

CoverTN, Tennessee's Barebones Health Plan: A Case Study

In an attempt to cut health care costs, some states allow insurers to develop what are called “limited-benefit,” “defined-benefit,” or “barebones” health plans. Experts define limited-benefit plans as those that “require high cost-sharing, exclude coverage of some services, or both.”¹ Some states allow insurers to sell these plans to individuals or small businesses. Others even subsidize the plans with state dollars.

At first glance, limited-benefit plans may appear to be low-cost versions of standard health plans, but a closer inspection reveals that many provide so little protection that they are not really insurance at all. Although they may appear to save money, limited-benefit plans can be very costly to consumers—especially those with health problems or low and moderate incomes. Families USA recently described this problem in the issue brief, *Limited-Benefit Plans: Expanding Coverage or Holding Your State Back?*

In this brief, we examine Tennessee's barebones plan, CoverTN. CoverTN is a state-designed and state-subsidized plan. It offers a useful case study of limited-benefit plans, illuminating several problems that other states may experience if they adopt such plans. These problems include the following:

- Consumers' health needs may quickly exceed restrictive coverage or service limits;
- Consumers may face high costs due to a lack of caps on out-of-pocket spending;
- Plans may fail to meet the needs of targeted low- and moderate-income, high-risk populations;
- Enrollment may be low due to consumer skepticism; and
- Provider participation may be inadequate.

Background

In 2005, Tennessee drastically cut its Medicaid program, known as TennCare, by dropping some 200,000 residents from its rolls in order to save money. In addition to stripping these residents of their access to medical care, the TennCare cuts also cost Tennessee \$1.2 billion annually in lost federal Medicaid matching dollars.² In 2006, the state announced the creation of two new state-funded plans that offer less comprehensive coverage.³ This strategy freed the state from having to comply with federal consumer protections that apply to its Medicaid program, including benefit standards. That is, forgoing federal dollars and creating separate state-funded programs made it possible for Tennessee to offer far skimpier coverage than it previously offered in its Medicaid program. The new CoverTN program, which is funded by money saved through the dramatic TennCare cuts,⁴ was intended to replace lost TennCare coverage for some residents. However, CoverTN provides very limited coverage for low- and moderate-income Tennesseans. In fact, plan administrators emphasize that CoverTN is not “insurance.”⁵

CoverTN Program Basics

Eligibility

Businesses can offer CoverTN as a job-based health plan to their uninsured employees if the firms have 50 or fewer employees, at least half of their employees earn \$55,000 or less a year, and the business hasn't offered meaningful coverage in at least six months. Businesses that offer CoverTN for employees are referred to as "participating employers."

Individual adult workers who are employed by "non-participating employers" can independently enroll in CoverTN if they meet the following criteria:

- They earn \$55,000 or less a year, and
- They have been uninsured for at least six months, and
- They do not have a meaningful offer of coverage from their employer, or
- They are self-employed,⁶ or
- They fall into the category of "Tennesseans Between Jobs"—people who have been unemployed for six months or less or who have had their work hours cut to fewer than 20 per week.^{7, 8}

(For a more detailed description of CoverTN eligibility, see Appendix A on page 13.)

Premiums

Premiums for CoverTN vary based on enrollees' age, tobacco usage, and weight. In June 2008, it was reported that 36 percent of CoverTN enrollees were paying extra in premiums for using tobacco, and 29 percent were paying extra due to their weight. In addition, older enrollees pay higher premiums than younger enrollees, and reports indicated that most enrollees were between the ages of 30 and 59.⁹

The state pays one-third of premiums for enrollees, regardless of their weight, tobacco usage, or age.¹⁰ The share of premiums that enrollees pay depends on whether or not they work for a "participating employer." Table 1 shows how premiums vary based on enrollees' characteristics.¹¹ (For a more detailed description of CoverTN premiums, see Appendix B on page 15.)

Benefits

CoverTN offers very limited coverage for basic medical treatment and prescription drugs. Enrollees can choose between two CoverTN plans, Plan A and Plan B. Both plans have limits on services such as doctor visits, prescription drugs, and emergency services; an annual benefit limit of \$25,000; and a one-year pre-existing condition exclusion.¹² Neither plan has an out-of-pocket spending maximum, which would protect enrollees from unaffordable health costs that exceed the plans' benefit limits.¹³ Table 2 outlines the benefits offered in CoverTN Plans A and B.

Table 1. Monthly Premiums Based on Enrollee Characteristics

Sample Enrollee Characteristics	Total Monthly Premium	Share Paid by Employees of Participating Employers	Share Paid by Employees of Non-Participating Employers, Self-Employed Individuals, And "Tennesseans Between Jobs"
Non-smoking, target weight or below, under age 30	\$112.59	\$37.53	\$75.05
Tobacco user, above target weight, over age 65	\$327.09	\$109.03	\$218.05

Table 2. Benefits Offered in CoverTN Plans A and B

Service	Plan A Basics*	Plan B Basics*
Preventive/Primary Care Visits (includes internal medicine, OB/GYN, family practice, general practice, and nurse practitioners)	Limited to 12 visits per year, including one adult physical and one well-woman visit, with no copayments. There is a \$15 copayment for additional visits.	Limited to 12 visits per year, including one adult physical and one well-woman visit, with no copayments. There is a \$20 copayment for additional visits.
Specialist Visits	Limited to 5 visits per year, each with a \$15 copayment.	Limited to 6 visits per year, each with a \$20 copayment.
Prescription Drug Benefits	Limited to \$250 per quarter (with copayments of \$10 for generic drugs and \$25 for brand-name drugs). Diabetic medications and supplies: do not count toward this limit, and copayments are \$10 and \$5, respectively.	Limited to \$75 per quarter (with copayments of \$8 for generic drugs and \$25 for brand-name drugs). Diabetic medications and supplies: do not count toward this limit, and copayments are \$10 and \$5, respectively.
Inpatient Hospital Coverage	Limited to \$10,000 per year, with a copayment of \$100 for each admission.	Limited to \$15,000 per year, with a copayment of \$100 for each admission.
Emergency Services	Limited to 2 emergency visits per year.	Limited to 2 emergency visits per year.
Chemotherapy or Radiation Therapy Visits	Limited to 5 visits per year.	Limited to 6 visits per year.
Durable Medical Equipment, Prosthetics, and Medical Supplies	Limited to \$500 per year.	No coverage, with the exception of diabetic supplies.

* Cover TN does not provide maternity coverage, but if enrollees become pregnant, they are eligible for maternity benefits through safety net programs.

Source: State of Tennessee, *CoverTN Benefits*, available online at http://www.covertn.gov/web/covertn_benefits.html, accessed on January 22, 2009.

CoverTN Falls Short of Meeting Tennesseans' Health Needs

CoverTN's limited benefits fall short of the coverage needs of many Tennesseans. The plan's restrictive annual coverage limit, its numerous service limits, and its lack of protection against high out-of-pocket costs jeopardize the health and financial well-being of enrollees.

Limits on Hospital Coverage

One accident or illness could easily rack up bills that exceed CoverTN's annual hospital coverage limits of \$10,000 or \$15,000. In fact, for Tennessee in 2006, the average charge for a single hospital stay was \$22,151.¹⁴ The cost of some hospital services may even exceed CoverTN's total annual benefit limit of \$25,000. For example, in two of Tennessee's largest hospitals, people who need bypass surgery with cardiac catheterization accumulate average hospital bills of more than \$80,000. Even if patients do not require catheterization, their bills for bypass surgery will likely exceed \$60,000,¹⁵ making the procedure basically unaffordable for CoverTN enrollees.

Limits on Prescription Drugs

CoverTN's prescription drug benefit limits of either \$75 or \$250 per quarter fall short of typical drug costs for Tennesseans who need prescription drugs. In 2005, the average annual drug costs for a Tennessean with prescription expenses was \$1,234.¹⁶ Drug prices have only risen since,¹⁷ meaning that the more than 18,000 enrollees¹⁸ in CoverTN are likely to be left with high out-of-pocket drug costs.

CoverTN's restrictive drug limits may be especially problematic for people who require expensive brand-name drugs for which no generic versions exist. For example, according to the popular discount online pharmacy Drugstore.com, the common cholesterol drug Lipitor costs \$89.99 for a 30-day supply of 10 mg tablets.^{19, 20} Nexium, a drug that treats acid reflux disease, costs \$159.99 for a 30-day supply of the commonly prescribed 40 mg tablets.^{21, 22} Aranesp, an anemia drug used to treat some patients with kidney failure or certain cancers, costs \$516.06 for the smallest possible quantity sold (four 1 ml vials of 25 mcg/ml solution).²³ These three drugs treat a wide range of health conditions, but they have one thing in common—their costs exceed CoverTN's quarterly prescription drug limit, even if purchased at a discount pharmacy. Because of this restrictive limit, 610 CoverTN enrollees reached their quarterly drug benefit maximum in the third quarter of 2008.²⁴ And this number does not even include enrollees who may have needed drugs but who didn't obtain them because the costs would exceed their quarterly limit.

Limits on Durable Medical Equipment

Enrollees who require durable medical equipment (DME), prosthetics, or medical supplies may also face high out-of-pocket costs, even if they choose CoverTN Plan A, which covers up to \$500 of these items per year. For example, power wheelchairs are likely to cost upwards of \$4,000,²⁵ leaving enrollees to pay for this essential item out of their own pockets. Therefore, people with extensive DME needs are unlikely to enroll in CoverTN, and those who do are likely to quickly exceed the program's DME limit. In 2008, 61 enrollees reached the annual DME benefit maximum by the third quarter of the year.²⁶

Limits on Cancer Treatment

For cancer patients, CoverTN's limit of five or six chemotherapy or radiation therapy visits per year could present a huge barrier to recovery. For example, patients with breast cancer or prostate cancer who receive radiation therapy typically require five visits per week for at least six or seven weeks, respectively.²⁷ CoverTN would pay a mere fraction of the costs of this critical treatment.

Coverage Limits Are Burdensome to Administer

Besides being restrictive, CoverTN's coverage limits are also burdensome to administer. Every time an enrollee receives a health service, the cost and type of health service must be tracked and checked against the plan's restrictive benefit limits. This onerous process may cause dangerous errors to occur. For example, one woman who was battling cancer received services from a hospital on an outpatient basis, but the costs for those services were incorrectly counted as inpatient costs. This error made it appear that she had already met her annual inpatient spending limit, nearly preventing her from receiving a life-saving surgery.²⁸ Without legal aid services, the coding error might never have been detected. It is unknown how many other patients have been denied services due to similar errors.

A Bad Match for the Target Population

CoverTN's skimpy benefits are especially problematic in light of the fact that the program targets Tennesseans with low or moderate incomes who do not have the means to pay thousands of dollars out of their own pockets for medical care and who are more likely to need care than their wealthier counterparts. For example, one man enrolled in CoverTN struggled to decide if he would get a second stent surgically implanted in his coronary artery, at a total cost of \$33,000. With CoverTN's restrictive hospital coverage limit, he knew that if he got the procedure, he might end up with \$18,000 in medical debt that he and his wife would have to pay off. Fearing that his wife would be stuck with an unaffordable hospital bill if something were to happen to him, he decided that he would not get the stent, even if the doctor said he should.²⁹

Tennessee doctors are also seeing their patients with CoverTN struggling to get the care that they need. Dr. Robert Herring, a Tennessee gastroenterologist, noticed that many CoverTN patients with chronic diseases like hepatitis B and C would come in for a few initial visits but then “seem to disappear,” despite their ongoing health needs. Dr. Herring is aware that CoverTN patients with hepatitis can obtain only a small portion of the lab work and specialist visits that are vital to keeping them healthy.³⁰ He is especially concerned about the consequences of CoverTN’s limited benefits for patients with hepatitis C, because when the disease goes untreated, it often leads to the need for a liver transplant. And without a liver transplant, a large portion of patients do not survive. After watching his chronically ill patients suffer due to CoverTN’s limited benefits, Dr. Herring concluded that it is a “joke of a plan,” and that patients with CoverTN “behave like uninsured patients” since they have to forgo needed care due to inadequate coverage.³¹

When it comes to drug treatments, CoverTN’s restrictive benefits leave enrollees with hepatitis B or C with huge out-of-pocket costs. For example, one of the least expensive drugs for treating hepatitis B, Epivir (Lamivudine), costs \$385.88 (at a discount rate) for a 30-day supply of the most commonly prescribed dose, 300 mg.^{32,33} One of the most expensive drugs, Pegasys (Peginterferon Alfa-2a), runs more than \$2,000 for the smallest quantity available for purchase.³⁴ Individuals with hepatitis C require a two-drug combination (such as Peginterferon plus Ribavirin)³⁵ that, at best, costs more than \$600 for the smallest quantity available for purchase.³⁶ For enrollees who need these drugs, CoverTN’s drug benefit will barely make a dent in their costs.

As these examples show, being “underinsured”—having inadequate insurance coverage that requires people to spend an unaffordable share of their incomes on health costs—is almost as bad as having no insurance at all. Due to the unlimited out-of-pocket costs that CoverTN enrollees may face, they may delay needed medical care or forgo prescriptions due to cost.³⁷ They also may incur medical debt or even have to declare bankruptcy.³⁸ In 2008, Tennessee had the highest rate of personal bankruptcies of any state.³⁹

Low Enrollment Attributed to Skimpy Benefits

CoverTN enrollment was originally projected to reach 100,000 individuals by 2010.⁴⁰ In December 2008, despite an extensive advertising campaign, enrollment was reported to be only 18,094⁴¹—less than 20 percent of the projected 2010 goal. The program had a large enough budget to cover 34,000 people in 2008, almost twice the number enrolled that year.⁴²

One possible explanation for the low enrollment is that CoverTN’s benefits are so meager compared to many Tennesseans’ needs that they may decide it’s not worth enrolling in the program. Even though CoverTN premiums may be lower than those for comprehensive

coverage, they can still be unaffordable for the low-income workers that the program targets. Tennessee advocates speculate that uninsured Tennesseans may be opting to receive care in clinics on a fee-for-service basis, rather than spending their limited income on premiums for CoverTN's skimpy coverage.⁴³

Small employers also appear hesitant to participate in CoverTN, presumably because they are skeptical about the quality of coverage that it would provide to their workers. At a recent forum in which 14 small business owners met with two state representatives to discuss CoverTN, the business owners raised concerns about the program's lack of an out-of-pocket spending limit and its \$25,000 annual benefit cap.⁴⁴

An owner of several small independent grocery stores in Tennessee shares this sentiment. He looked into CoverTN for his businesses, but he found the plan's offerings to be woefully inadequate. In fact, he said that he "would be embarrassed" to offer the plan to his workers, especially because he knows that many of them need care for chronic conditions such as hypertension and heart problems. Due to these chronic illnesses, he knows that some of his workers need to spend more on prescription drugs in just one month than CoverTN's entire quarterly drug spending limit. In his words, CoverTN ". . . is a joke. It's never going to work."⁴⁵

Plan Administrator Doesn't Call It "Insurance"

BlueCross BlueShield of Tennessee, CoverTN's administrator, is careful to make a clear distinction between CoverTN and its other health plans. In 2007, Senior Project Manager Amy Bercher stated, "We're trying to make sure that we don't confuse anyone in the market because this is a limited-benefit plan. We try to avoid calling it insurance."⁴⁶ In fact, current materials from the insurer state that "CoverTN should not be confused as an inexpensive replacement for traditional insurance." Further, the materials warn that the lack of an out-of-pocket spending cap means that CoverTN does "not protect against the potential of catastrophic medical costs," giving examples of cases, such as injuries from an automobile accident, in which Tennesseans may face unlimited medical bills even if they are enrolled in CoverTN.⁴⁷

Inadequate Provider Network

Although CoverTN materials promise enrollees the "freedom to choose doctors and hospitals,"⁴⁶ anecdotal evidence from across the state indicates that CoverTN enrollees are having a hard time finding doctors who will accept their coverage. Soon after the program started, Dr. Charles Handorf, President of the Tennessee Medical Association, commented, "There are virtually no specialists willing to participate in the program, because they know by the time the patient who gets sick is referred to them, all the coverage will be used up."⁴⁹

Another Tennessee doctor recently commented that most general surgeons do not take CoverTN.⁵⁰ In fact, one of his patients had to travel more than 100 miles to see him at his rural practice because she could not find a provider in his specialty who would take CoverTN in the entire Knoxville metropolitan area.⁵¹ These assertions are supported by the experiences of enrollees, who found that some specialists listed in the CoverTN provider book do not actually participate in the program. One CoverTN enrollee called every gynecologist on the program's provider list and could not find a single one who would see her.

Conclusion

Currently in Tennessee, an estimated 850,000 residents are uninsured.⁵² The state recognizes that more than half of uninsured Tennesseans are between the ages of 41 and 64,⁵³ and that these uninsured residents are less healthy than those with private insurance.⁵⁴ Due to their age and health problems, uninsured Tennesseans are likely to have health needs that exceed the program's annual spending limit of \$25,000, its prescription drug limit of \$250 or \$75 per quarter, or its limits on specialist visits. Despite the needs of uninsured residents, however, the state created a program for them with numerous restrictions on benefits and no cap on out-of-pocket costs. It is no wonder that far fewer uninsured residents have enrolled in CoverTN than the state originally expected. Uninsured individuals and families need quality, affordable health coverage that makes it possible for them to obtain the services that they need to be healthy, not a plan of severely limited benefit.

Endnotes

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Appendix A: CoverTN Eligibility

Participating Small Businesses

Qualifying small businesses may offer CoverTN as their job-based health plan if they agree to offer it to all current and new employees who meet the CoverTN employee eligibility standards.¹ When the program first started, businesses with 25 or fewer full-time equivalent² employees were eligible to participate, and income eligibility levels were set at 250 percent of the federal poverty level (\$27,075 for an individual in 2009).³ Now, Tennessee employers are eligible to offer CoverTN if they meet the following requirements:

- They have 50 or fewer full-time equivalent employees;
- At least half of the employees earn \$55,000 or less in adjusted gross annual income (above 500 percent of the federal poverty level for an individual in 2009); and
- They did not offer health coverage in the past six months.^{4, 5}

If employers did offer coverage in the last six months, they may still qualify as participating employers if they meet the following requirements:

- They paid less than 50 percent of their employees' premiums; or
- They have certain classes of employees that did not receive job-based coverage in the last six months. (In this case, employers may offer CoverTN only to those employees who weren't receiving job-based coverage.)⁶

Employees of participating employers are eligible for CoverTN if they meet the following requirements:

- They are at least 19 years old;
- They work an average of 20 hours or more per week;
- They are U.S. citizens or qualified legal aliens; and
- They have not had health coverage in the past six months (with the exception of TennCare or military coverage).

Residents of bordering states may enroll in CoverTN if they work for a participating employer, but they must visit in-network health care providers in Tennessee to use their benefits.⁷

Eligible Employees of Non-Participating Businesses and Self-Employed Individuals

Employees of non-participating businesses are also eligible for CoverTN if they meet the following requirements:

- They earn \$55,000 or less in adjusted gross annual income;
- They have lived in Tennessee for six months or more;
- They work an average of 20 hours or more per week;
- They are U.S. citizens or qualified aliens;

- They have not had health coverage in the past six months (with the exception of TennCare or military coverage); and
- If they have an offer of job-based insurance, their employer pays less than 50 percent of the premium.^{8,9}

Self-employed Tennesseans are eligible for CoverTN if they meet these same criteria and if they can also show that they are earning at least the equivalent of 20 hours per week at minimum wage directly from their qualifying independent business.¹⁰

Eligible Spouses

Spouses of eligible workers are eligible for CoverTN if they meet the following requirements:

- They live in Tennessee or a bordering state;
- They are U.S. citizens or qualified legal aliens;
- They are at least 19 years old;
- They have not had health coverage in the last six months (with the exception of TennCare or military coverage); and
- If they have an offer of job-based health insurance, their employer pays less than 50 percent of the premium.

However, participating employers do not have to contribute to premiums for their employees' spouses.¹¹ In addition, eligible workers may not cover their children under CoverTN. CoverTN materials explain that children of CoverTN enrollees may be eligible for TennCare (Medicaid) or CoverKids (Tennessee's Children's Health Insurance Program).¹²

Eligible "Tennesseans Between Jobs"

Uninsured, unemployed Tennesseans who have worked at least one 20-hour work week in the past six months and earned \$55,000 or less in annual adjusted gross income are eligible for CoverTN under the new "Tennesseans Between Jobs" category. This eligibility category also allows individuals who have had their work hours reduced to fewer than 20 per week to enroll, if they meet the same income level requirements. Eligible enrollees must have lived in Tennessee for at least six months, be at least 19 years old, and be U.S. citizens or qualified legal aliens.^{13, 14}

Local County Governments

Local county governments may offer CoverTN as their job-based health plan, but they must meet the following requirements:

- The county must pay two-thirds of workers' premiums (the state will not subsidize their coverage);
- At least 50 percent of the employees must participate in CoverTN;

- The county cannot have offered job-based coverage for the past year; and
- At least 50 percent of the employees must earn an annual income of no more than \$55,000.¹⁵

Appendix B: CoverTN Premiums

Participating employers must agree to pay one-third of premiums for each employee enrolled in CoverTN, regardless of the employee's weight, tobacco usage, or age. If enrolled employees change jobs, or if their employers stop participating in the program, employees may keep their CoverTN coverage, but they will have to pay their former employers' share of the premiums, in addition to their own share.¹⁶ Employees of non-participating employers, self-employed individuals, and people in the "Tennesseans Between Jobs" category must also pay two-thirds of their monthly premiums, with the state paying the other third.¹⁷

Endnotes for Appendices A and B

¹ Cover Tennessee Department of Finance and Administration, *CoverTN Eligibility and Definitions*, available online at http://www.covertn.gov/web/covertn_instruction.pdf, accessed on August 7, 2008.

² The term "full-time equivalent employees" refers to the figurative number of full-time employees a firm has if it adds together the hours that its individual part-time employees work. According to the U.S. Census Bureau, full-time equivalence is "calculated by dividing the 'part-time hours paid' by the standard number of hours for full time employees... and then adding the resulting quotient to the number of full-time employees." U.S. Bureau of the Census, *Government Employment* (Washington: U.S. Bureau of the Census, 1997), available online at http://quickfacts.census.gov/qfd/meta/long_58632.htm, accessed on April 8, 2009.

³ Governor Phil Bredesen, *Covering Tennessee's Uninsured* (Nashville: Office of the Governor, March 27, 2006).

⁴ State of Tennessee, *CoverTN Eligibility Requirements*, available online at http://www.covertn.gov/web/covertn_eligible.pdf, accessed on September 22, 2008.

⁵ WRCB TV, *Bredesen Announces CoverTN Benefit Improvements* (Chattanooga: WRCB TV, October 14, 2008), available online at <http://www.wrcbtv.com/Global/story.asp?S=9100214>.

⁶ State of Tennessee, *CoverTN Eligibility Requirements*, op. cit.

⁷ Cover Tennessee Department of Finance and Administration, op. cit.; BlueCross BlueShield of Tennessee, *CoverTN Premiums Split 3 Ways* (Chattanooga: BCBS, February 26, 2008), available online at <http://www.bcbst.com/health-plans/cover-tennessee/covertn/premiums.shtml>.

⁸ State of Tennessee, *CoverTN Eligibility Requirements*, op. cit.

⁹ WRCB TV, op. cit.

¹⁰ Cover Tennessee Department of Finance and Administration, op. cit.

¹¹ Ibid.

¹² BlueCross BlueShield of Tennessee, *CoverTN Business Owner's Reference Manual, 2008*, available online at http://www.bcbst.com/health-plans/cover-tennessee/covertn/covertn_business_owners_reference_manual.pdf, accessed on August 12, 2008.

¹³ State of Tennessee, *CoverTN Eligibility Requirements*, op. cit.

¹⁴ WRCB TV, op. cit.

¹⁵ State of Tennessee, *CoverTN Eligibility*, available online at http://www.covertn.gov/web/covertn_eligible.html, accessed on January 22, 2009.

¹⁶ BlueCross BlueShield of Tennessee, *CoverTN Business Owner's Reference Manual, 2008*, op. cit.

¹⁷ BlueCross BlueShield of Tennessee, *CoverTN Premiums Split 3 Ways*, op. cit.

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