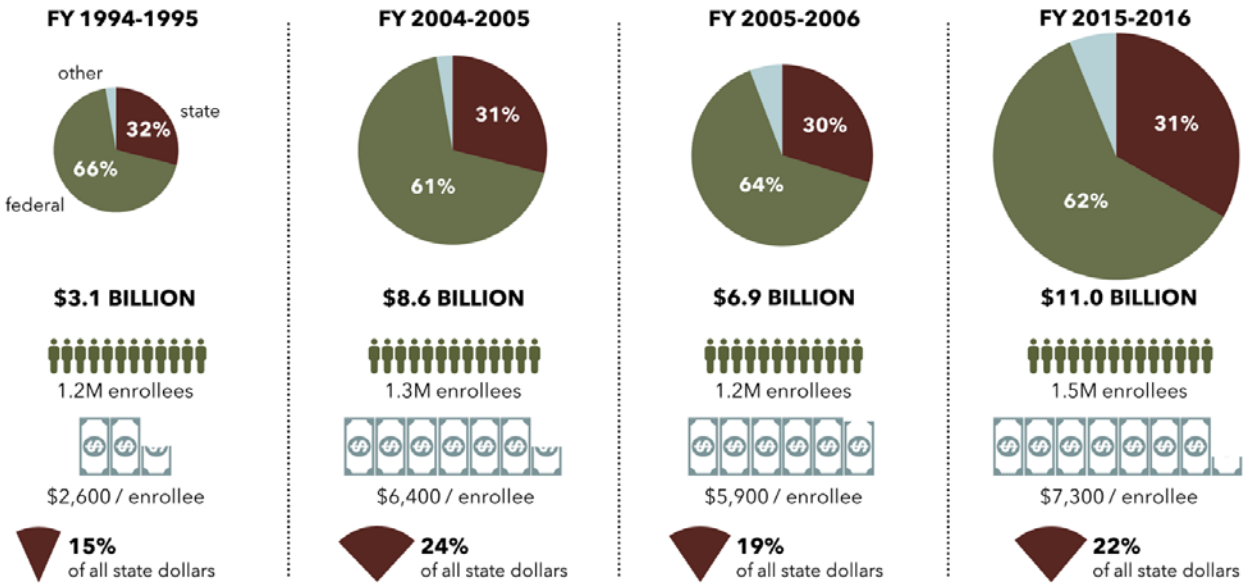
"Health & Social Services" is the largest category of spending in the state budget. It includes the following agencies: [27]

- Division of Health Care Finance and Administration / TennCare ($11.6 billion)
- Department of Human Services (DHS) ($2.9 billion)
- Department of Children's Services (DCS) ($783 million)
- Department of Health (TDH) ($624 million)
- Department of Mental Health & Substance Abuse Services (TDMHSAS) ($355 million)
- Department of Finance and Administration Strategic Health Care Programs ($234 million)
- Department of Intellectual and Developmental Disabilities (DIDD) ($142 million)
- Tennessee Commission on Aging and Disability (TCAD) ($43 million)
- Tennessee Commission on Children and Youth (TCCY) ($5 million)
- Tennessee Council on Developmental Disabilities (TCDD) ($2 million)
- Health Services and Development Agency (HSDA) ($1 million)

Funding for health and social services agencies comes predominantly from federal dollars. The lion's share goes to 2 programs: TennCare (Tennessee's state Medicaid program) and the Supplemental Nutrition Assistance Program (SNAP) within DHS. The combined $9.1 billion in federal dollars for these 2 programs accounts for 67% of all federal money flowing into the state budget and 1/4 of the entire state budget. [28]

While these programs provide services that explicitly address health and well-being, other areas of the state budget also influence health and the drivers of health.

TENNCARE'S BUDGET AND ENROLLMENT OVER TIME[29]



TennCare and the State Budget

TennCare, Tennessee's state Medicaid program, is the single largest agency in the state budget and provides health coverage to 1 in 5 Tennesseans.[30] Many health and budget policy issues in Tennessee require a firm understanding of Medicaid and TennCare.

Each state runs its own Medicaid program according to federal rules that govern what benefits must be offered and to whom. Medicaid is a federal entitlement, which means that spending is largely determined by how many people enroll and how much their benefits cost. The federal government pays a specific portion of these costs in each state, and the state pays the rest. In Tennessee, the federal medical assistance percentage (FMAP) is nearly 66% in federal FY 2018. Lower income states have higher FMAPs, and Tennessee's FMAP is currently the 14th highest in the country.[31]

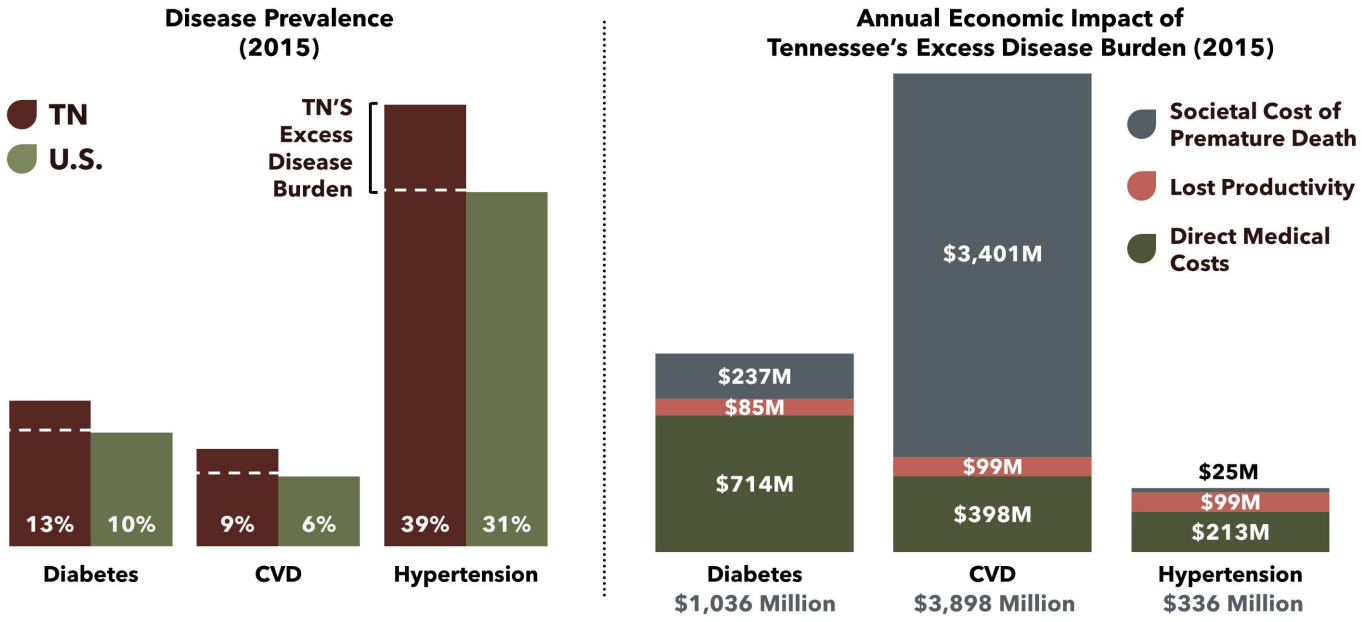
TennCare costs can be difficult to predict because Medicaid is an entitlement program. Coverage of many treatments is guaranteed to all who are eligible – even when treatment costs or the number of enrollees spikes due to rising health care costs or economic downturns. This makes states' costs relatively hard to predict, which can affect other parts of a state budget. Tennessee's relatively high FMAP partially shields the state from unpredictable cost spikes.

Policymakers often inquire about TennCare's efficiency, which can be measured in several ways. For example, Tennessee's total Medicaid spending grew slower than most other states' between 2011 and 2016, including those that have not expanded Medicaid.[32] On a per-enrollee basis, however, Tennessee's spending grew faster than most other states between 2011 and 2014 (the most recent year for which data across states are available).[33]

Tennessee has not expanded Medicaid eligibility under the Affordable Care Act (ACA), which would make about 250,000 uninsured Tennesseans under 138% of poverty newly eligible for TennCare.[34] As many as 163,000 of those individuals have incomes below poverty and do not qualify for subsidies for private insurance via healthcare.gov.[35] The ACA mandated Medicaid coverage for these individuals, but a 2012 U.S. Supreme Court decision made expansion optional. Insure Tennessee, Governor Haslam's unsuccessful 2015 expansion plan, proposed to pay the state's share of expansion costs (6% in 2018 growing to 10% in 2020) with an assessment on hospitals. The Three Star Healthy Task Force appointed by Speaker Harwell in 2016 to explore other options has not released a formal proposal.

Today, TennCare primarily serves populations required by federal law. These include low-income individuals in one of the following categories: children, pregnant women, parents or caregiver relatives, seniors, and individuals with disabilities. Childless adults without disabilities – those most likely to be affected by other states' proposed Medicaid work requirements – are largely ineligible for TennCare because the state has not expanded Medicaid under the ACA.

EXCESS COST OF CHRONIC DISEASE IN TENNESSEE[36]



The Economic Cost of Chronic Disease in Tennessee

Higher rates of chronic disease in Tennessee have a cost – including higher health care expenditures, lost productivity, and premature death. A November 2017 study by The Sycamore Institute estimated the economic impact that achieving aspirational-but-realistic reductions in the prevalence of 3 chronic conditions might have on our state. [37] According to the study:

- **Diabetes, cardiovascular disease (CVD), and hypertension affected 460,000 additional Tennesseans** in 2015 due to state prevalence rates exceeding the national rates.
- **The excess burden of these 3 diseases alone cost Tennessee nearly $5.3 billion** in 2015 in direct medical care, lost productivity, and premature death. Excess rates of diabetes cost an estimated $1.0 billion, CVD $3.9 billion, and hypertension $336 million.

Implications for Tennessee's Taxpayers, Businesses, and Economy

Tennesseans' health and our state's economy have a complex and mutually influential relationship. Economic growth and prosperity are among the many factors that influence Tennesseans' health and well-being. Our study begins to quantify and shed light on one important way that Tennesseans' health and well-being also affect our economy.

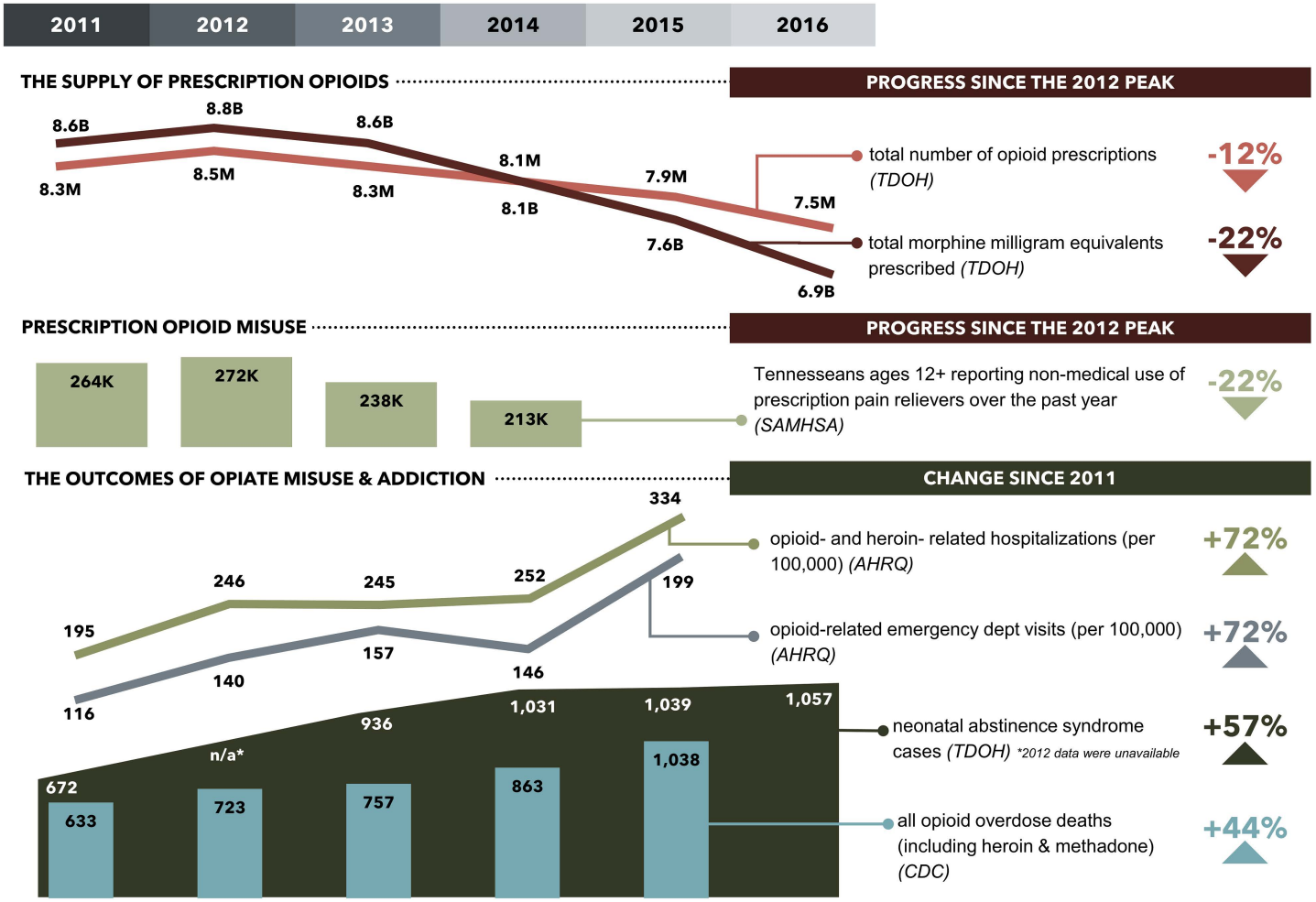
Tennessee's higher-than-average burden of chronic disease drives up health care costs in taxpayer-funded programs like TennCare, our state's Medicaid program. Improving Tennesseans' health could free up limited state taxpayer resources for other policy priorities like state tax reductions or increased spending in other areas.

Tennessee's relatively high burden of chronic disease also raises employers' costs for health care and productivity loss. Improving Tennesseans' health could save employers money and increase their productivity, which could lead to higher wages and greater economic output for the state. Research suggests that workers' health gains also increase their coworkers' productivity, generating even larger economic gains.

SECTION 4
Challenges on the Horizon

This section highlights several challenges that Tennessee policymakers may need to consider in the months and years ahead — including the ongoing opioid epidemic and potential new pressures on the state budget. Many of these challenges exist at the intersection of health and the state budget — some requiring difficult decisions about how to allocate limited resources.

TENNESSEE'S PROGRESS ON KEY OPIOID INDICATORS[38]



Tennessee's Opioid Epidemic

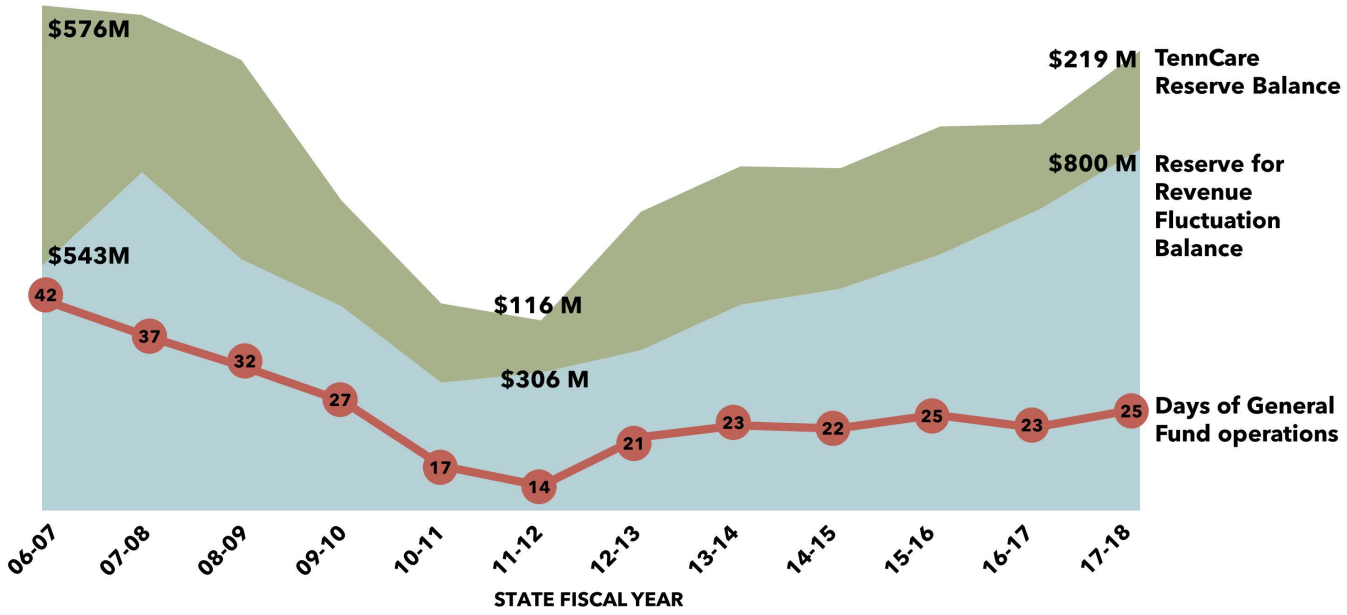
Tennessee has been a national leader in implementing evidence-based policies to address the state's opioid epidemic, which have successfully reduced the supply of opioid prescriptions. The state's policy response has largely focused on targeting prescriber practices – including expanding the use of the state's controlled substance monitoring database, issuing prescriber guidelines, and regulating pain management clinics. The negative outcomes of opioid addiction may have been worse without these efforts.

Opioid-related hospitalizations, overdoses, and cases of neonatal abstinence syndrome continue to rise in Tennessee despite recent policy efforts. While Tennessee has done well in nearly all facets of addressing the opioid supply, the evidence suggests that demand for opiates remains and that the epidemic is evolving with individuals switching from prescription opioids to heroin and fentanyl.

Addiction underlies many of these trends and the demand for opioids in Tennessee. Addiction is a chronic, relapsing brain disease that is influenced by the drivers of health and requires long-term treatment and care. Reducing the demand for opioids involves a comprehensive spectrum of efforts aimed at broadly promoting health and well-being, preventing substance abuse and opioid misuse, and treating drug addiction.

As the effectiveness of current policies becomes clearer and the opioid epidemic evolves, Tennessee has room to expand and improve evidence-based treatment and prevention efforts to fight the epidemic.

TENNESSEE'S RAINY DAY FUND RESOURCES[39]



Note: FY 2016-2017 and FY 2017-2018 represent estimates.

Recession Readiness

Economic downturns create higher-than-usual needs for state programs and services while reducing the revenues that fund them. States can respond to revenue shortfalls by reducing spending, increasing taxes, and/or tapping rainy day reserves. During the most recent recession, the federal government also provided additional funding to states through the American Recovery and Reinvestment Act of 2009. Policymakers should consider each of these tools when assessing the state's readiness for another recession, which many experts believe could be around the corner.

State spending cuts since the Great Recession could make finding additional savings a challenge during the next recession. Since FY 2007-2008, Tennessee has enacted nearly $2 billion in recurring budget reductions.[40] Some of the state's biggest budgetary items are most in demand during recessions (e.g. TennCare), making spending cuts in these areas both politically and practically difficult.

Tennessee's ability to raise new revenues is limited. Although Tennessee is a low-tax state, its primary sources of state tax revenue – the general sales tax and the franchise and excise taxes — are already relatively high compared to other states.[41] Changes to tax policy in recent years – including a constitutional ban on an individual income tax – suggest that policymakers and many Tennesseans have little appetite for raising taxes.

Tennessee is on track to amass a combined balance of $1 billion in the Reserve for Revenue Fluctuations and the TennCare Reserve (the state's rainy day fund resources) by June 2018. This amount is about $100 million less than what the state had on hand in FY 2006-2007 just prior to the Great Recession of 2007-2009. In terms of buying power, the combined reserve balances alone could cover state-funded General and Education Fund operations for around 25 days – 16 fewer days than in FY 2006-2007. [42]

States may or may not receive significant federal aid during the next recession. Congress has shown an interest in reducing federal deficits and spending for a number of existing state aid programs. Policymakers in Tennessee may want to consider what resources the state needs to weather a recession without outside help.

Responding to Federal Reforms & Funding Pressures

Congress and the Trump administration have proposed changes to federal law that would give states more control over health and social services policy but could also place additional pressure on state budgets.

Health Insurance Reform

In 2017, Congress tried to give states additional regulatory and financial responsibilities over the individual health insurance market. Although the future of these proposals is uncertain, Congress did repeal the penalty associated with the Affordable Care Act's (ACA) individual mandate. Other major legislation proposed in the U.S. House and Senate sought to let states tailor the ACA benefit and coverage mandates for the individual health insurance market. Under these proposals, states would also direct federal funds to help stabilize local health insurance markets and address affordability issues for older and less healthy individuals. Some of these proposed funds would also require a state match.

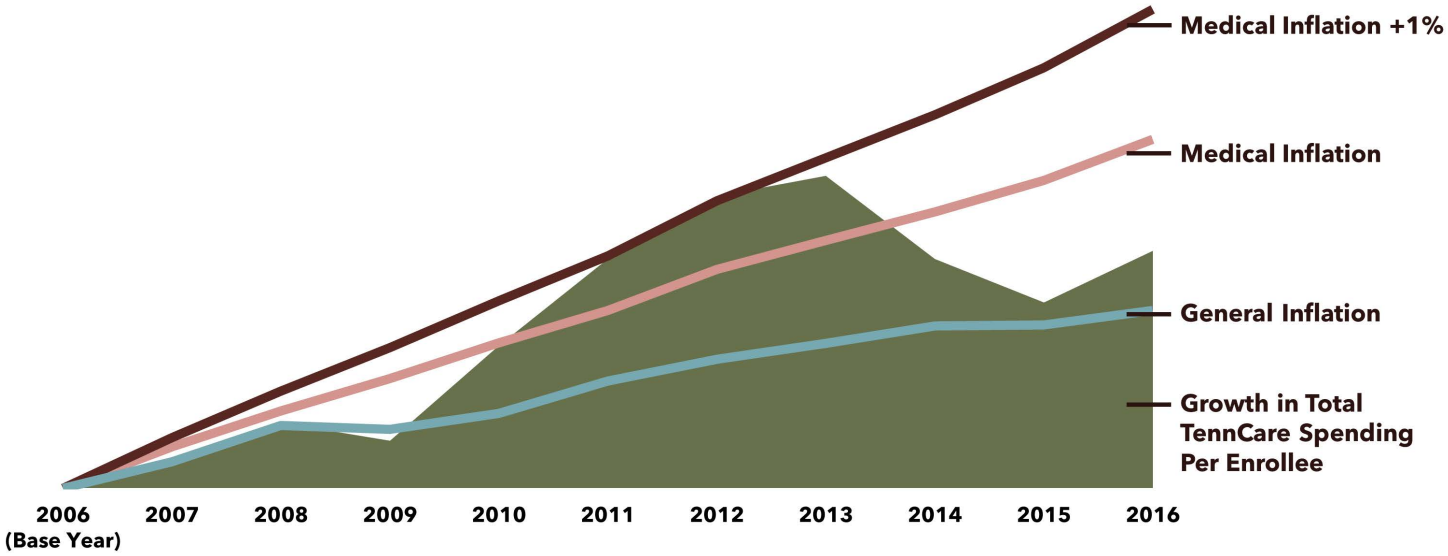
If these proposals become law, states would face numerous decisions with difficult trade-offs. For example, loosening the ACA's benefit mandates would increase access to plans with lower premiums, higher deductibles, and less comprehensive benefits. As a result, more comprehensive plans that appeal to older and sicker Tennesseans would likely become more expensive.

Federal Funding Pressures

The President and Congress are considering major funding revisions for health and social services programs – with significant implications for state budgets. For example, the U.S. House and Senate bills mentioned above would slow the growth of federal Medicaid spending and put greater pressure on state budgets. These reforms would cap federal Medicaid spending based on external measures of growth like inflation or medical inflation. Since 2006, TennCare per enrollee spending has typically grown faster than general inflation, closer to medical inflation, and slower than medical inflation +1%.[43]

Downward pressure on federal funding for health and social services programs could require state policymakers to make difficult decisions to keep the state's budget balanced. These decisions could require redesigning programs to produce cost-savings, shifting funding from other priorities in the state budget, or raising taxes. Each of these decisions would pose trade-offs.

TENNCARE SPENDING vs. PROPOSED FEDERAL FUNDING CAPS



Parting Words

Tennessee's economy, decisions about the state budget, and Tennesseans' health and well-being connect in complicated ways. Each one affects the other. Anyone who wants to make or influence public policy in our state should seek to understand these connections. While every public policy decision involves trade-offs, a healthier Tennessee will be a more prosperous Tennessee.

The information in this primer serves as a baseline for understanding health and budget policy issues in our state. We encourage you to read our related work listed below and sign up for email alerts at **SycamoreInstituteTN.org** to get future reports and analysis delivered directly to your inbox.

**This document was updated on Jan. 11, 2018 to include additional information about TennCare.*

Related Work by The Sycamore Institute

Understanding Tennessee's Budget

Tennessee State Budget Primer: A Foundation for Understanding Our State's Public Policies
Updated November 2017

Health and Well-Being in Tennessee

Tennessee Health & Well-Being Index,
March 2017

How Childhood Experiences Affect Lifelong Health
July 2017

Connections Between Tennessee's Budget, Economy, and Health and Well-Being

5 Ways Public Policy Impacts Health
May 2017

Understanding Medicaid and TennCare: Key Concepts and Context to Know
June 2017

Medicaid Eligibility in Tennessee
August 2017

Medicaid Work Requirements in Tennessee
September - December 2017

The Economic Impact of Chronic Disease in Tennessee
November 2017

Challenges on the Horizon

The Opioid Epidemic in Tennessee: A 3-Part Introductory Series
August 2017

Analysis of Health and Medicaid Reform Efforts
Ongoing

References and Notes

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About The Sycamore Institute

Launched in 2015, The Sycamore Institute is an independent, nonpartisan public policy research center for Tennessee. The Institute's mission is to provide accessible, reliable data and research in pursuit of sound, sustainable policies that improve the lives of all Tennesseans.

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