

1) How much have you lost?

VSHP anticipated some losses due to start up costs associated with the new contracts for the East and West Grand Regions. However, at approximately \$90 million for 2009, the loss is greater than expected. If left unchecked, we project losses could be as high as \$135 million for 2010.

2) In your September filing with TDCI, your losses were not at the level you indicated. Which number is right?

We had originally projected the losses to lessen over time – instead they continued to grow, particularly in the final months of the year. The level of 2009 losses will be approximately \$90 million and clearly visible in our annual filing with the State.

3) Why are you making these rate cuts? Why are cuts necessary?

While we have been able to operate at a loss for a short period of time due to our financial strength, we cannot sustain ongoing losses and operate the program. Our TennCare MCO must be financially viable and cover its own costs.

Under the new contract, VSHP tried to create a financial structure that would work for all parties. In particular, we tried to set provider reimbursements at reasonable rates, given the network parameters and goals of the program. However, we missed the mark on our calculations, which we based on program funds available as well as estimated members, and volume and type of services to be delivered. As this is a complex program, some of these factors changed and we are making adjustments.

The rate reduction is not something we want to do, but is something we have to do in order to position us so that we aren't operating at a loss and can ensure our continued participation in the program.

4) What are considered reasonable rates for providers?

Setting rates is a balancing act. We strive to set rates at levels that allow our MCO to attract providers and build a strong network to meet members' needs. At the same time, these rates must ensure the financial stability of not only our operations but those of the TennCare program.

5) How did this happen? What factors changed?

Projected enrollees and their demographics are but one factor used to calculate a sustainable financial model for the program. Unfortunately, the current economic recession changed many of the original assumptions and projections.

For instance, Tennessee's Medicaid program is now experiencing increased enrollment from many new enrollees who had previously not qualified for Medicaid yet still could not afford private insurance. Now unemployed and financially eligible for Medicaid, these individuals have tremendous pent up demand for health care. This translates into a greater than expected volume of services.

6) Who is being targeted for rate reductions? How were they selected?

After reviewing rates for all providers, we are reducing rates for certain specialists and hospitals in the East and West Grand Regions of Tennessee to create a more financially viable structure. Primary care physicians will not be affected. Primary care includes pediatrics, family medicine, internal medicine, general practice, and obstetrics/gynecology.

As rates are a contract arrangement and the disclosure of such would put us at a competitive disadvantage, we are not able to discuss the specifics of the cuts.

7) How many specialists are impacted by the rate cuts?

Approximately 12,800

8) How many hospitals are impacted by the rate cuts? Which hospitals?

Four hospitals in the East Grand Region will receive rate reductions.

Fifteen hospitals in the West Grand Region will receive rate reductions.

We do not publicly discuss the specifics of our network provider contracts.

9) How much are the reductions?

For hospitals the rate cuts vary. For physicians the rate reductions average 14 percent. The new reimbursement rates bring us closer to the national averages for Medicaid reimbursement rates.

10) Why are you targeting specialists and not primary care providers?

We believe specialists and primary care physicians are very important and vital to having a strong network. As we work to streamline to more organized systems of care, the primary care provider will play a critical role. We believe that primary care is central to our strategy of engaging our TennCare enrollees in their health care, and it offers the greatest opportunity to impact quality and costs. The rate reduction creates better alignment between reimbursement for primary and specialty care.

11) How much do you anticipate saving by implementing these rate cuts?

We anticipate that these rate reductions will improve our position considerably and we are taking other steps to control costs. These initiatives are part of a longer-term strategy to move to a more streamlined, organized system of care.

12) What are your plans if hospitals and specialists drop out of your network?

Our goal is to maintain a strong network that is capable of handling members' needs. In fact, our current network is significantly larger than that of our competitors in each region. In the event of network changes, we will work closely with our providers and members to ensure access and continuity of care. We will work to ensure our members get the care they need.

13) Do you anticipate more rate reductions in the future to make up your financial losses?

We can't speculate on future actions. Right now, we are working to put us in a position where we aren't operating at a loss in our TennCare operations, which will ensure our continued involvement in the program. These rate reductions are separate and apart from any actions the State deems necessary to control program costs.

14) Given that you are cutting provider payments, what is VSHP doing to control its own expenses and reduce the losses?

VSHP's administrative costs are comparable to those of competing MCOs and we are constantly working to be more efficient and reduce costs. In addition to these ongoing efforts, VSHP is taking action to stem the losses through a combination of provider fee reductions and medical management initiatives. These initiatives are part of a longer-term strategy to move to a more streamlined, organized system of care.

15) How many members do you have in East and West Tennessee?

We serve approximately 232,000 TennCare members in East Tennessee.

We serve approximately 184,000 TennCare members in West Tennessee.

16) Why can't you cover the financial gap with your reserves?

We have. While we have done so for the short-term, it is not financially prudent to do so-long term. The VSHP provider rate structure proved to be unsustainable, driving the need to make these changes.

BlueCross has built its reserves from all lines of business, including TennCare, as well as from investment income over the last 65 years as our business has grown. Our reserves must remain at a strong level to provide financial stability for meeting our members' future needs, whether that means developing new capabilities or covering the costs of unforeseen events.

17) How much money have you made on the TennCare program in the past?

Since inception in 1994, our TennCare MCO has returned less than one percent profit to the enterprise, as disclosed through financial performance documents we file annually with the Tennessee Department of Commerce and Insurance.