Calculating "Shared Savings" in TennCare III (as approved January 8, 2021)

In its Annual Monitoring Report (June 20, 2024), at Appendix M, Tennessee calculates its "shared savings" for CY 2021 and CY 2022. These amounts, based on a formula laid out in the terms of the TennCare III demonstration as approved on January 8, 2021, are 45 percent and 35 percent, respectively, of the difference between the state's demonstration expenditures and the aggregate cap in each year. All of these amounts, summarized in the table below are "total computable," i.e., combined federal and state spending.

Demonstration Year	Aggregate Cap	Demonstration Expenditures	Expenditures below Cap	"Shared Savings"	State DSIP spending
CY 2021	$10.509 billion	$8.612 billion	$1.897 billion	$854 million	$457 million
CY 2022	$11.360 billion	$9.855 billion	$1.505 billion	$527 million	$473 million

Source: CCF calculations based on TennCare III Demonstration Annual Monitoring Report (June 30, 2024), Appendix M.

Tennessee also reports its state-only spending on the specified DSIPs for each demonstration year. As shown in the table, the state reported a total of $930 million in DSIP spending over the two years. The issue is whether the federal government paid the state the entire $930 million as "shared savings" or whether the federal government matched the $930 at the state's regular Medicaid matching rate of about 72 percent (inclusive of the PHE 6.2 percentage point enhancement), or about $670 million.

The cover letter to the demonstration at page 6 implies that the federal government would pay the state $930 million: "Tennessee will be eligible to qualify for shared savings on an annual basis when it underspends the "without waiver" aggregate cap and meets quality targets. The state may be eligible to receive up to 55 percent of savings as federal expenditure authority for DSIP – here forward referred to as shared savings – that provide or support the provision of health-related services that are otherwise state-funded, and are not eligible for Medicaid funding."

The Special Terms and Conditions (STC 32.d.) implies that the federal government would pay the state 72 percent of its DSIP spending, or about $670 million: "Savings achieved under the demonstration are calculated as the total computable difference between the aggregate budget neutrality cap in a given year and actual demonstration expenditures for that year. Up to 55 percent of newly accrued savings during the TennCare III demonstration period may be used as federal expenditure authority to fund DSHP contingent on meeting quality performance targets. For example, if the state's federal demonstration expenditures are $100 million less than the aggregate budget neutrality cap for a demonstration year, the state may be eligible to draw down up to $55 million in federal funding for approved DSIPs (provided the state has the requisite quality improvements to achieve the full 55 percent level).